
BUSINESS

OVERVIEW

Who We Are

According to Frost & Sullivan, we ranked the fourth among all Chinese drama series companies in terms of revenue in 2020. We focus on creating premium drama series based on our abundant reserve of original IPs. Since our inception in 2014 in Shanghai, we have been dedicated to the full value chain of operations including investment, production, distribution, promotion and derivatives licensing of drama series.

Since our inception and up to the Latest Practicable Date, we had produced and distributed a total of 17 drama series. 15 of them are original drama series in which we acted as the lead/sole investor and the executive producer, and we therefore own the proprietary rights of these drama series. According to Frost & Sullivan, five of our seven drama series broadcast from 2018 to 2020 were premium drama series, representing a premium content rate of approximately 71.4%, far exceeding the average premium content rate of our top five competitors by revenue at approximately 40.8% from 2018 to 2020. In 2021, two of our three drama series broadcast were premium drama series, representing a premium content rate of approximately 66.7%. In addition, our five premium drama series broadcast from 2018 to 2020 garnered a total of more than 19.3 billion view counts on online video platforms during first-run broadcast period and annual viewership rate of over 1.0% on TV channels during the same period. Our day-to-day life themed drama series such as “A Love for Separation” (小別離), “A Little Reunion” (小歡喜), “A Little Dilemma” (小舍得), “Nothing but Thirty” (三十而已) and “Twenty Your Life On” (二十不惑) focus on popular contemporary topics such as family life, education and female empowerment, delivering positive value propositions and inspiring extensive discussions.

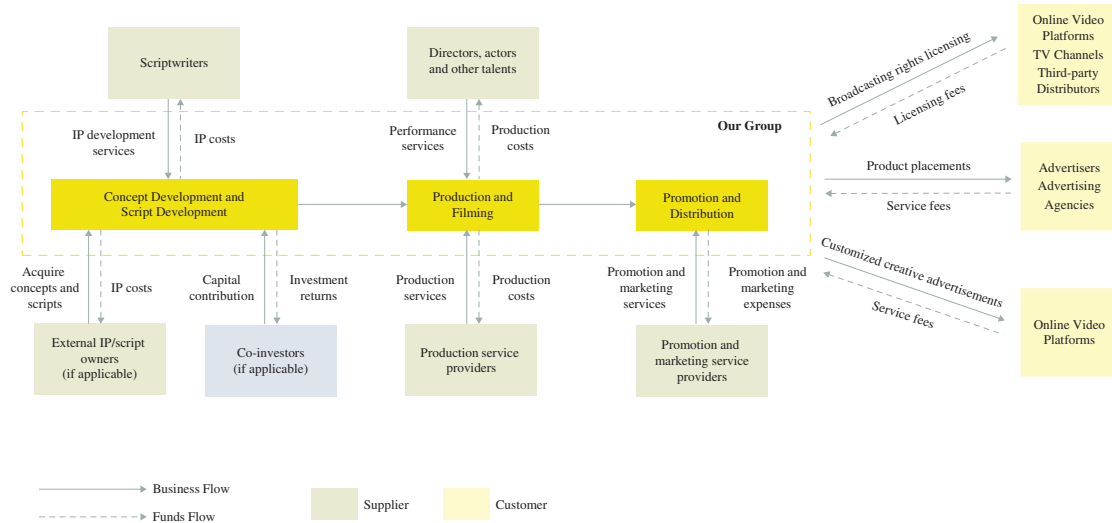
We pride ourselves in taking the lead in the development of premium original IP in-house and have built an abundant reserve of original IPs and strong pipeline, allowing us to possess a competitive edge over many of our competitors. Among the eight drama series we distributed from 2018 to 2020, seven of them are original drama series, representing a ratio of 87.5%. The ratio ranked the second among the top five producers in the industry from 2018 to 2020, according to Frost & Sullivan. In 2021, all of the three drama series we have finished production are original drama series, representing a ratio of 100.0%.

Furthermore, we are committed to our diversified growth strategies. We continue to explore new growth avenues such as content marketing, derivative licensing and overseas distribution, in order to maximize the commercial value of our proprietary IP rights and reinforce our leadership in the industry.

BUSINESS

OUR BUSINESS MODEL

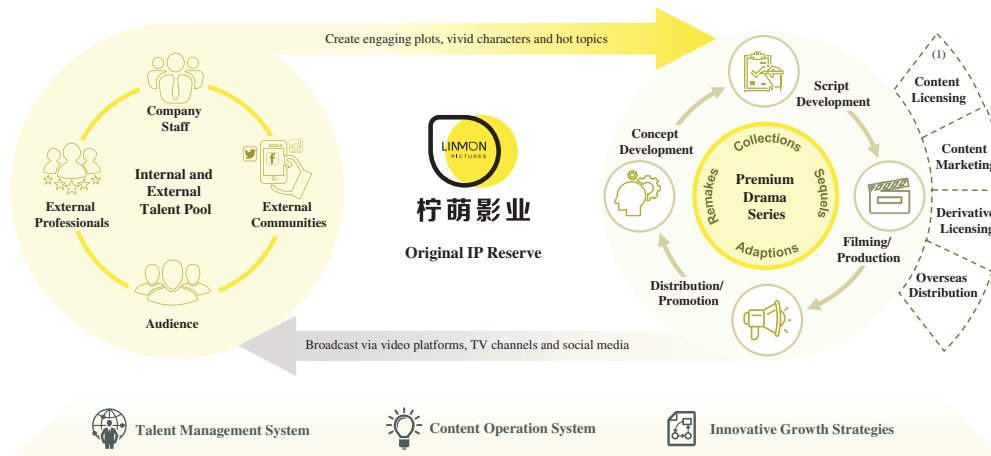
The chart below illustrates the business and funds flow of our original drama series and content marketing businesses:



At the concept development and script development stage, we self-develop or acquire scripts and IPs from external sources. We engage scriptwriters to further develop scripts and IPs based on our experience and industry insights and we in turn pay them IP fees. Co-investors typically participate in and make capital contribution at this concept development and script development stage. At the production and filming stage, our production costs are typically related to the remuneration of filming crew and cast members. We pay directors, actors and other talents as well as production service providers for the respective services they provide. At the promotion and distribution stage, we engage experienced third-party marketing service providers and in turn pay them promotion and marketing fees. For our original drama series business, we generate revenue from charging licensing fees for the broadcasting rights of our original drama series from online video platforms and TV channels both directly and through third-party distributors. For our content marketing business, particularly the product placement and customized creative advertisement services, we generate service fee revenue from advertisers and advertising agencies as well as online video platforms.

BUSINESS

The chart below further illustrates how our business model interacts with our talent strategy, content operation system and our growth initiatives.



Note:

- (1) The four items in dashed boxes are the Company’s diversified revenue sources.

We believe content starts with people. Our content starts from our effective talent management system. Each of our co-founders has more than 15 years of industry experience, and they have formed a deep mutual trust and seamless partnership through many years of teamwork. We have also established and maintained a talent pool of top-tier professionals, forming a strong backbone of our creativity and productivity. In the meantime, we continuously seek insights and feedback from our employees, audience and external communities in order to truly engage, touch and inspire our audience.

We create content through processes of concept development, script development, filming, production, distribution and promotion. The premium content, the popular topics and the memorable characters are critical elements of our vast original IP reserve. Our drama series cover a comprehensive suite of trending subjects such as modern romance, heroism, costume and day-to-day life. Based on our proprietary IP rights, we are able to create collections and sequels to attract return audiences, to maximize our word-of-mouth reputation, and to ensure the success of our works. For example, we created an immensely popular collection of day-to-day life themed series focused on China’s family and education topics comprising of “A Love for Separation” (小別離) in 2016, “A Little Reunion” (小歡喜) in 2019 and “A Little Dilemma” (小舍得) in 2021. We also created a successful female empowerment themed collection comprising of “Twenty Your Life On” (二十不惑) and “Nothing but Thirty” (三十而已) in 2020.

BUSINESS

We believe content ends with people. We license the broadcasting rights of our original drama series to online video platforms, TV channels, and third party distributors, which then broadcast our drama series to audience. In this process, our track record of premium content has enabled us to have a proactive and flexible distribution strategy. Before, as and after our content reaches our audience, we proactively collect insights and feedback, forming a virtuous business cycle driven by people and focused on people.

Our business model is being continuously optimized. In our early years, amid the rapid development of online video platforms, we quickly incorporated this distribution channel into our business and achieved tremendous growth. In recent years, in light of the explosive growth of short-form video, we are creating more short-form content and utilizing short-video platforms to match the latest viewership preferences of audiences. Currently, we are implementing other new growth strategies such as content marketing, derivatives licensing and overseas distribution. Overall, our business model stems from our premium, original IP reserve, and is rooted in our capabilities of talent management, content creation and innovation.

OUR COMPETITIVE STRENGTHS

We are grateful that we have been able to maintain our leading position in a fast evolving industry and will continue to enhance the quality standard for drama series in China. Our competitive strengths include:

A drama series production company in China with a track record of creating premium content

Our drama series have achieved great success in terms of both commercial value and artistic value. According to Frost & Sullivan, we achieved a premium content rate as high as 71.4% from 2018 to 2020, substantially higher than China’s industry average at approximately 8.0% and the average of our top five competitors by revenue at approximately 40.8% from 2018 to 2020. In 2021, two of our three drama series broadcast were premium drama series, representing a premium content rate of approximately 66.7%. According to the same source, we had drama series ranked among the top 10 in terms of viewership on TV channels or effective views on online video platforms from 2018 to 2020, and among the top 5 in two of these years. In addition, the licensing fees of the first-run broadcasting rights of our drama series per episode for online video platforms ranged from RMB5.2 million to RMB15.8 million during the Track Record Period, higher than the industry average of approximately RMB3.0 million during the Track Record Period, according to Frost & Sullivan.

Our brand and content have been highly recognized by the industry. Our drama series “A Little Reunion” (小歡喜) won the “Outstanding Modern Television Series Award” at the 32nd Flying Apsaras Award (“飛天獎”) and Outstanding Television Series Award in the 30th China Golden Eagle TV Art Festival (“金鷹獎”), respectively. “Nothing but Thirty” (三十而已) received “The 27th Shanghai TV Festival International Communication Awards” and, along with “Hunting” (獵狐), was awarded 2020 Chinese TV Series Selections.

BUSINESS

Abundant original IP content reserve

We pride ourselves in taking the lead in the development of premium original IP in-house. Among the eight drama series we distributed from 2018 to 2020, seven of them are original drama series, representing a ratio of 87.5%. The ratio ranked the second among the top five producers in the industry from 2018 to 2020, according to Frost & Sullivan. In 2021, all of the three drama series we have finished production are original drama series, representing a ratio of 100.0%. As new media channels and new content consumption patterns are evolving, such a key capability has played and, we believe, will continue to play an important role in our success.

Our IP content reserve covers a comprehensive set of genres including contemporary topics, modern romance, heroism, costume and realistic suspense. Our classic product of long-form drama series delivers positive values targeting both online and TV viewers. We also produce short-form drama series on niche themes, such as realistic suspense or gender topics, and distribute them on online platforms, to capture the eyes of young audience, a highly promising consumer base.

As we own full IP rights of our drama series, we can monetize the IPs multiple times throughout their life cycles by means of creating collections, sequels, adaptations, remakes, re-run licensing, overseas distribution and other forms of variations of content. Built on the same principal characters or the same theme, collections, sequels and re-run licensing help attract return audience, reinforce the word-of-mouth reputation of our series, and increase audience loyalty to our brand, making our IP reserve long-lasting. Moreover, building on successful precedents increases the predictability of our market acceptance thus minimizing risk and ensuring profitability. For instance, our family and education themed “Little” collection, i.e. “A Love for Separation” (小別離), “A Little Reunion” (小歡喜) and “A Little Dilemma” (小舍得), and our female empowerment themed collection of “Twenty Your Life On” (二十不惑) and “Nothing but Thirty” (三十而已) have both achieved renowned success and considerable synergies. Additionally, adaptations, remakes and overseas distributions bring in additional revenues and extend the impact of our IPs. For example, we licensed the adaptation rights of “Legend of Fuyao” (扶搖) and “Only Side by Side with You” (南方有喬木) to online gaming companies, and the original soundtracks of “Twenty Your Life On” (二十不惑) and “A Little Dilemma” (小舍得) to an online music sharing platform.

Systematic production capabilities

Capabilities to realize creativity and manage creativity are at the core of our strong production capabilities. In terms of talent management, we believe we have established a rare and effective approach to ensure content quality and productivity. We have integrated the best creative talents in the industry, including directors, scriptwriters, actors and actresses, onto our platform through arrangements including long-term exclusive contracts and strategic partnership. Our long-lasting cooperation with our key talents can trace back to the time of our inception. Many of the talents we worked with have successfully demonstrated their artistic talent through our content, forming a win-win situation with us.

