
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon the exercise of the Pre-IPO Share Options), Mr. Liu, his wholly-owned holding company Master Sagittarius and Leading Glory which is controlled by Mr. Liu as it is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust that is a discretionary trust established by Mr. Liu as the settlor and protector and his wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu, will be able to exercise the voting rights attaching to approximately 60.32% of the total issued share capital of our Company, including (i) approximately 43.81% of the voting rights in our Company held by Mr. Liu, Master Sagittarius and Leading Glory; and (ii) approximately 16.52% of the voting rights in our Company controlled by Mr. Liu, Master Sagittarius and Leading Glory pursuant to the Voting Arrangement Agreements. See “History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements” for details of the Voting Arrangement Agreements. Therefore, Mr. Liu, Master Sagittarius and Leading Glory shall be regarded as our Controlling Shareholders after the Listing.

NO COMPETITION AND DELINEATION OF BUSINESS

Our Controlling Shareholders have confirmed that as of the Latest Practicable Date, neither of them is interested in any business, other than our business, which competes or is likely to compete, either directly or indirectly, with our business, which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

Shanghai Shaoyin

As of the Latest Practicable Date, Mr. Liu held 40% of the equity interest in and served as a director of Shanghai Shaoyin Music Entertainment Co., Ltd. (上海韶愔音樂娛樂有限公司) (“**Shanghai Shaoyin**”) which primarily engages in the production and distribution of original soundtracks for films and TV dramas. Considering the business model, resources required and target customers with respect to the principal business activities of Shanghai Shaoyin and our Group are fundamentally different in nature, as well as the Deed of Non-competition in place, our Directors are of the view that the business of Shanghai Shaoyin does not compete, and is not likely to compete, either directly or indirectly, with that of our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after the Listing.

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Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. For more details, see “Directors and Senior Management.” Although Mr. Liu is our Controlling Shareholder, executive Director as well as chief executive officer, our management and operational decisions are made by all our executive Directors and senior management, most of whom have served in our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. Save as disclosed below, our Directors and senior management members do not hold any role as a director or member of senior management in any close associates of our Controlling Shareholders:

<u>Name</u>	<u>Position in our Company</u>	<u>Position held in close associates of our Controlling Shareholders</u>
Mr. Liu	Chairman of the Board, executive Director and chief executive officer	Director and general manager of Shanghai Shaoyin
Mr. Wang Xiaohui	Non-executive Director	Director of Shanghai Shaoyin
Mr. Wang Jun	Non-executive Director	Director of Shanghai Shaoyin

Our Directors are of the view that our Board and senior management are able to manage our business independently from the Controlling Shareholders and their close associates for the following reasons:

- (i) the daily management and operation of our Company is managed by our senior management and overseen by our executive Directors. Other than Mr. Liu, our executive Directors and senior management members do not hold any role as director or member of senior management in any close associates of our Controlling Shareholders;
- (ii) as confirmed by Mr. Liu, his directorship in Shanghai Shaoyin is non-executive in nature, and his position of general manager in Shanghai Shaoyin is only for the purpose of the SAMR registration filings, while the daily operation of Shanghai Shaoyin is overseen and managed by a designated senior management team which Mr. Liu is not involved in;
- (iii) despite holding the position of director in Shanghai Shaoyin, Mr. Wang Xiaohui and Mr. Wang Jun are our non-executive Directors and therefore not involved in the daily management and operation of our Company;
- (iv) according to the Articles of Association, with respect to any matters of conflict or potential conflict of interest which involve a transaction between our Company and another company or entity to which a Director holds office, such Director shall abstain from voting and shall not be counted towards the quorum for the voting;

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- (v) we have appointed three independent non-executive Directors to provide a balance of the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole. The independent non-executive Directors will be entitled to engage professional advisers at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates;
- (vi) each of our Directors is aware of his or her fiduciary duties and responsibilities under the Listing Rules as a director, which requires among other things, that he or she acts for the benefit and in the best interests of our Company and our Shareholders as a whole;
- (vii) according to the Articles of Association, where a Shareholders' meeting is held to consider a proposed transaction in which the Controlling Shareholders have a material interest, the Controlling Shareholders shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting; and
- (viii) our Company has appointed Messis Capital Limited as our compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and corporate governance.

Operational Independence

We make operational decisions independently. We have established our own organizational structure with independent departments, and each department is assigned to specific areas of responsibilities. We maintain a set of comprehensive internal control measures to facilitate the effective operation of our business. Our operating functions, such as cash and accounting management, invoices and bills, operate independently of our Controlling Shareholders and its associates. We have independent access to suppliers and customers and are not dependent on our Controlling Shareholders and their close associates. We have our own employees to operate our business and can independently manage our human resources. We have obtained the relevant licenses, approvals and permits from the relevant regulatory authorities that are material to our operations in the PRC.

Although during the Track Record Period, there had been transactions between us and our related parties, details of which are set out in Note 37 in the Accountants' Report, our Directors have confirmed that these related party transactions, if trade related, were conducted on normal commercial terms or better to us. Save as disclosed in "Connected Transactions," none of the historical related party transactions with the connected persons of our Company as defined in the Listing Rules are expected to continue after the Listing.