BUSINESS

In terms of operational flow management, we are in charge of all the key aspects and have a sophisticated approach in place to ensure efficiency and systematic operation.

- **Concept and Script Development:** Our in-house concept and script development processes consolidate inputs from our research and development center, script center, internal experts, employees and external audience community. This process is supplemented by our acquisition of high-potential materials from external sources from time to time. We have also developed systematic methodologies for content creation to ensure consistent, generation of quality content.
- **Filming and Production:** In our filming and production processes, we have established detailed quality control standards and practical measures to ensure that our projects will be completed within budget and schedule. At the filming stage, we assign an in-house production team to enhance the artistic value and ensure the production quality of each project. At the post-production page, we also utilize both internal and external resources to ensure our final products are up to our high standards.
- **Promotion and Distribution:** We begin the promotion process prior to filming, and interact with our target audiences on social media and video sharing platforms on an ongoing basis. Leveraging our proprietary IPs, we also cross-promote our drama series collections to maximize the promotion effects utilizing characters, cast, settings, themes, topics in our drama series collections. For example, we promoted female empowerment themed “Twenty Your Life On” (二十不惑) and “Nothing but Thirty” (三十而已) under the promotional topic of “No limit for twenty and thirty”, which became the most popular searches of the day on social media platforms, bringing our drama series extensive publicity. As for distribution, we have optimized our distribution strategy and established an effective market analysis and feedback mechanism.

Comprehensive content distribution capabilities

We have established long-term and stable cooperation with a diversified portfolio of distribution channels, including leading online video platforms and national and top regional TV channels. The grand majority of our drama series during the Track Record Period were broadcast on top online video platforms and TV channels.

We have a proactive and flexible distribution strategy thanks to our premium content. Based on the content and target audiences, we are able to assemble a set of tailor distribution channels including online video platforms and/or TV channels. Our “A Little Dilemma” (小舍得) was broadcast on online video platforms as well as national and local TV channels to maximize audience coverage.

BUSINESS

We have been able to distribute our drama series on favorable terms and pre-sell most of our drama series before the completion of scripts, primarily due to our proven track record of delivering high quality drama series and the expected popularity of our drama series among audiences. According to Frost & Sullivan, companies with track record to deliver premium drama series are regarded as trusted suppliers and thus are able to pre-sell their drama series at a higher premium to major online video platforms. The licensing fees of the broadcasting rights of our drama series have been priced higher than the industry average during the Track Record Period, according to Frost & Sullivan. Additionally, we only license the broadcasting rights of our drama series for a limited period of time to downstream platforms and retain all the other rights for future use. Such presale model helps us to receive prepayment in advance, secure the distribution and align the channel’s interests with ours in maximizing the distribution and promotion effects of our drama series.

Our distribution has expanded to overseas markets. Our drama series such as “Novoland: Eagle Flag” (九州縹緲錄), “Nothing but Thirty” (三十而已), “A Love for Separation” (小別離) and “A Little Reunion” (小歡喜) have been successively broadcast on many major platforms such as Netflix South Korea, South Korea JTBC, Singtel TV Jia Le Channel, Japan Lala TV, Malaysia Astro and YouTube, and have achieved considerable influence in the Asian cultural market. As of the Latest Practicable Date, we licensed the remake rights of “Nothing but Thirty” (三十而已) to established TV channels in South Korea and Vietnam and have signed a licensing contract in September 2021 with a globally renowned entertainment company to broadcast one original drama series globally (outside of Mainland China). In 2019, 2020 and 2021, we generated revenue of RMB25.8 million, RMB8.8 million, and RMB12.2 million, respectively, from the licensing of our original drama series to be broadcast on TV channels and platforms of regions other than Mainland China.⁽¹⁾

Diversified monetization methods

Since our inception in 2014, we have gained a deep understanding of the needs and preferences of our audience, the distribution channels and the advertisers. Benefiting from the business acumen of our management, we have been able to continuously extend the boundaries of our business scope, including:

- **Web series:** We align ourselves with the young generation’s appetite for innovative and thought-provoking content such as realistic suspense and gender topics. We have in our pipeline multiple web series on track to be delivered on top online video platforms to capture the market potential.
- **Content marketing:** Leveraging our IP reserve and audience base, we provide advertisers with content-based marketing services such as product placement and customized creative advertisement services. We have worked with over 100 brands since our inception, including a wide variety of top consumer brands in food, drinks, lifestyle services and many other industries. We believe our advertiser network will continue to grow as we further develop such business.

Note:

- (1) Certain of our original drama series were licensed to the customers for the distributions in both Mainland China and regions other than Mainland China in the same agreements. The licensing revenue of such drama series from regions other than Mainland China cannot be separated from those from Mainland China and therefore was not included in the disclosed amounts.

BUSINESS

- **Revenue sharing scheme with platforms:** In certain agreements with online video platform customers, in addition to licensing fees for each episode, we are also entitled to receive revenue sharing from such platforms based on the additional and renewal of membership subscriptions (above a prescribed threshold) that our drama series has directly contributed within a certain period. According to Frost & Sullivan, we are one of the first in the industry to establish such a revenue sharing scheme. This innovative approach allows us to share fast-growing subscriber-based revenue driven by the popularity of our content. It also highlights the quality of our content and its audience appeal for which the platforms are willing to provide us extra incentives.

Industry veteran founding management team in a stable and efficient partnership

We have a visionary and professional management team consisting of our four co-founders. Each of them has been in the film and media industry in China for more than 15 years. They own a wealth of industry experience, keen business acumen and the ability to manage the full industry value chain.

Our chairman, Mr. Su Xiao, is a leading figure with approximately 25 years of experience in the media industry and management. Mr. Su is responsible for the Group's overall strategic planning, financial and talent management and government public affairs. Our chief executive officer, Ms. Chen Fei, has approximately 18 years of experience in the planning, production and marketing of TV series, and is primarily responsible for the Group's strategy and organization innovation and full chain management. Our vice president, Ms. Xu Xiao'ou, has approximately 16 years of experience in drama series production, and is primarily responsible for intellectual property development and script development. Our vice president, Mr. Zhou Yuan, has over 18 years of experience in the capital operation and commercialization in the media industry, investment and information system analysis, and is primarily responsible for our film business, overseas business, capital operation, commercialization and innovative business.

Our four co-founders had worked together as a team for a long time before founding the Company. Together, they have witnessed and captured the opportunities in the TV and film industry over the past decade. Their skill-sets are highly complementary, and they share the same values and deep mutual trust. They manage the Company in a seamless partnership and they are deeply involved in all the key decision-making processes at every stage of the Company's operations. We believe the complementarity, engagement and stability of the co-founder team has enabled us to constantly make the right strategic decisions and become an industry leader in every aspect of our business.

BUSINESS

OUR STRATEGIES

Our objective is to continue to strengthen our position in the PRC drama series market and enhance our overall competitiveness. To achieve this objective, we plan to execute the following business strategies:

Continue to produce premium original drama series and maintain our market leadership

Premium original drama series are the core of our current business and the engine of our future growth. We will continue to produce premium original drama series to further enlarge our IP reserve, expand our market share and strengthen our leadership position.

There is an increasing demand from audiences for premium content and better viewing experience, prompting us to continue to strengthen our drama series production capabilities. We plan to continue to improve our production of premium original drama series by leveraging our industry experience and operation efficiency. In addition, we will closely monitor and manage the process and progress to deliver more premium original drama series on schedule going forward.

- *Concept and script development:* (i) based on the insights into audience preferences and research on the social transformation, our research and development team will continue to creatively develop IP covering a more comprehensive selection of trending topics; (ii) through external recruitment and in-house training, we will continue to identify and nurture young talents and train them to bring to life our original IP; and (iii) we will continue leveraging third-party resources, to seek and procure quality IP from media platforms, mainstream online literature platforms and books for our further development. We plan to use approximately 10% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], for the further expansion of our IP pool. For details, see “Future Plans and Use of [REDACTED]”.
- *Production:* we will continue to invest resources in selecting the most suitable cast members, production crews, shooting sets and equipment to ensure the superior filming quality and the steady increase in the number of drama series we produce. We plan to use approximately 45% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], for the production of drama series. For details, see “Future Plans and Use of [REDACTED]”.
- *Distribution and promotion:* We will focus on the omni-channel distribution system covering both online video platforms and TV channels. This will continuously help us gather feedback, allowing us to improve our distribution plan for the first-run and re-run broadcasts. Our promotion methods include interactive marketing, press releases and media visits, helping us to effectively cover a broad and targeted audience base. We plan to use approximately 5% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], for the distribution and promotion of our drama series. For details, see “Future Plans and Use of [REDACTED]”.

BUSINESS

Further improve our operation of IP management and shape our brand

We are dedicated to strengthening our operational management capabilities, including IP serialization, derivation and licensing to extend the life cycle of our IP using our cash on hand. We are typically the sole copyright owner of our original IP and therefore, we can utilize its potential throughout the full life cycle.

The serialization of our original drama series, including (i) production of drama series sequels, and (ii) drama series with coherent themes and storylines can bring long-lasting emotional resonance with our audience. We believe that the popularity, reputation and audience of our existing IP will lay a solid foundation for the success of such serialization by leveraging our past proven track record and existing audience base. IP serialization will further strengthen our leadership in the industry and bring more value to our future growth.

To further utilize our IP, we intend to (i) deliver additional types of video content based on our existing IP, including movies, mini drama series and web series, to achieve synergies among our IP across online and offline channels; and (ii) build our "Linmon Universe", comprising common or related characters, cast, settings, elements and common plots in our different original drama series by producing IP variations such as sequels. We believe we can enhance public recognition of our IP and characters, therefore shaping the brand identity of "Linmon" across a broader audience.

Further diversify our revenue streams with video-based content to unleash the potential for monetization

We will leverage our IP reserve to explore new business opportunities with the short video platforms. We plan to release our content on short video platforms. As short video platforms allow audiences and users to directly interact with our characters on an ongoing basis, we can reach a broader coverage of audiences in a more engaging and effective way, which brings us additional media resources. With these resources, we can further have a set of diversified monetization methods.

On top of our existing content marketing services, mainly including product placement and customized creative advertisements, we will further leverage our video-based content to provide a more comprehensive coverage of our content marketing services, including tailored content marketing on short video platforms. Based on years of unique experience in the drama series production industry, we have accumulated profound insights into customer needs. In addition to drama series, we can also deliver content marketing services through short videos, long videos and movies. We expect our track record in drama series production, together with our initiatives in short video content licensing, will enable us to provide multi-screen and full-coverage marketing services, covering both online and offline scenarios, to attract more customers.

BUSINESS

Lastly, we plan to deliver IP through a broader range of entertainment forms and generate licensing revenue from IP derivative adaption rights, such as licensing of the audiobook rights, music rights and game adaptation rights of our original series. For example, we have licensed the music rights in our original drama series to online music sharing platforms and licensed the adaptation rights of our original drama series to game companies for game development based on our IP. We have also been in close negotiations with audiobook platforms to license the audiobook rights of our original drama series recently so that our content can reach audiences in different forms through different platforms. We are not required to obtain any additional licenses for these new methods of delivering our IP and generating licensing revenue from IP derivative adaption rights as advised by our PRC Legal Advisor. We also plan to customize short video content and monetize such content through content marketing and e-commerce services. In addition, we plan to closely work with emerging consumer brands through content licensing and co-branding.

We plan to use approximately 15% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], for emerging business opportunities. For details, see “Future Plans and Use of [REDACTED]”.

Expand our business internationally

There is a growing interest in Chinese drama series from the overseas markets in recent years, and we plan to broaden our overseas distribution channels and expand the influence of our IP. In particular, we plan to expand our geographic coverage to emerging markets such as Southeast Asia and Africa because we have abundant original IPs which have been proved to be successful in the China market and which we believe can be further developed to cater the local audience preferences in such emerging markets. For example, we have licensed out the remake rights of our “Nothing but Thirty” (三十而已) to Korea and Vietnam. In addition, we believe we are well positioned to compete with local market players in such emerging markets in terms of industry resources, experience, production and financial capabilities. For example, we keep in close touch with leading international media and broadcasting platforms and have licensed the broadcasting rights of our original drama series, “Xiaomin’s Home” (小敏家), to a leading international broadcasting platform to reach to a broader international audience base. In addition, we plan to work directly with local media platforms to reach target audiences more precisely instead of dealing with agents. For example, we have licensed the broadcasting rights of another original drama series, “To Fly with You” (陪你逐風飛翔), to a leading pan-regional video streaming service provider to be broadcast in Singapore, Indonesia and Thailand. The increase of our penetration into overseas markets will also be further accelerated as online streaming services are getting increasingly popular in our target countries. We also plan to enlarge our audience base, expand our IP influence and explore opportunities through licensing our premium content to those online streaming platforms in overseas markets. To attract foreign audiences, we plan to conduct research on local drama series and audience preferences and cooperate with local professionals, including directors, script writers and actors to deliver quality drama series. Licensing our content overseas will help us to generate additional revenue in line with the trend that our drama series would reach larger audiences.

BUSINESS

In addition, we plan to explore new business models overseas to diversify our products and services offerings. For example, we plan to sell re-make rights of our drama series in targeted countries, as well as oversee and manage local producers’ production if necessary.

As a supplement to overseas drama series releases, we also plan to attract overseas talents or establish local studios to produce drama series in local language. In order to supplement our existing domestic drama series portfolio, we may also import quality overseas drama series to the audience in China.

Selectively conduct strategic alliances, investments and mergers and acquisitions

To achieve our growth strategy, we may selectively pursue strategic alliances, investments and acquisitions along the value chain of the drama series industry, such as companies possessing IP or IP development capabilities (for example, companies possessing literature IPs) or operating downstream businesses (like e-commerce and content marketing). In selecting investment and acquisition targets, our general criteria include conformity with our strategic planning, level of potential synergies, market position, experience of management team, valuation, historical operational indicators and financial performance. As of the Latest Practicable Date, we did not have any specific acquisition or investment targets. We plan to use approximately 15% of the net [REDACTED] from the [REDACTED], approximately HK\$ [REDACTED], for strategic investment and acquisition opportunities. For details, see “Future Plans and Use of [REDACTED]”.

OUR BUSINESS

We primarily engage in the development, production and distribution of premium drama series and content marketing. During the Track Record Period, we generated revenue from these business lines:

- Original drama series: We develop IPs, produce and distribute drama series and accordingly we charge licensing fees for the broadcasting rights of our original drama series from domestic online video platforms and TV channels as well as overseas platforms both directly and through third-party distributors;
- Content marketing: We provide a suite of content-based marketing services, including product placement and other services to clients, leveraging our original drama series and proprietary IPs, charging fixed service fees; and
- Other businesses: We also provide other services including (i) producing made-to-order drama series based on customer orders, charging fixed production fees; (ii) developing, producing and distributing films, charging licensing fees for the broadcasting rights of the film; (iii) investing in drama series as a non-executive producer, charging net licensing fees in proportion to our investment; (iv) licensing our IP derivatives adaptation rights, charging royalty income. During the Track Record Period, we also provided artiste management services and charged service fees. We disposed of the relevant subsidiary in 2020 and we ceased providing such service afterwards.

BUSINESS

The following table sets forth our revenue breakdown by business line for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Original drama series	1,632,658	91.0	1,207,423	84.7	1,051,435	84.2
Content marketing	58,832	3.3	65,961	4.6	109,766	8.8
Others ⁽¹⁾	102,674	5.7	152,775	10.7	87,763	7.0
Total	<u>1,794,164</u>	<u>100.0</u>	<u>1,426,159</u>	<u>100.0</u>	<u>1,248,964</u>	<u>100.0</u>

Note:

- (1) Others include revenue generated from (i) made-to-order drama series production; (ii) film production; (iii) investments in drama series as a non-executive producer; (iv) IP derivative adaptation right licensing; and (v) artiste management services.

BUSINESS

The following table sets forth a total of 15 original drama series broadcast since our inception and up to the Latest Practicable Date and revenue generated during Track Record Period from such original drama series and from the respective content marketing services for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	Original drama series	Content marketing	Original drama series	Content marketing	Original drama series	Content marketing
	<i>(RMB in thousands)</i>					
“To Be a Better Man” (好先生) ⁽¹⁾	–	–	–	–	–	–
“A Love for Separation” (小別離) ⁽²⁾	792	–	1,353	–	178	–
“Fighter of the Destiny” (擇天記) ⁽³⁾	–	–	–	–	–	–
“Only Side by Side with You” (南方有喬木) ⁽⁴⁾	1,651	–	–	–	–	–
“Legend of Fuyao” (扶搖) ⁽⁵⁾	–	–	–	–	–	–
“Novoland: Eagle Flag” (九州縹緲錄)	1,005,857	4,717	–	–	–	–
“A Little Reunion” (小歡喜)	624,358	54,115	–	–	–	–
“Hunting” (獵狐)	–	–	428,758	13,887	–	–
“Twenty Your Life On” (二十不惑)	–	–	357,145	14,528	–	–
“Nothing but Thirty” (三十而已) ⁽⁶⁾	–	–	420,167	37,546	9,434	–
“A Little Dilemma” (小舍得)	–	–	–	–	426,305	53,887
“To Fly with You” (陪你逐風飛翔)	–	–	–	–	219,293	13,499
“Xiaomin’s House” (小敏家)	–	–	–	–	396,225	42,380
“Beyond” (超越) ⁽⁷⁾	–	–	–	–	–	–
“Under the Skin” (獵罪圖鑑) ⁽⁸⁾	–	–	–	–	–	–
Total	1,632,658	58,832	1,207,423	65,961	1,051,435	109,766

Notes:

- “To Be a Better Man” (好先生) was under first-run broadcasting before the Track Record Period and did not generate any revenue during the Track Record Period.
- “A Love for Separation” (小別離) was under first-run broadcasting before the Track Record Period. Revenue from “A Love for Separation” (小別離) in 2019, 2020 and 2021 was from the licensing of the re-run broadcasting rights of such drama series.

BUSINESS

- (3) “Fighter of the Destiny” (擇天記) was under first-run broadcasting before the Track Record Period and did not generate any revenue during the Track Record Period.
- (4) “Only Side by Side with You” (南方有喬木) was under first-run broadcasting in 2018. Revenue from “Only Side by Side with You” (南方有喬木) in 2019 was from the licensing of the re-run broadcasting rights of such drama series.
- (5) “Legend of Fuyao” (扶搖) was under first-run broadcasting before the Track Record Period and did not generate any revenue during the Track Record Period.
- (6) “Nothing but Thirty” (三十而已) was under first-run broadcasting in 2020. Revenue from “Nothing but Thirty” (三十而已) in 2021 was the shared revenue from our online video platform customer under our revenue-sharing scheme, which was calculated based on the number of additional and renewal of subscriptions attributable to our “Nothing but Thirty” (三十而已).
- (7) “Beyond” (超越) was initially broadcast in January 2022 and therefore no revenue was recognized during the Track Record Period.
- (8) “Under the Skin” (獵罪圖鑑) was initially broadcast in March 2022 and therefore no revenue was recognized during the Track Record Period.

For details of our revenue generated from two made-to-order drama series, please see “– Other Businesses – Made-to-order Drama Series Production”.

Original Drama Series

Since our inception, we have focused on the production of our own original drama series, as well as licensing the related broadcasting rights to top domestic and overseas online video platforms, major domestic and overseas TV channels, and sometimes third-party distributors. Since our inception and up to the Latest Practicable Date, we did not have any outright-purchased drama series.

During the Track Record Period, we produced and distributed eight original drama series. Revenue generated from our licensing of broadcasting rights of original drama series amounted to RMB1,632.7 million, RMB1,207.4 million and RMB1,051.4 million, respectively, in 2019, 2020 and 2021, accounting for approximately 91.0%, 84.7% and 84.2% of our total revenue in the same periods, respectively.

The table below sets forth the breakdown of our revenue from licensing of broadcasting rights of original drama series by customer type for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Online video platforms ⁽¹⁾	1,257,358	77.0%	896,767	74.3%	722,459	68.7%
TV channels ⁽²⁾	333,362	20.4%	276,026	22.9%	269,380	25.6%
Others ⁽³⁾	41,938	2.6%	34,630	2.8%	59,596	5.7%
Total	<u>1,632,658</u>	<u>100.0%</u>	<u>1,207,423</u>	<u>100.0%</u>	<u>1,051,435</u>	<u>100.0%</u>

BUSINESS

Notes:

- (1) Online video platforms refer to our customers who operate online video platforms;
- (2) TV channels refer to our customers who operate TV channels, including national and local TV channels;
- (3) Others refer to third party distributors.

We generated revenue of licensing of broadcasting rights of original drama series mainly from online video platforms and TV channels. Our revenue from licensing of broadcasting rights of original drama series to online video platforms decreased from RMB1,257.4 million in 2019 to RMB896.8 million in 2020, primarily due to the decrease in the licensing fees of our drama series. Our revenue from licensing of broadcasting rights of original drama series to online video platforms decreased from RMB896.8 million in 2020 to RMB722.5 million in 2021, primarily due to (i) a decrease in total number of episodes of first-run original drama series licensed to online video platforms from 127 episodes in 2020 to 115 episodes in 2021, and (ii) a comparatively lower licensing fee from online video platforms per episode of “To Fly with You” (陪你逐風飛翔) broadcast in 2021.

Our revenue from licensing of broadcasting rights of original drama series to TV channels decreased from RMB333.4 million in 2019 to RMB276.0 million in 2020, primarily because (i) we received higher licensing fees of one costume drama series in 2019, driven by the high production cost of such drama series; and (ii) we licensed the first-round broadcast of a modern drama series to an online video platform in 2020 rather than to a TV channel. Our revenue from licensing of broadcasting rights of original drama series to TV channels remained relatively stable at RMB276.0 million and RMB269.4 million in 2020 and 2021, respectively.

Our revenue from licensing of broadcasting rights of original drama series to other customers amounted to RMB41.9 million, RMB34.6 million and RMB59.6 million in 2019, 2020 and 2021, respectively. The increase of revenue from licensing of broadcasting rights of original drama series to other customers from 2020 to 2021 was primarily in line with our expansion of distribution to overseas markets.

BUSINESS

Original IP contents are at the core of our business. We primarily generate revenue through licensing the broadcasting rights of our original drama series to online video platforms and TV channels. Since our inception and up to the Latest Practicable Date, we produced and distributed a total of 15 original drama series that we acted as the lead/sole investor and executive producer and therefore own the proprietary rights. The following table sets forth the details of our 15 original drama series that were broadcast from our inception and up to the Latest Practicable Date:

Name of the Drama Series	Production Mode	Genre	Number of Episodes	Our Investment Percentage (%)	Revenue from the licensing of original drama series			Pre-sale arrangement	Our Role	Time of the Initial Broadcasting	Major Broadcast Channels
					Year ended December 31, 2019	2020	2021				
“To Be a Better Man” (好先生)	Original drama series	Modern	42	50.0%	-	-	-	Pre-sold	Lead investor and executive producer	May 2016	Beijing TV, Zhejiang TV, Jiangsu TV, LETV
“A Love for Separation” (小别离)	Original drama series	Modern	45	90.0%	792	1,353	178	Pre-sold	Lead investor and executive producer	August 2016	Zhejiang TV, Beijing TV, Jiangsu TV, Tencent Video
“Fighter of the Destiny” (择天记)	Original drama series	Costume	52	40.0%	-	-	-	Pre-sold	Lead investor and executive producer	April 2017	Hunan TV, Tencent Video, iQIYI, Mango TV, Youku
“Only Side by Side with You” (南方有乔木)	Original drama series	Modern	40	100.0%	1,651	-	-	Pre-sold	Sole investor and executive producer	March 2018	CCTV, Jiangsu TV, Zhejiang TV, Tencent Video
“Legend of Fuyao” (扶摇)	Original drama series	Costume	66	90.0%	-	-	-	Pre-sold	Lead investor and executive producer	June 2018	Zhejiang TV, Tencent Video
“Novoland: Eagle Flag” (九州缥缈录)	Original drama series	Costume	56	80.1%	1,005,857	-	-	Pre-sold	Lead investor and executive producer	July 2019	Zhejiang TV, Youku
“A Little Reunion” (小欢喜)	Original drama series	Modern	49	100.0%	624,358	-	-	Pre-sold	Sole investor and executive producer	July 2019	Dragon TV, Zhejiang TV, IQIYI