Based on the above, our Directors are of the view that we are able to function and operate independently of our Controlling Shareholders and their respective close associates.

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Financial Independence

We have established an independent accounting and finance department and an independent internal control system. Our accounting and finance functions are independent of our Controlling Shareholders, and we can make financial decisions independently. In addition, we have adequate internal resources to support our daily operations, and we believe we are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective close associates.

As of June 30, 2020, we had a number of outstanding loans in an aggregate amount of RMB110 million guaranteed by our Controlling Shareholders. All such guarantees provided for our benefit by our Controlling Shareholders have been fully discharged in August and November 2020. See “Financial Information — Indebtedness — Bank Borrowings” and Note 28 to the Accountants’ Report set out in Appendix I to this prospectus for details.

Save as disclosed herein, as of the Latest Practicable Date, there were no other outstanding loans, advances or non-trade balances due to or from our Controlling Shareholders or their respective close associates, nor were there any other outstanding pledges or guarantees provided for our benefit by our Controlling Shareholders or their respective close associates. Based on the above, our Directors are satisfied that we are able to maintain financial dependence from our Controlling Shareholders and their close associates.

DEED OF NON-COMPETITION

To safeguard the interest of our Group, each of our Controlling Shareholders, as the covenantors (the “**Covenantors**”), has executed the Deed of Non-competition in favor of our Company on December 18, 2020. Pursuant to the Deed of Non-competition, the Covenantors and/or their respective close associates (other than members of our Group) have confirmed that as of the date of the Deed of Non-competition, neither of the Covenantors or their respective close associates (other than members of our Group) have, in any form, engaged in, assisted or supported any third party in the operation of, participate, or have any interest in, any business that, directly or indirectly, competes or will compete or may compete with the business carried on or contemplated to be carried on by any member of our Group from time to time, namely investment, development, production and distribution of TV series, web series and films (the “**Restricted Business**”).

Pursuant to the Deed of Non-competition, the Covenantors have, unconditionally and irrevocably, undertaken to our Company, among other things, that it would not and would use their best endeavors to procure their respective close associates (except any members of our Group) would not, directly or indirectly, at any time during the Relevant Period (as defined below), carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business which is the same as, similar to or in competition or will compete or may compete with the Restricted Business.

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The above restrictions do not prohibit the Covenantors and their respective close associates (other than members of our Group) from holding securities of any company which conducts or is engaged in any Restricted Business, provided that the conditions set out in paragraphs (i), (ii) and (iii) below are satisfied:

- (i) the aggregate number of shares or equity interests held by the Covenantors and their respective close associates (other than members of our Group) is less than 10% of any class of the issued shares or the entire equity interests of such company;
- (ii) the Covenantors or their respective close associates (other than members of our Group) do not own, by any means, any right to control the composition of the board of directors or managers of such Restricted Business nor any right to participate, directly or indirectly, in such Restricted Business; and
- (iii) none of the Covenantors and their respective close associates (other than members of our Group) is the controlling shareholder of such company.

In addition, where it is resolved by the Board or a Shareholders' meeting that it is appropriate for the Covenantors and/or their respective close associates (other than members of our Group) and our Group to jointly invest in, conduct, operate or participate in any business opportunity relating to the Restricted Business (the "**New Business Opportunity**"), and if our Group gives written invitation, the Covenantors and/or their respective close associates (other than members of our Group) may together with our Group, jointly invest in, conduct, operate or participate in such New Business Opportunity subject to the provisions of the Listing Rules and any requirement from the Stock Exchange (including but not limited to the obtaining of approval from the independent non-executive Directors and/or independent Shareholders).

Further Undertakings from the Covenantor

Under the Deed of Non-competition, each of the Covenantors has further undertaken to us the following:

- (i) it shall provide, and shall procure its close associates (other than members of our Group) to provide, during the Relevant Period (as defined below), where necessary and at least on an annual basis, all information necessary for the review by the independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable them to review the Covenantor's and its close associates' (other than members of our Group) compliance with the Deed of Non-competition, and to enable the independent non-executive Directors to enforce the Deed of Non-competition, including but not limited to any decision described in paragraph (v) below or in relation to the pre-emptive right to restrict the transfer;
- (ii) the Covenantor (and on behalf of its close associates (other than members of our Group) from time to time) shall provide to us annually with an annual declaration for inclusion in our annual report, in respect of compliance with the terms of the Deed of Non-competition;
- (iii) the Covenantor has agreed and authorized the Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition, either through our annual report or by way of announcement;