BUSINESS

Name of the Drama Series	Production Mode	Genre	Number of Episodes	Our Investment Percentage (%)	Revenue from the licensing of original drama series			Pre-sale arrangement	Our Role	Time of the Initial Broadcasting	Major Broadcast Channels
					2019	2020	2021				
“Hunting” (獵狐)	Original drama series	Modern	44	100.0%	-	428,758	-	Pre-sold	Sole investor and executive producer	April 2020	Dragon TV, Beijing TV, Youku
“Twenty Your Life On” (二十不惑)	Original drama series	Modern	40	85.0%	-	357,145	-	Pre-sold	Lead investor and executive producer	July 2020	Hunan TV, iQIYI
“Nothing but Thirty” (三十而已)	Original drama series	Modern	43	100.0%	-	420,167	9,434	Pre-sold	Sole investor and executive producer	July 2020	Dragon TV, Tencent Video
“A Little Dilemma” (小舍得)	Original drama series	Modern	42	90.0%	-	-	426,305	Pre-sold	Lead investor and executive producer	April 2021	CCTV, Dragon TV, iQIYI
“To Fly with You” (陪你逐風飛翔)	Original drama series	Modern	33	100.0%	-	-	219,293	Pre-sold	Sole investor and executive producer	November 2021	Hunan TV, Tencent Video
“Xiaomin’s House” (小敏家)	Original drama series	Modern	40	80.0%	-	-	396,225	Pre-sold	Lead investor and executive producer	December 2021	Hunan TV, Youku
“Beyond” (超越)	Original drama series	Modern	29	100.0%	-	-	-	Pre-sold	Sole investor and executive producer	January 2022	CCTV, Dragon TV, Beijing TV, Tencent Video, iQIYI, Youku
“Under the Skin” (鐵罪圖靈)	Original drama series	Modern	20	100.0%	-	-	-	Pre-sold	Sole investor and executive producer	March 2022	iQIYI, Tencent Video

BUSINESS

Our original drama series have achieved great success. While we keep creating new innovative drama series, we realized that producing drama series sequels can, at the same time, retain continuity from our previous success to make them all recognizably part of a coherent topic, keeping audiences coming back in greater numbers. For example, we created an immensely popular collection of day-to-day life theme series focusing on China's education topics, including "A Love for Separation" (小別離) in 2016, "A Little Reunion" (小歡喜) in 2019 and "A Little Dilemma" (小舍得) in 2021. We also created a character-driven realistic theme series collection showing the lives of females in their twenties and thirties, including "Twenty Your Life On" (二十不惑) and "Nothing but Thirty" (三十而已) in 2020. The following are posters of our 15 broadcast original drama series from our inception and up to the Latest Practicable Date:



"To Be a Better Man"
(好先生) (2016)



"A Love for Separation"
(小別離) (2016)



"Fighter of the Destiny"
(擇天記) (2017)



"Only Side by Side with You"
(南方有喬木) (2018)



"Legend of Fuyao"
(扶搖) (2018)



"Novoland: Eagle Flag"
(九州縹緲錄) (2019)

BUSINESS



"A Little Reunion"
(小欢喜) (2019)



"Hunting"
(獵狐) (2020)



"Twenty Your Life On"
(二十不惑) (2020)



"Nothing but Thirty"
(三十而已) (2020)



"A Little Dilemma"
(小舍得) (2021)



"To Fly with You"
(陪你逐風飛翔) (2021)



"Xiaomin's House"
(小敏家) (2021)



"Beyond"
(超越) (2022)



"Under the Skin"
(獵罪圖鑑) (2022)

BUSINESS

In addition to the above broadcast original drama series, we had two drama series projects under filming/post-production. All two of pipeline drama series were pre-sold as of the Latest Practicable Date. The table below sets forth the details of the two pipeline drama series projects as of the Latest Practicable Date:

Name of the Drama Series	Production Mode	Genre	Our Investment		Status as of the Latest Practicable Date	Expected Broadcasting Time
			Percentage (%)	Our Role		
"Nobody Knows" (膽小鬼)	Original drama series	Modern	100.0%	Sole investor and executive producer	Under post-production	2022
"Twenty Your Life On II" (二十不惑 II)	Original drama series	Modern	100.0%	Sole investor and executive producer	Under filming	2022



"Nobody Knows"
(膽小鬼) (2022)

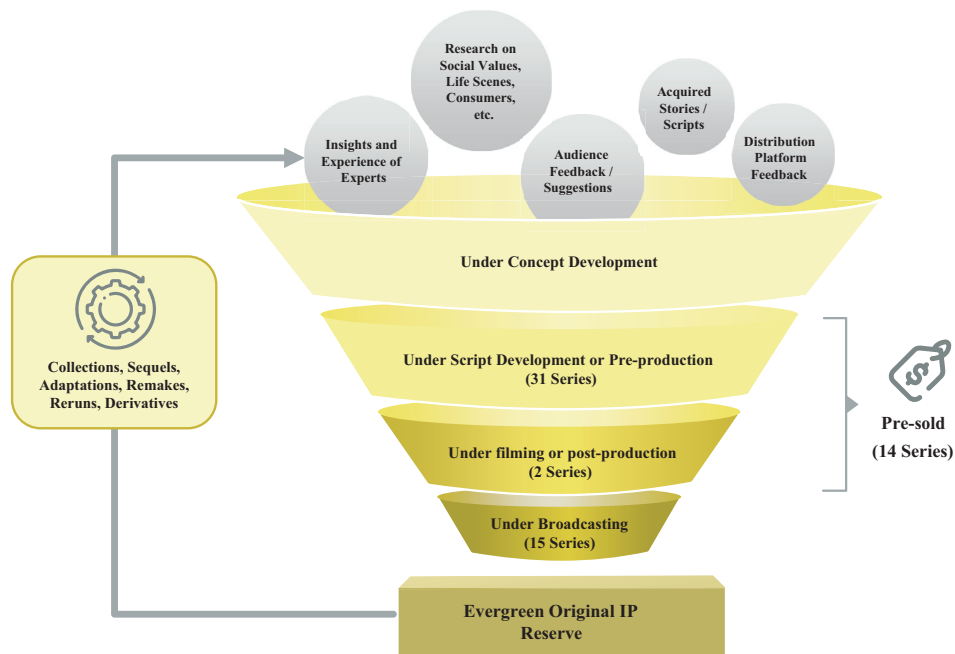


"Twenty Your Life On II"
(二十不惑II) (2022)
(Temporary)

We actively and consistently develop IPs in house through research and development and also procure high-potential IPs from external sources for further development. This allows us to have an abundant reserve of original IPs and a strong project pipeline. Our development of high-quality original IPs is supported by our concept and script development process. During the process, our research and development center assesses the latest social developments and the values of our target audience through interviews and online research, brainstorms ideas based on gathered information and crafts stories through internal workshops and seminars with scriptwriters. In addition, we also established a scriptwriter talent pool consisting of top notch writers with strengths covering a comprehensive suites of trending subjects, allowing us to match the most appropriate scriptwriters with different genres of scripts that we want to develop. We also proactively gather inspiration by utilizing internal and external resources, including our internal expert groups with different strengths and external communities consisting of our audience. Leveraging our industry experience and insights, strong research and development capabilities, we believe we will be able to continuously deliver premium original drama series to the market.

BUSINESS

As of the Latest Practicable Date, we had 31 drama series projects which were under script development and pre-production, two drama series projects that were under filming/post-production and 15 drama series which were under broadcasting. All two drama series projects which were under filming/post-production and 12 of the drama series projects which were under script development were pre-sold as of the Latest Practicable Date. As of the Latest Practicable Date, we were in negotiations or finalizing the pre-sale arrangements with online video platforms for the drama series we had not pre-sold. During the Track Record Period, we acquired (i) the adaptation rights of 29 novels; (ii) the copyright of five scripts; (iii) the adaptation rights of one drama series and one film; and (iv) the adaptation right of one comic book, for which we paid total contractual amounts of RMB86.4 million. The following chart illustrates our original IP reserve and project pipeline as of the Latest Practicable Date:



Business Model

We typically act as the lead/sole investor and executive producer of our original drama series, contributing all or substantially all of the funding whilst taking the lead in the production, promotion and distribution processes (including the application for the Television Drama Series Distribution License). Co-investors make capital contributions and share returns in proportion to their respective capital contributions. From time to time, we carefully select experienced investors to make minority financial investments into our drama series according to the budget of our drama series projects. We typically solely own the copyrights of our original drama series. As the sole copyright owner, we only license the broadcasting rights of such drama series to our customers and maintain all the other legal rights including IP adaptation and licensing rights.

BUSINESS

The production and monetization of an original drama series consists mainly of seven stages: concept development, script development, pre-production, filming, post-production, distribution and promotion.

At the concept development stage, we internally create and develop interesting, attractive and meaningful stories, ideas or scripts to serve as the foundational concepts of a future drama series. From time to time, we also explore and purchase high-potential IPs from social media platforms, books, movies or major online literature platforms.

At the script development stage, we further develop scripts and IPs based on our experience and industry insights. In general, we typically own all the creative products generated from the concept and script development stages and the copyrights of the scripts, while scriptwriters own rights of authorship and rights of remuneration. We pay scriptwriters and IP owners fixed fees depending on the concept, the level of completion, the amount of time and effort spent and market recognition of the scriptwriter.

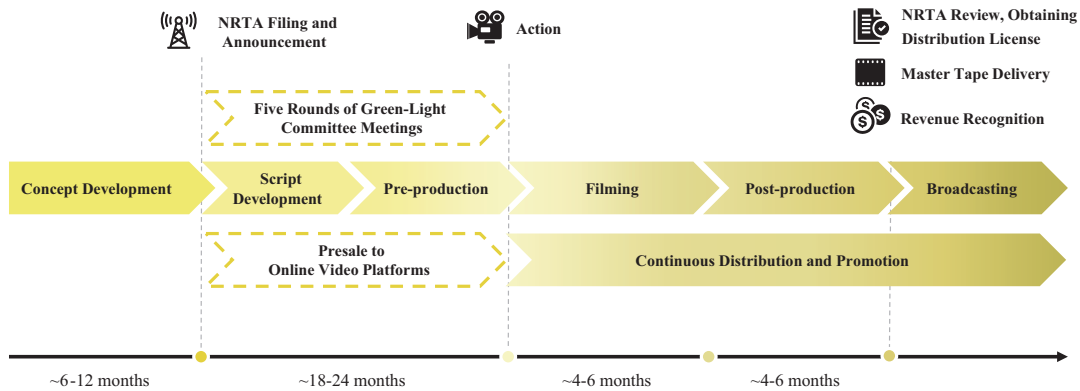
At the production and filming stage, we are usually in charge of the entire process while procuring certain services and products from third-party suppliers. Our procurement costs are typically related to the remuneration of filming crew and cast members, rental expenses of various filming and shooting sites and equipment, costumes and props, travel and accommodation of the filming crew and post-production work, including, among others, dubbing, editing and audio and video production. We have implemented measures to ensure that our projects will be completed within budget and on schedule. For example, for each project, we formulate a comprehensive budget plan and assign finance, production management and quality control staff on-site to monitor project expenditures closely and report to producers regularly.

At the promotion and distribution stage, we design tailored marketing campaign plans and engage experienced third-party marketing service providers for the detailed execution of our plans. We distribute our drama series primarily through leading domestic online video platforms and TV channels as well as overseas online video platforms and TV channels both directly and through third party distributors. Due to the premium quality and great popularity of our original drama series, we typically pre-sell our drama series prior to or shortly after the commencement of filming to online video platforms and before the completion of scripts. The agreements with the online video platforms to which we pre-sold our drama series typically set forth our obligations to deliver master tapes to the relevant customers by a specific time. The relevant customers can require us to reimburse the full licensing fees we have received, pay penalties and terminate the licensing agreements if we fail to deliver the master tape within a specified period after notice. For details, see "Original Drama Series – Salient Terms of the Broadcasting Rights Licensing Agreements with Our Customers". Our Directors confirm that we delivered the master tapes of all our drama series to our customers pursuant to the agreements. In addition, we are able to optimize our distribution strategy through our diversified distribution channels and secure different time windows on different distribution channels. For example, we sometimes negotiate exclusive licensing agreements with our customers so that our drama series will be broadcast exclusively on their platform. We also allow certain customers to broadcast our drama series or certain episodes of our drama series before they are broadcast on other customers' platforms.

BUSINESS

Operation Flow

The following diagram illustrates the operation flow of our original drama series business:



Concept Development

We start our original drama series projects with concept development as we believe this is a critical step to ensure that our story will engage, and entertain the audience. Our research and development center takes the primary responsibility in the concept development phase, conducting research for our in-house IP development as well as identifying, evaluating and purchasing high-potential IPs from various sources.

Our research and development center supports our in-house IP development by regularly (i) taking the pulse of the latest social developments and the values of our target audience through interviews and online research; (ii) brainstorming ideas based on gathered information; and (iii) crafting stories through internal workshops and seminars with scriptwriters. From time to time, our research and development center also conducts research on specific subject matters or with members of our targeted audience. The research is based on the needs of scriptwriters in making sure our scripts are engaging as well as realistic, and that our characters have vivid personalities, and our stories can resonate well with the target audience.

Our research and development center also seeks high-potential IPs through social media platforms, video-sharing platforms, books, movies and major online-literature platforms, and carefully curates quality IPs for our IP committee's review and approval. Our IP committee consists of members of our senior management and they evaluate IPs based on their industry experience considering factors including (i) the distinctiveness and uniqueness of the IP; (ii) potential market reception and social value; (iii) potential commercial value; and (iv) synergy with our previous and pipeline drama series. In addition, our research and development center also regularly publishes identified external IPs on our internal evaluation system for our employees to provide feedback from their own perspectives, which may be considered and adopted by our scriptwriters in the script development stage. Upon the approval of our IP

BUSINESS

committee, we negotiate with the owners of the identified external IPs and typically pay fixed licensing fees to acquire rights including adaptation rights for our further development. Our agreements with the relevant IP owners typically set forth a contract term ranging from five to ten years, during which we are authorized to develop scripts based on the acquired IP. We own all creative products from the acquired IPs, while the owners of the acquired IPs own rights of authorship and rights of remuneration.

On top of the efforts by our research and development center, we also proactively gather inspiration by utilizing internal and external resources. For example, our employees meet every week to discuss the latest market trends, domestic and overseas drama series and other entertainment works, and to brainstorm ideas. We also have four internal expert groups with areas of strengths to provide ongoing expert support. We also utilize external resources, such as the "Mengju" community (萌劇社), an external community consisting of the audiences of our drama series. Our dedicated personnel host weekly online discussions and ad hoc offline salons with members of the "Mengju" community to collect their ideas, suggestions and feedback on our stories, which we take into consideration in our concept development and script development process.

The concept development process typically takes an extended period of time ranging from six to 12 months to ensure the quality of the groundwork of our drama series.

Script Development

We have established our own script center which is responsible for script development. Our script center carefully selects talented scriptwriters from industry and social media platforms and establishes stable cooperative relationships with them. Our script center had established a script writer talent pool consisting of top notch writers with different areas of strengths covering a comprehensive suite of trending subjects. This dynamic talent pool allows us to match the most appropriate scriptwriters with different genres of scripts that we want to develop.

In the script development phase, we usually require scriptwriters to draft the outline of each script. Our script center will then review and refine the outline and submit the most compelling content to our green-light committee, which comprises our four co-founders, for review and determination of the script and scriptwriters. In return for their services, we typically pay fees to scriptwriters upon achievement of milestone events such as the delivery of the outline, the script for the first 10 episodes and the full scripts.

From time to time, we also acquire quality scripts from scriptwriters for our further development. Our script center and executive editors use their professional judgement and experience to adapt or improve the scripts we acquire to make sure they are up to our standards.

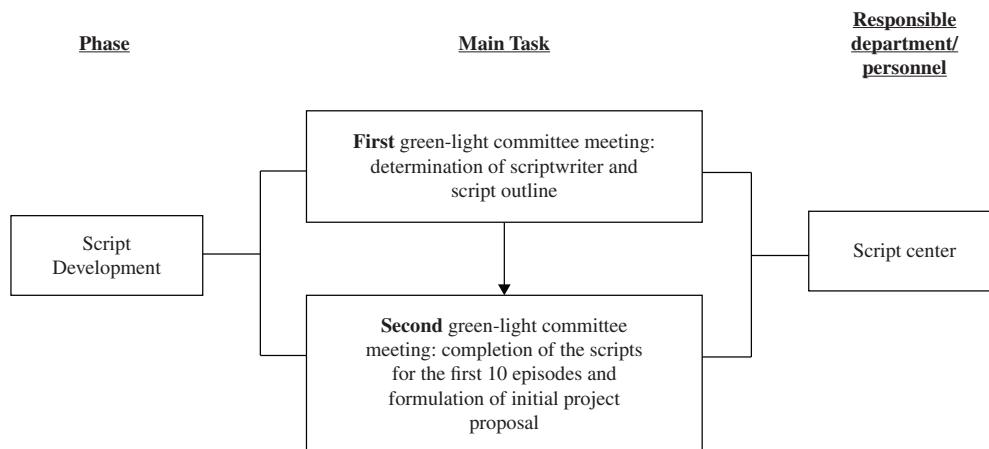
Similar to the concept development process, we fully utilize both internal and external resources to better facilitate our script development. Our script center actively participates in the entire script development process by providing feedback and supplying true-to-life source

BUSINESS

materials gathered from research and interviews. When necessary, we also consult external technical advisors with particular expertise for their professional opinions on the draft script to ensure the authenticity of the storyline and the realism of the characters portrayed. We also maintain close communications with leading online video platforms and major TV channels to evaluate the commercial value of our projects, and discuss future distribution plans at the script development stage.

Once a more advanced draft script is ready, typically marked by the completion of the scripts for the first 10 episodes, our green-light committee will conduct a second green-light committee meeting to review the draft script and provide suggestions based on their in-depth industry experience. In addition, our green-light committee will also formulate an initial project proposal including plans on budget and cast members. All the suggestions provided to our green-light committee will be duly heard and thoroughly discussed. The draft scripts will be adjusted and enhanced based on the green-light committee's suggestions until a final consensus is reached.

The table below sets forth the workstreams of our green-light committee meetings at the script development stage:

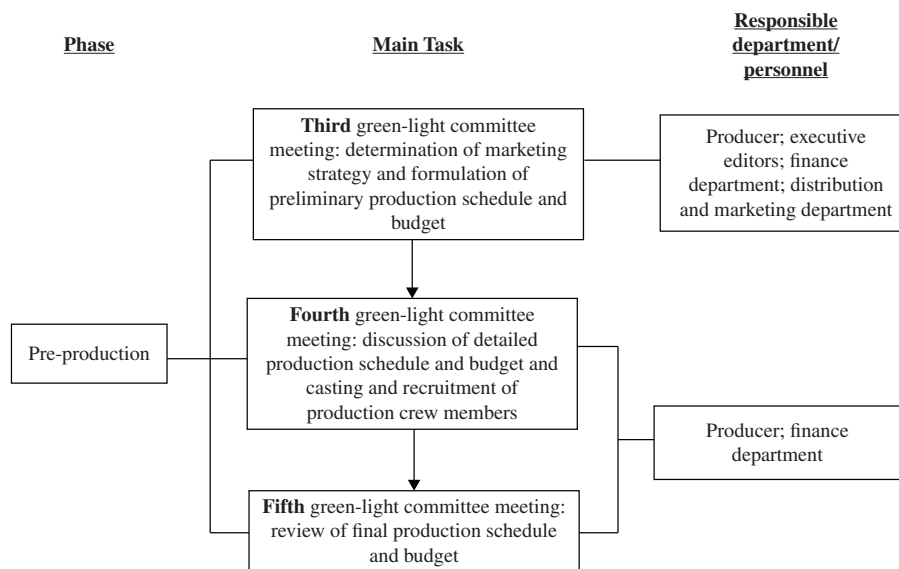


Once our initial project proposal and draft script are approved by the second green-light committee meeting, we proceed to file the Application for Public Record (備案公示申請) to the NRTA in accordance with the Administrative Measures of Record-filing and Announcement for Filming and Production of Drama Series (《電視劇拍攝製作備案公示管理辦法》). As one of the 41 holders of the Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》) in China as of December 31, 2021, we are not required to apply for the relevant individual production permit prior to the commencement of production of each drama series.

BUSINESS

Pre-production

We start the pre-production process once the green-light committee unanimously approves the filming of the proposed script. Our green-light committee continues to play an important role in the pre-production stage, including (i) the formulation of the marketing strategy and preliminary production schedule and budget at the third green-light committee meeting; (ii) the discussion of the detailed production schedule and budget, as well as the casting and recruitment of production crew members at the fourth green-light committee meeting; and (iii) the review of the final production schedule and budget at the fifth green-light committee meeting. The flowchart below sets forth the workstreams of our green-light committee meetings at the pre-production stage:



Under the guidance of our green-light committee, we are also primarily in charge of the following aspects in the pre-production phase:

- (i) casting: we select major cast members based on their suitability for roles, the target audience, the cast members’ popularity, fee quote and availability. From time to time, we also provide training to major cast members if necessary to help them better understand their roles;
- (ii) selection of production crew: we select and engage professionals for filming, lighting, props, costumes, make-up, settings, art, martial arts and stunt coordination, based on their experience and expertise;
- (iii) script review: we encourage major cast members and key production crew to review scripts together at the pre-production phase to better understand their roles and provide their insights. We may continue to refine the scripts based on their discussions and suggestions;

BUSINESS

- (iv) location scouting and design and construction of shooting sets: we conduct site visits to shooting sites and evaluate factors primarily including costs, scene suitability and filming feasibilities. We formulate design and construction plans and engage experienced third-party construction service providers to execute the design and construction plans;
- (v) formulation and commencement of product placement plans: we formulate product placement plans at the pre-production phase. We tailor the scripts and the construction of shooting sets to embed products/services naturally into our drama series; and
- (vi) purchasing and leasing of filming equipment and props.

The script development and pre-production phases usually take 18 to 24 months.

Filming

After the pre-production phase, we proceed to the filming process. The filming process typically takes approximately four to six months. We have implemented measures to ensure that our projects will be completed within budget and on schedule.

For each project, we assign an in-house production team led by our in-house producers on site, to monitor the entire filming process. The team consists of personnel from our script center, marketing department and finance department. In particular, (i) executive editors from our script center liaise with the production crew and make necessary adjustments to the scripts to ensure the smooth operation of the filming and production process; (ii) personnel from our sales and marketing department collect and produce marketing materials on-site to be used at the promotion stage; and (iii) our finance department monitors project expenditures in accordance with the budget plans to prevent cost over-runs. In addition, our production team conducts daily, weekly and ad hoc meetings to monitor project progress and to adjust the filming schedule when necessary. They also review completed clips to ensure filming quality.

Production shoots are typically scheduled for a number of full days based on the total production budget of the project, availability of actors, weather and setting conditions. In addition to our in-house production team, the filming stage of the production is also led by the directors and producers, who are supported by professional teams with areas of expertise including filming, lighting, props, costumes, make-up, settings and art, among many others.

Post-production

After filming is completed, the producer, director and editors will 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) special effects; and

BUSINESS

(vi) color grading. During the post-production stage, we regularly review the edited materials and video clips from artistic, commercial and compliance perspectives. The post-production process typically takes four to six months.

Once the post-production work of the drama series is completed, the post-production team typically conducts multiple rounds of review to identify and solve issues and ensure quality post-production. In addition, our Senior Management, directors, producers and script writers also review and provide suggestions for the post-production team to make adjustments and further enhance the quality of the post-production.

We also actively seek fresh-eye opinions from our employees and the "Mengju" community on the sample video clips, with a particular focus on the realism and attractiveness of the characters, the storylines and the core value delivered by the drama series. Our legal department also review the drama series from the legal compliance perspective and provides comments. In addition, we also invite members from the "Mengju" community to review close-to-final video clips to provide thoughts/opinions, which we believe serves as an effective tool to better formulate and adjust our marketing strategies.

After our review, we submit the drama series to the relevant government authorities for content review. For drama series to be broadcast on TV channels, we are required to submit the Application for Content Examination (內容審查申請) to the NRTA and obtain the relevant Television Drama Distribution License (《國產電視劇發行許可證》). For drama series to be broadcast on online video platforms, we are required to either (i) obtain the relevant TV Drama Distribution License; or (ii) submit the completed dramas to NRTA or its provincial counterpart for content review in accordance with the Notice about Upgrading the Information Recording Filing System of the Internet Audio-visual Program (《關於網絡視聽節目信息備案系統升級的通知》) if such drama series will only be broadcast on online video platforms. During the review/filing process, we adjust and modify the content of our drama series according to the suggestions of the relevant PRC government authorities. See "Regulatory Overview" for details.

Distribution

We primarily distribute our original drama series through online video platforms and TV channels. We proactively select among different distribution channels to optimize our audience coverage, considering each distribution channel's (i) compatibility with the market positioning of our drama series, (ii) target audience, and (iii) timeline and fee quotes.