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- (iv) during the Relevant Period (as defined below), in the event that the Covenantor or its close associates (other than members of our Group) are given any business opportunity relating to the New Business Opportunity, the Covenantor shall, and shall procure that its close associates (other than members of our Group), inform us of such New Business Opportunity in writing with all available information as soon as practicable and shall use its best endeavor to assist us in obtaining such New Business Opportunity on the same or more favorable terms;
- (v) when there is any New Business Opportunity, all independent non-executive Directors but excluding any independent non-executive Directors with conflicted interests will form a committee (the “**Independent Board Committee**”) and in the event that the Independent Board Committee decides that our Group should not take up such New Business Opportunity as referred to in paragraph (iv) above within a commercially reasonable period and undertake by written notice, the Covenantor and its close associates (other than members of our Group) may take up such business opportunity and the involvement in the business derived from such New Business Opportunity shall not be regarded as a breach of the Deed of Non-competition; and
- (vi) since the effective date of the Deed of Non-competition, the Covenantor agrees to indemnify us from and against any and all losses, damages, claims, liabilities, costs and expenses (including legal costs and expenses) where we may suffer or incur as a result of any failure to comply with the terms of the Deed of Non-competition by the Covenantor or its close associates (other than members of our Group).

Where the Covenantors and/or their respective close associates (other than members of our Group) acquire the Restricted Business pursuant to paragraph (v) above, the Covenantors and/or their respective close associates (other than members of our Group) shall provide our Group with pre-emptive right (the “**Pre-Emptive Right**”) to acquire any such Restricted Business under the same circumstances. Where the Independent Board Committee decides to waive our Pre-Emptive Right by way of written notice, the Covenantors and/or their respective close associates (other than members of our Group) may offer to sell such Restricted Business (as defined below) to other third parties on such terms which are no more favorable than those made available to our Group.

Where the Covenantors and/or their respective close associates (other than members of our Group) acquire the Restricted Business pursuant to paragraph (v) above, the Covenantors and/or their respective close associates (other than members of our Group) has undertaken to grant us the option (the “**Options for Acquisition**”) which is exercisable at any time during the term of the Relevant Period (as defined below), to purchase at one or more times any equity interest, assets or other interests which form part/or all of such Restricted Business as described above, or to operate the Restricted Business by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the preemptive rights in accordance with applicable laws and regulations and/or any legally binding document, the Options for Acquisition shall be subject to such third-party rights. In these circumstances, the Covenantors will use their best endeavors to procure the third party to waive such pre-emptive rights.

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The Covenantors and/or their respective close associates (other than members of our Group) have further unconditionally and irrevocably undertaken that they and/or their respective close associates (other than members of our Group) will not take advantage of his/its connections with our Group and/or our Shareholders, or his/its position as a shareholder of any member of our Group, to participate or be engaged in any activities which may be detrimental to the interests of our Group and our other Shareholders.

The Covenantors have further unconditionally and irrevocably undertaken that except with the prior written consent of our Group, the Covenantors shall not, and shall procure their respective close associates (other than members of our Group) will not, directly or indirectly:

- (i) any time induce or attempt to induce any director, manager or consultant of any member of our Group to terminate his or her employment or consultancy (as applicable) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as applicable); or
- (ii) alone or jointly with any other person through or as director, manager, adviser, consultant, employee of or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, solicit or accept orders from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

Our Company will disclose the decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the Deed of Non-competition either in the annual report of our Company or by way of announcement(s) to the public. For the purposes of the above, the “**Relevant Period**” means the period commencing from the date on which the Deed of Non-competition becomes effective and shall expire on the earlier of (a) the date when each of the Covenantors and, as the case may be, any of their respective close associates collectively, cease to hold, or otherwise hold, beneficially in aggregate whether directly or indirectly, 30% or more (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of the issued share capital of our Company and is not in a position to control the composition of a majority of the Board; or (b) the date on which the Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

CORPORATE GOVERNANCE

Our Directors recognize the importance of good corporate governance to protect the interest of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and the Controlling Shareholders:

- (i) where a Shareholders' meeting is held for considering proposed transaction in which any of the Controlling Shareholders has a material interest, the Controlling Shareholder(s) shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;
- (ii) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;

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- (iii) the Independent Board Committee comprising all independent non-executive Directors will be responsible for deciding and given the authority to decide, without attendance by any Directors with beneficial or conflicting interest in the New Business Opportunities referred to our Group by our Controlling Shareholders (or their respective close associates other than members of our Group) and the exercise of the Pre-Emptive Right under the Deed of Non-competition. The Independent Board Committee comprising all independent non-executive Directors, taken as a whole, has the relevant expertise and experience in deciding the New Business Opportunities or the exercise of the Pre-Emptive Right. For more details of the biographies of our independent non-executive Directors, see “Directors and Senior Management.” In addition, the Independent Board Committee may, at the costs of our Company and from time to time, engage independent financial advisers and other external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters;
- (iv) any transaction between (or proposed to be made between) our Group and the connected persons will be subject to the requirements under Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review, circular (including independent financial advice) and independent Shareholders’ approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with relevant requirements under the Listing Rules;
- (v) in the event that our independent non-executive Directors are requested to review any conflict of interests between our Group and the Controlling Shareholders, the Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in its annual report or by way of announcements to the public; and
- (vi) our Company has appointed Messis Capital Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors’ duties and corporate governance.