We typically pre-sell our drama series to online video platforms prior to or shortly after the commencement of filming and before the completion of scripts due to the premium quality of our content. Specifically, in the second half of each year, we provide a pre-sale list showing the names and outlines of all the drama series that are under development to our potential customers. We enter into pre-sale agreements with customers who are interested in such drama series and secure prepayments in advance. The presale can, on the one hand, secure the distribution of our original drama series, and on the other hand, allow us to receive a certain

BUSINESS

percentage of our total licensing fees upfront (prior to or shortly after the commencement of filming), which in turn, benefits our operating cash flow position. In addition, we believe pre-sale incentivizes our customers to invest more heavily in the distribution and promotion of our drama series as they become an interested party after the pre-sale. The agreements with online video platforms to which we pre-sold our drama series typically set forth our obligations to deliver master tapes to the relevant customers by a specific time, which is estimated by us based on our production plan and negotiated and mutually agreed by the parties. The relevant customers can require us to reimburse the full licensing fees we have received, pay penalties and terminate the licensing agreements if we fail to deliver the master tape within a specified period after notice. For details, see “Original Drama Series – Salient Terms of the Broadcasting Rights Licensing Agreements with Our Customers”. Our Directors confirm that we delivered the master tapes of all our drama series to our customers pursuant to the agreements. Customers also tend to provide feedback to us during the post-production period to speed up the process. Once we obtain the TV Series Distribution License, we transfer the master tape and grant transmission rights or TV broadcasting rights to the customers. During the Track Record Period, we were able to pre-sell all of our original drama series broadcast during each of the period at a time as early as the commencement of filming to online video platforms, representing a pre-sale rate of 100.0%. According to Frost & Sullivan, we are one of the very few drama series production companies in China that are capable of pre-selling drama series to online video platforms.

We license the broadcasting rights of our original drama series either exclusively or non-exclusively to our customers. The term of each license generally ranges from five to ten years. Once the term of an exclusive license has expired, we can re-license our original drama series to other distribution channels. For non-exclusive licenses, we can simultaneously license the broadcasting rights of the same drama series to multiple distribution channels to maximize the commercial value of such drama series. For details of our contract terms with customers, see “Business – Salient Terms of the Broadcasting Rights Licensing Agreements with Our Customers”.

In addition to generating revenue from the licensing of the broadcasting rights of our original drama series, we have been exploring new monetization methods. For example, during the Track Record Period, we licensed the remake rights of “Nothing but Thirty” (三十而已) to an overseas TV channel, granting the rights to remake the drama series in a different language and to distribute the remake work around the world.

We have also established an effective market summary, analysis and feedback mechanism to further enhance our distribution process. We record the distribution information and related data throughout the entire process, helping us to effectively maintain customer relationships and provide critical guidance for our planning, investment and distribution of future projects.

BUSINESS

Promotion

The preparation for the promotion activities of a drama series generally begin at the pre-production phase and the promotion may last for several months after the initial broadcasting of the series.

We primarily promote our drama series through interactive marketing on social media platforms and short video platforms. We formulate tailored promotion plans based on the demographics of the target audiences of our original drama series. For example, we post interesting video clips of our drama series and behind-the-scene stories and host live streaming gatherings among cast members and the audience on social media platforms. Such promotion strategy has proved to be successful. For example, short videos with the hashtag “Nothing but Thirty” had received the most accumulated views among all drama series short videos on a major short video platform in China as of the Latest Practicable Date according to Frost & Sullivan.

We strive to fully utilize our drama series collections and create synergy among our proprietary IPs to intrigue our audience’s continuous interest in our drama series. To this end, we cross-promote our drama series collections on social media and short video platforms. For example, in 2020, we created trending topics on our proprietary drama series “Twenty Your Life On” (二十不惑) and “Nothing but Thirty” (三十而已). The trending topics such as “No limits for twenty and thirty” became popular searches of the day on social media platforms. Since our inception, there has been over 100 hot searches of the day relating to our drama series on one of the most popular social media platforms in China, amounting to over 10.0 billion views. In addition, we created interactive scenes in “Nothing but Thirty” (三十而已), in which the three main characters interacted with the main characters of “Twenty Your Life On” (二十不惑).

Our promotion activities also include press releases, marketing campaigns, drama series release conferences and media interviews with the major cast members. In addition, we organize press visits to the filming sites during filming to garner media attention. We also organize appearances of the actors and directors of the drama series on television programs and at other events to promote our drama series.

Salient Terms of the Broadcasting Rights Licensing Agreements with Our Customers

We enter into licensing agreements with online video platforms, TV channels and third party distributors on a project-by-project basis. The typical salient terms of the agreements with our customers are as follows:

- *Term of the license:* Generally five to ten years from the date of the initial broadcasting on the relevant online video platforms or TV channels;

BUSINESS

- *Details of the drama series:* The agreements typically set out the official name, the number of episodes, major cast members, and relevant distribution licenses of the drama series;
- *Territories and exclusivity:* Generally online video platforms are granted the broadcasting rights of the drama series in the PRC, while TV channels are usually granted such rights of the drama series within certain specific provinces. The broadcasting rights granted to our licensee customers can be both exclusive or non-exclusive;
- *Rights of sub-licensing:* From time to time, we grant sub-licensing rights to certain customers. Customers with sub-licensing rights can sub-license the exclusive broadcasting rights of our original drama series to third parties in the PRC within the term of the license;
- *Broadcasting Schedule:* The licensing agreements usually specify the broadcasting schedule, including the number of episodes each day and their corresponding time slot during the day for broadcasting (i.e., prime time or otherwise). Certain of the agreements also include a clause designating the priority of broadcasting (i.e., the initial broadcast or subsequent broadcast) and the number of times the particular drama series can be broadcast;
- *Licensing fee:* Generally a fixed amount per episode, while in some cases it may be subject to adjustments based on the actual number of episodes delivered;
- *Payment:* We typically pre-sell our drama series to our customers before the completion of scripts and receive prepayments. Payments in instalments in accordance with the milestone payment schedules are set out in the relevant agreements, generally from signing of the agreements to the initial broadcasting of the drama series;
- *Bonus.* In certain agreements with online video platform customers, if our drama series contributes to more than a prescribed number of additional or renewal of membership subscriptions within a certain period after the broadcasting, we are entitled to an additional bonus with respect to each of the membership subscription exceeding the prescribed number of additional or renewal of membership subscriptions.
- *Delivery of the materials:* We are required to deliver the master tapes to the relevant customers by the prescribed time set forth in the relevant agreements. Customers can require us to reimburse the full licensing fees we have received, pay penalties and terminate the licensing agreements if we fail to deliver the master tape within a specified period after reasonable notice. Some agreements contain provisions relating to the format and specifications of the drama series materials to be delivered to our customers and the proposed schedule of delivery;

BUSINESS

- *Confidentiality*: All parties undertake responsibilities 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 tapes, delay in obtaining the Television Drama Distribution License, and adverse social impact caused by the cast members during distribution or failure to meet the 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.

Content Marketing

Our broad audience reaches across the world makes us a preferred choice for advertisers for content marketing.

We provide three types of content marketing services, including (i) product placement services; (ii) customized creative advertisements to be placed in our drama series broadcast on online video platforms; and (iii) integrated marketing campaigns tailored to the target consumers of the advertisers. The table below sets forth the revenue breakdown of our content marketing services by type for the periods indicated.

	Year ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Product placements	50,491	58,349	84,591
Customized creative advertisements	8,341	7,612	12,142
Integrated marketing campaign	—	—	13,033
	<hr/>	<hr/>	<hr/>
Total	58,832	65,961	109,766
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For product placement, we carefully examine our scripts during the script development process to locate highlights of the drama series that are most likely to generate wide public interest and discussions. We actively approach customers with advertising needs and are also approached by customers from time to time prior to the filming and we discuss the detailed product placement plans prior to and during the filming process. We then produce and embed customized scenes in our drama series during the filming, production and post-production process, such as the interaction between the characters and the product/service in our drama series, to market the products/services naturally.

BUSINESS

The pictures below are examples of our product placement, both of which are screenshots from our original drama series "A Little Dilemma" (小舍得) in which our advertisers' products were showcased:



During the Track Record Period, we also developed and produced customized creative advertisements for online video platforms and placed such advertisements in our drama series broadcast on such online video platforms. We produce and place such advertisements after we enter into agreements with online video platforms and before the broadcasting of the relevant drama series on such platforms.

Leveraging on our diversified advertising customer portfolio, we also design integrated marketing campaigns that are tailored to the target consumers of the advertisers and launch such campaigns on various platforms including social media and short video platforms. We actively approach potential customers with advertising needs, formulate and discuss detailed integrated marketing campaign plans, and execute plans pursuant to the customers' instructions. According to Frost & Sullivan, the online video-based content marketing market in China experienced rapid growth at a CAGR of 19.8% from approximately RMB121.1 billion in 2016 to approximately RMB249.6 billion in 2020. By 2025, the online video-based content marketing market in China is expected to reach approximately RMB598.5 billion, representing a CAGR of approximately 19.1% from 2020 to 2025.

BUSINESS

Since our inception and up to the Latest Practicable Date, leveraging our well-recognized industry reputation and high-quality marketing capabilities, we were able to develop a diversified portfolio of over 100 advertising customers, covering industries including automobiles, cosmetic products, commodities, clothing, online retail platforms, among many others. The following table sets forth the number of brands for which we provided content marketing services for the periods indicated:

	Year ended December 31,		
	2019	2020	2021
Number of brands ⁽¹⁾	29	37	61

Note:

- (1) Number of brands includes the brands from which we generated content marketing services revenue directly or indirectly through third-party agents during each respective period.

Going forward, we plan to further develop our content marketing business. In 2021, we established subsidiaries including Shanghai Ningchuan and Wuren Guanji to focus on our content marketing business. Specifically, we plan to (i) further increase the number of our original drama series and cooperative third party platforms, through which we can deliver more content marketing services; (ii) market our customers' products/services in innovative and trending methods, such as short videos, long videos, films and mini drama series; and (iii) provide cross-platform and cross-screen advertising services and cover both online and offline scenarios. See "Business – Our Strategies" for details.

Other Businesses

We also provide other services including (i) producing made-to-order drama series based on customer orders and charging fixed production fees; (ii) developing, producing and distributing films and charging licensing fees for the broadcasting rights of the film; (iii) investing in drama series as a non-executive producer and charging net licensing fees in proportion to our investment; and (iv) licensing our IP derivatives adaptation rights and charging royalty income. During the Track Record Period, we also provided artiste management services and charged service fees. We disposed of the relevant subsidiary in 2020 and ceased providing such service afterwards.

BUSINESS

Made-to-order Drama Series Production

During the Track Record Period, in light of our reputation and proven track record of creating premium content, Tencent Video hired us to undertake the production of two drama series (including “The King’s Avatar” (全職高手) in 2019 and “Ancient Love Poetry” (千古玦塵) in 2021).

The business model of made-to-order drama series production is different from that of our original drama series, for which we independently manage the full-cycle process including development, production and distribution. For the two made-to-order drama series, Tencent Video provided IPs and was also responsible for distribution. We were engaged to arrange and supervise the production of such drama series. In return for our services, we generated revenue of approximately RMB73.1 million in 2019 and RMB28.2 million in 2021.

The following are the posters of the two made-to-order drama series broadcast during the Track Record Period:



“The King’s Avatar”
(全職高手) (2019)



“Ancient Love Poetry”
(千古玦塵) (2021)

Going forward, we will selectively undertake the production of made-to-order drama series while focusing on original drama series production and distribution.

Film Production

We developed, produced and distributed one film, “Monster Run” (怪物先生), in 2020. Most of the operation process of film production is substantially the same to that of our original drama series production. See “Our Business Model – Original Drama Series – Operation Flow” for details. However, pursuant to Film Industry Promotion Law of the PRC (《中華人民共和國電影產業促進法》), we are required to (i) file the outline of film script for the record with the film authorities under the State Council or the competent provincial film authorities, and (ii) submit the film script for review of and approval by competent government authorities if the film script contains a major theme or a theme relating to the national security, diplomacy, ethnicity, religion and military. We are also required to submit films to the competent national and provincial film authorities for review and obtain the Licence for Public Screening of Films (電影片公映許可證) after filming/production and before broadcasting. See “Regulatory Overview – Regulations in Relation to Production and Distribution of Films” for details.

BUSINESS

Revenue from films is typically box office revenue, which is different from original drama series which generates revenue by licensing the broadcasting rights to online video platforms, TV channels and third-party distributors. However, due to the COVID-19 pandemic, the PRC government imposed strict social distancing policies and suspended the operation of cinemas in the first quarter of 2020. As a result, we promptly adjusted our film distribution plan. Instead of licensing theatrical distribution rights to cinemas, we licensed the broadcasting rights to top domestic online video platforms including Tencent Video in 2020. See “Business – Impacts of The COVID-19 Pandemic” for details. We are also in close negotiation with overseas distribution channels to license the broadcasting rights of “Monster Run” (怪物先生) to them by the end of 2021 and expect to generate additional licensing fees.

The following is a poster of the film we produced during the Track Record Period:



“Monster Run”
(怪物先生) (2020)

Investment in Drama Series as A Non-executive Producer

During the Track Record Period, from time to time, we chose to invest in premium drama series projects to further monetize our production capability. We obtain information of drama series projects through our industry resources and carefully select drama series projects to invest in as a non-executive producer based on our experience. Under such co-financing arrangements, we act as a non-executive producer, generally contributing a minority investment. We generally do not participate in the production process of such drama series, but sometimes assist in the promotion and distribution by referring industry resources. We entered into co-financing agreements with other drama series producers on a project-by-project basis. The salient terms of the co-financing agreements we entered into typically include: (i) the details of the drama series, such as the name, number of episodes, total investment, leading cast and production schedule; (ii) IP arrangements, usually owned by the executive producers or jointly owned by the executive producers and us; (iii) investment allocation and payment, investment is paid by us in instalments and we share part of the net licensing fees and/or distribution commission in proportion to our investment; and (iv) work allocation – executive producers are in charge of development, production and distribution (including the application for the Television Drama Distribution License) while we assist with promotion and distribution.

BUSINESS

We invested 10% of the capital contributions to “Chinese Paladin 5” (仙劍雲之凡) and 30% of the capital contributions to “The Chinese Style Relationship” (中國式關係) in 2016 and 30% of the capital contributions to “Hand in Hand” (陪你一起長大) in 2021 as a non-executive producer and generated revenue of RMB47.6 million in 2021.

Royalty Income

We also generated royalty income from IP derivatives, such as licensing of adaptation rights of our original drama series to online gaming and music companies to produce role play games or music during the Track Record Period. When our drama series gain or are expected to gain popularity, we offer IP derivatives opportunities by licensing the adaptation rights of such drama series. We work closely with our IP derivative customers to launch IP derivatives with the marketing and promotion of our drama series. For example, we licensed the adaptation rights of “Legend of Fuyao” (扶搖) and “Only Side by Side with You” (南方有喬木) to online gaming companies, we also licensed the original soundtracks of “Twenty Your Life On” (二十不惑) and “Nothing but Thirty” (三十而已) to an online music sharing platform. In 2019, 2020 and 2021, we generated revenue of RMB1.7 million, RMB2.8 million and RMB4.0 million, respectively, as royalty income. Going forward, we will continue to explore opportunities to sell IP derivatives of our drama series to diversify our monetization methods.

Artiste Management

During the Track Record Period, we sourced actors for drama series and films, entertainment events and TV programs for artistes, whilst generating artiste management fees. In 2019, 2020 and 2021, we generated revenue of RMB23.9 million, RMB0.4 million, and nil from artiste management, respectively. During the Track Record Period, artiste management services contributed only a small portion to our revenue and we disposed of Shanghai Mengyang, the subsidiary providing artiste management services, in 2020 to focus our resources on our original drama series business. As a result, we do not expect to generate revenue from artiste management in the future. See “History, Reorganization and Corporate Development” for details. All the artiste management agreements were entered into between Shanghai Mengyang and the relevant artistes and Shanghai Mengyang has been independently responsible for its artiste management services since our disposal.

BUSINESS

PRICING

The pricing for the licensing of our original drama series is determined by negotiations between the parties considering the total investment, the genre, the distribution channels (TV channels or online video platforms), the broadcasting schedules (initial distribution or subsequent distribution and the broadcasting time slot), the prevailing market price, the target audience base, the expected level of popularity, the ranking of our drama series, as well as our target profit margin. Given that each of the drama series has its unique features and the above factors are not generic in nature which highlights the versatility and distinctiveness of each drama series, there is no quantitative formula for determining the licensing fees of our drama series, which will be subject to arm's length negotiations between the relevant parties. Generally, the amount charged for the initial broadcasting rights is higher than subsequent distributions, and we normally seek to cover our total investment by the licensing fees received from the initial broadcast. During the Track Record Period, the licensing of the first-run broadcasting rights of our original drama series ranged (i) from RMB1.3 million to RMB3.3 million per episode for TV channels; (ii) from RMB5.2 million to RMB15.8 million per episode for online video platforms. During the Track Record Period, the licensing of the re-run broadcasting rights of our original drama series (only applicable to TV channels) ranged from RMB47,000 to RMB0.4 million per episode. According to Frost & Sullivan, the licensing fees of the first-run of original drama series (excluding us) normally range (i) from RMB0.8 million to RMB4.0 million per episode for TV channels; and (ii) from RMB2.0 million to RMB8.0 million per episode for online video platforms. The licensing of the re-run of original drama series (only applicable to TV channels) normally range from RMB50,000 to RMB0.6 million per episode. The gross profit margin of our first-run drama series typically ranges from approximately 20% to 45% during the Track Record Period depending on the total investment, genre, the distribution channels, broadcasting schedules, prevailing market price, and its budget control, among many other factors as disclosed in the revised Document, except for "Novoland: Eagle Flag episodes" (九州縹緲錄) which recorded a relatively low gross profit margin primarily due to (i) the large scale of the project, and (ii) the genre of this drama series as a costume and fantasy drama series which generally incurs higher cost for make-ups, costumes, production sets and post-production, especially the special effects.

BUSINESS

The pricing for our content marketing services is also determined by negotiations between the parties on a cost-plus basis, taking into consideration of the duration of the content, display method, our target profit margin with reference to the overall market conditions and trends, prevailing market price and various commercial factors, including the rating and popularity of the drama series, and the commercial ability to attract advertisement of the online video platforms.

For made-to-order drama series, we charge online video platforms a pre-determined fixed fee based on negotiations between the parties, taking into consideration the estimated costs, our target profit margin for the production services we provide, the genre of the drama series to be produced and the prevailing market price. During the Track Record Period, our pre-determined fixed fees of made-to-order drama series generally ranged from RMB0.6 million to RMB1.8 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.

SALES AND MARKETING

We establish cooperative relationships with our customers primarily through the efforts of our sales and marketing department.

To better distribute our drama series to online video platforms and TV channels, we visit our existing and potential customers on a regular basis to negotiate our distribution arrangements with them as part of our sales and marketing strategies. We believe that these frequent opportunities to meet with our existing and potential customers have provided us with abundant opportunities to maintain and foster fruitful business relationships, and in the meantime, closely monitor the market trends in different regions in China.

In addition, to enhance the audience exposure of our drama series, we usually formulate the relevant promotion and marketing plans for our drama series and engage specialized marketing agencies, who are Independent Third Parties, to implement such promotion and marketing plans. The third-party marketing agencies generally promote our drama series on new media and/or online social platforms. We formulate the promotion and marketing strategy of each drama series based on a number of factors, including (i) the drama series content; (ii) distribution channel; and (iii) the target audience.

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 2019, 2020 and 2021, our marketing expenses for marketing and promotional activities amounted to RMB96.6 million, RMB118.4 million and RMB85.1 million, respectively.

BUSINESS

AWARDS AND RECOGNITIONS

During the Track Record Period, we have received recognition for the quality and popularity of our drama series. Some of the significant awards and recognition we have received are set forth below.

Award/Recognition	Award Year	Awarding Institution/Authority	Recipient
TV Programs Going Global Outstanding Contribution Enterprise Award for the year 2018 (2018年電視節目走出去突出貢獻企業)	2019	CCPPD & NRTA (中國共產黨中央委員會宣傳部 & 中華人民共和國國家廣播電視總局)	Shanghai Linmon
The 2019-2020 National Key Enterprise of Cultural Exports (2019-2020年度國家文化出口重點企業)	2019	MOFCOM & CCPPD & MOF & MCT & NRTA (中華人民共和國商務部 & 中國共產黨中央委員會宣傳部 & 中華人民共和國財政部 & 中華人民共和國文化和旅游部 & 中華人民共和國國家廣播電視總局)	Shanghai Linmon
The 25th Shanghai TV Festival International Communication Award (第25屆上海電視節國際傳播獎)	2019	STVF Organizing Committee & Magnolia Award of the 25th Shanghai TV Festival (上海電視節組織委員會 & 第二十五屆上海電視節白玉蘭獎)	A Love for Separation (小別離)
Outstanding Television Series Award in the 30th China Golden Eagle TV Art Festival (第30屆中國電視“金鷹獎”優秀電視劇獎)	2020	CFLAC & CTAA (中國文學藝術界聯合會 & 中國電視藝術家協會)	A Little Reunion (小歡喜)

BUSINESS

Award/Recognition	Award Year	Awarding Institution/Authority	Recipient
Outstanding Modern Television Series Award at the 32nd Flying Apsaras Award (第32屆電視劇“飛天獎”優秀電視劇獎)	2020	NRTA (中華人民共和國國家廣播電視總局)	A Little Reunion (小歡喜)
2020 Chinese TV Series Selections (《2020年度中國電視劇選集》)	2020	NRTA (中華人民共和國國家廣播電視總局)	Hunting (獵狐)
2020 Chinese TV Series Selections (《2020年度中國電視劇選集》)	2020	NRTA (中華人民共和國國家廣播電視總局)	Nothing but Thirty (三十而已)
The 2021-2022 National Key Enterprise of Cultural Exports (2021-2022年度國家文化出口重點企業)	2021	MOFCOM & CCPPD & MOF & MCT & NRTA (中華人民共和國商務部 & 中國共產黨中央委員會宣傳部 & 中華人民共和國財政部 & 中華人民共和國文化和旅游部 & 中華人民共和國國家廣播電視總局)	Shanghai Linmon
The 27th Shanghai TV Festival International Communication Awards (第27屆上海電視節國際傳播獎)	2021	STVF Organizing Committee & Magnolia Award of the 27th Shanghai TV Festival (上海電視節組織委員會 & 第二十七屆上海電視節白玉蘭獎)	Nothing but Thirty (三十而已)

BUSINESS

COMPETITION

According to Frost & Sullivan, the drama series market in China is highly competitive with more than 22,500 market players in 2020 with differentiated background and capabilities. Despite the competitions, leading drama series production and distribution companies possess superior industry resources and have established long-term cooperation business relationships with leading distribution channels (including top online video platforms and top TV channels). According to Frost & Sullivan, the market share of the top five drama series production companies accounted for approximately 19.0% of the total revenue generated from the licensing of drama series in 2020 in China. We ranked top 5 in terms of revenue for three consecutive years in 2018, 2019 and 2020.

We primarily compete with other market players on the quality of drama series content, brand recognition, scale of production, availability of financial resources, distribution capability as well as the ability to respond quickly and effectively to evolving market trends. We believe our competitive edge lies in our abundant reserve of IPs, seasoned and visionary senior management team, experienced production team, and close and stable relationships with top online video platforms and TV channels, enabling us to achieve both 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 competitive landscape.

OUR CUSTOMERS

Our customers primarily include top online video platforms and major domestic TV channels in China. In 2019, 2020 and 2021, revenue generated from our top five customers in aggregate constituted approximately 93.2%, 88.1% and 77.6% of our total revenue, respectively. In 2019, 2020 and 2021, revenue attributable to our largest customer amounted to RMB887.8 million, RMB466.7 million and RMB282.0 million, respectively, accounting for approximately 49.5%, 32.7% and 22.6% of our total revenue, respectively.

BUSINESS

The table below sets forth the details of our five largest customers for the years indicated:

Year ended December 31, 2019

Customer	Services provided	Amount of revenue (RMB in millions)	% of total revenue	Customer type	Commencement of business relationship
Customer A	Licensing of broadcasting rights of original drama series	887.8	49.5%	Online video platform	2016
Customer B	Licensing of broadcasting rights of original drama series and content marketing services	371.4	20.7%	Online video platform	2016
Customer C	Licensing of broadcasting rights of original drama series	213.0	11.9%	TV channel	2015
Customer D	Licensing of broadcasting rights of original drama series	117.9	6.6%	TV channel	2019
Tencent Group	Made-to-order drama series production and content marketing services	79.9	4.5%	A conglomerate group with subsidiaries focusing on innovative products and entertainment services	2015
Total		1,670.0	93.2%		

BUSINESS

Year ended December 31, 2020

Customer	Services provided	Amount of revenue (RMB in millions)	% of total revenue	Customer type	Commencement of business relationship
Tencent Group	Licensing of broadcasting rights of original drama series, content marketing services, licensing of broadcasting rights of film and licensing of IP derivative rights	466.7	32.7%	A conglomerate group with subsidiaries focusing on innovative products and entertainment services	2015
Customer A	Licensing of broadcasting rights of original drama series, licensing of broadcasting rights of film and content marketing services	315.5	22.1%	Online video platform	2016
Customer B	Licensing of broadcasting rights of original drama series, licensing of broadcasting rights of film and content marketing services	267.1	18.7%	Online video platform	2016
Customer E	Licensing of broadcasting rights of original drama series	130.2	9.1%	TV channel	2016
Customer D	Licensing of broadcasting rights of original drama series	79.1	5.5%	TV channel	2019
Total		1,258.5	88.1%		

BUSINESS

Year ended December 31, 2021

Customer	Services provided	Amount of revenue (RMB in millions)	% of total revenue	Customer type	Commencement of business relationship
Customer B	Licensing of broadcasting rights of original drama series and content marketing services	282.0	22.6%	Online video platform	2016
Customer A	Licensing of broadcasting rights of original drama series and content marketing services	268.1	21.5%	Online video platform	2016
Tencent Group	Licensing of broadcasting rights of original drama series, made-to-order drama series production, licensing of IP derivative rights and content marketing services	211.4	16.9%	A conglomerate group with subsidiaries focusing on innovative products and entertainment services	2015
Customer E	Licensing of broadcasting rights of original drama series	132.3	10.6%	TV channel	2016
Customer D	Licensing of broadcasting rights of original drama series	75.3	6.0%	TV channel	2019
Total		969.1	77.6%		

To the knowledge of our Directors, none of our Directors and their respective Associates or any Shareholders holding more than 5% of our issued share capital has any interests in any of our five largest customers as of the Latest Practicable Date, except for Tencent Group, which held approximately 19.8% of the issued share capital of our Company as of the Latest Practicable Date.

OUR SUPPLIERS

Our suppliers primarily include directors, actors and production related service providers. In 2019, 2020 and 2021, the purchase from our top five suppliers in aggregate constituted approximately 26.1%, 27.3% and 33.3% of our total purchase from our suppliers, respectively. During the same period, purchase from our largest supplier constituted approximately 7.9%, 10.1% and 17.6% of our total purchase from our suppliers, respectively.

BUSINESS

The table below sets forth the details of our five largest suppliers for the years indicated:

Year ended December 31, 2019

Supplier	Scope of Services/Goods provided	Purchase amount (RMB in millions)	% of total purchase	Supplier's principal business	Commencement of business relationship
Supplier A	Drama series planning and production services, promotional and marketing services	64.8	7.9%	Drama series production and promotion	2017
Supplier B	Drama series production and post-production services	48.8	5.9%	Drama series production	2017
Supplier C	Artist performance services	42.5	5.2%	Drama series production	2019
Supplier D	Artist performance services	32.2	3.9%	Drama series production	2015
Supplier E	Director services	26.5	3.2%	Drama series production and development	2016
Total		214.8	26.1%		

Year ended December 31, 2020

Supplier	Scope of Services/Goods provided	Purchase amount (RMB in millions)	% of total purchase	Supplier's principal business	Commencement of business relationship
Supplier A	Drama series planning services	41.4	10.1%	Drama series production and promotion	2017
Supplier E	Director services	20.2	4.9%	Drama series production and development	2016
Supplier F	Artist performance services	18.4	4.5%	Drama series production	2020
Supplier G	Drama series production services	16.8	4.1%	Drama series production	2015
Supplier H	Artist performance services	15.1	3.7%	Drama series production	2020
Total		111.9	27.3%		

BUSINESS

Year ended December 31, 2021

Supplier	Scope of Services/Goods provided	Purchase amount (RMB in millions)	% of total purchase	Supplier's principal business	Commencement of business relationship
Supplier I	Drama series planning, filming and production services	162.4	17.6%	Drama series production, distribution and consulting services	2017
Supplier G	Script development services, drama series production services and artist performance services	49.1	5.3%	Drama series production	2015
Supplier J	Artist performance services	33.1	3.6%	Drama series production	2021
Supplier E	Director services	31.4	3.4%	Drama series development and production	2016
Supplier K	Director services	31.1	3.4%	Drama series development and production	2015
Total		307.1	33.3%		

Due to our project-based business nature, we choose drama series production services providers depending on various factors including the investment amount, genre, filming scale and difficulties, and production cost-efficiency of the relevant drama series. The purchase from our top five suppliers in 2021 were higher than the purchase from our top five suppliers in 2019 and 2020, primarily due to the purchase from our largest supplier in 2021. We chose Supplier I in 2021 because the relevant drama series are modern drama series for which we procured drama series production services from a single supplier to be more cost-effective.

To the knowledge of our Directors, none of our Directors and their respective associates or any Shareholders holding more than 5% of our issued share capital has any interests in any of our five largest suppliers as of the Latest Practicable Date.

BUSINESS

Salient Terms of Agreements with Major Suppliers

Our suppliers provide us with services including production services, directing services and performing services. We generally enter into agreements with our suppliers on a project-by-project basis. The salient terms of these agreements are as follows:

- *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, or the production service providers, are responsible for providing the relevant scripts and other necessary assistance and overseeing the production process, while the directors and actors are obliged to provide directing and performing services;
- *Service fees and settlement:* Typically a fixed amount of service fee for production service providers, directors and actors to be settled in installments or by one lump sum payment, subject to the terms of the contract;
- *Ownership of IP rights:* We have the full ownership of the copyrights of the creative works, while the production service providers, directors and actors are entitled to rights of remuneration;
- *Termination:* The agreements are terminable under certain circumstances, including, among others, mutual agreement and breach of contract; and
- *Negative publicity (applicable when our suppliers are directors or actors):* We are entitled to seek reimbursement of the amount of service fees we paid to them in the event that any lawsuits, personal misbehaviors, rumors or negative news related to them affected our distribution of the corresponding drama series.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

During the Track Record Period, (i) Tencent Group procured the broadcasting rights of our original drama series, commissioned the production of made-to-order drama series and procured advertisement production services from us. Some of the entities affiliated to Tencent Group also licensed to us IP adaptation rights of novels and overseas distribution rights of a drama series. Our purchase of the relevant IP adaptation rights from Tencent Group amounted to RMB8.3 million and RMB5.1 million in 2019 and 2020 and our purchase of IP adaptation rights of novels and overseas distribution rights of a drama series from Tencent Group amounted to RMB11.7 million in 2021; and (ii) Customer E, one of our top five customers in 2020, also provided us with its contracted actors to act in our drama series as a major cast member in 2021. The relevant service we purchased from Customer E amounted to RMB7.7 million in 2021.

BUSINESS

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 contingent upon each other. Our Directors confirmed that all of our sales to and purchases from the overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms.

CUSTOMER CONCENTRATION AND RELATIONSHIP WITH TENCENT GROUP

In 2019, 2020 and 2021, the percentage of our total revenue attributable to our top five customers amounted to approximately 93.2%, 88.1% and 77.6% of our total revenue, respectively. During the same years, the percentage of our total revenue attributable to our fifth largest, the largest, and third largest customer in 2019, 2020 and 2021, Tencent Group, amounted to approximately 4.5%, 32.7% and 16.9%, respectively. According to Frost & Sullivan, the drama series broadcasting industry is concentrated and dominated by several major players, including leading online video platforms and major TV channels. Therefore, it is common for drama series production companies to generate a large portion of their income from a small number of online video platforms and major TV channels.

Tencent Group

Tencent Group has established its own entertainment business ecosystem with full value chain coverage spanning from the investment, production and distribution of video-based content to the operation of broadcasting platforms. In 2020, the revenue of Tencent group amounted to RMB482.1 billion according to Frost & Sullivan. According to Frost & Sullivan, Tencent Group is a leading market player in the drama series market in China in terms of revenue and the number of produced works in each of the past three years.

Tencent Mobility, a wholly-owned subsidiary of Tencent Group, is one of our substantial Shareholders. Immediately following the completion of the [REDACTED] presuming the Assumptions, Tencent Mobility will then be interested in [REDACTED]% of equity interests of our Company.

Cooperation with Tencent Group during the Track Record Period

As our important business partner in various aspects of our business operations, Tencent Group was our largest customer in 2020, and our fifth and third largest customer in 2019 and 2021, respectively. Our revenue derived from Tencent Group amounted to RMB79.9 million, RMB466.7 million and RMB211.4 million in 2019, 2020 and 2021, respectively, accounted for approximately 4.5%, 32.7% and 16.9% of our total revenue in the same periods, respectively. We also procured from the Tencent Group certain IP adaptation rights in 2019 and 2021 as well as the overseas distribution right of a drama series in 2021. As Tencent Group and our Group both engaged in the production of drama series, there may be potential competition between Tencent Group and us. However, there are no restrictive covenants or equivalent clauses in the agreements we entered into with Tencent Group and its subsidiaries during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

The following table sets forth is the revenue breakdown generated from the Tencent Group by service during the Track Record Period:

Nature of transactions	Year ended December 31,					
	2019		2020		2021	
	% of our		% of our		% of our	
	Group's		Group's		Group's	
	(RMB in	total	(RMB in	total	(RMB in	total
	million)	revenue	million)	revenue	million)	revenue
Drama series and movies copyrights licensing	–	N/A	450.7	31.6	180.7	14.5
Advertisement production and services	4.1	0.2	1.6	0.1	0.5	0.0
Music copyrights licensing	–	N/A	2.8	0.2	2.0	0.2
Made-to-order drama series production	73.1	4.1	–	N/A	28.2	2.3
Others	2.7	0.2	11.6	0.8	–	N/A
Total	79.9	4.5	466.7	32.7	211.4	16.9

The following table sets forth our procurement breakdown from the Tencent Group during the Track Record Period:

Nature of transactions	Year ended December 31,					
	2019		2020		2021	
	% of our		% of our		% of our	
	Group's		Group's		Group's	
	total	total	total	total	total	total
	(RMB in purchase	(RMB in purchase	(RMB in purchase	(RMB in purchase	(RMB in purchase	(RMB in purchase
	million)	amount	million)	amount	million)	amount
Procurement of Literature Works						
Copyrights	8.3	1.0	5.1	1.2	5.7	0.6
Procurement of the overseas distribution right of a drama series	–	N/A	–	N/A	6.0	0.6
Total	8.3	1.0	5.1	1.2	11.7	1.2

BUSINESS

During the Track Record Period, the revenue contribution from Tencent Group largely depends on our cooperation with the Tencent Group in respect of the drama series we produced and their respective production mode. The following table sets forth a list of drama series we cooperated with Tencent Group during the Track Record Period and up to the Latest Practicable Date:

Name of the Drama Series	Production Mode	Time of the Initial Broadcasting	Major Broadcast Channels
The King’s Avatar (全職高手)	Made-to-order drama series produced by us upon request by Tencent Group	July 2019	Tencent Video
Novoland: Eagle Flag (九州縹緲錄)	Original drama series jointly invested with the Tencent Group	July 2019	Zhejiang TV, Youku
Nothing but Thirty (三十而已)	Original drama series licensed to Tencent Group and produced by us	July 2020	Dragon TV, Tencent Video
Ancient Love Poetry (千古玦塵)	Made-to-order drama series produced by us upon request by Tencent Group	June 2021	Tencent Video
“To Fly with You” (陪你逐風飛翔)	Original drama series licensed to Tencent Group and produced by us	November 2021	Hunan TV, Tencent Video
“Beyond” (超越)	Original drama series licenced to Tencent Group and produced by us	January 2022	CCTV, Dragon TV, Beijing TV, Tencent Video , iQIYI, Youku

Mutually beneficial and complementary relationship

We believe our cooperation with Tencent Group is mutually beneficial and complementary because:

- *We are a drama series company possessing abundant original IP reserve. While Tencent Group delivers our content to its broad audience base and helps us to realize the commercial value of our original IP reserve, we believe maintaining a cooperative relationship with us is also beneficial to Tencent Group. Tencent Group regularly sources external quality content in great volume to supplement its existing content reserve and competes with other leading online video platforms on the volume and quality of the content broadcast. According to Frost & Sullivan, premium content like ours is highly sought after by leading online video platforms as it can help them effectively acquire and retain subscribers. This is evidenced by that fact that online video platforms, including Tencent Group, have entered into pre-sale arrangements with us to secure our drama series in advance. In addition, our*

BUSINESS

drama series broadcast on Tencent Group’s online video platform have achieved strong success. For example, our “Nothing but Thirty” (三十而已) ranked the first among all drama series broadcast on Tencent Video in 2020 in terms of view counts.

- *We possess systematic production capabilities.* We have developed systematic methodologies for concept development and script development to ensure consistent generation of quality content. In addition, we have accumulated industry resources to efficiently assemble suitable directors and actors, qualified production studios, as well as external quality control specialists based on their areas of strengths. During the Track Record Period, Tencent Video engaged us to undertake the production of two drama series, namely “The King’s Avatar” (全職高手) and “Ancient Love Poetry” (千古玦塵). While we generated production fee revenue by producing such made-to-order drama series for Tencent Video, we believe such two made-to-order drama series also helped Tencent Video to leverage on our production capabilities to deliver their own IPs to audience in an efficient way.

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

Future cooperation plan with the Tencent Group

To further leverage our existing cooperation, we have entered into certain continuing connected transactions with the Tencent Group to:

- license the online broadcasting rights and distribution rights of our original drama series and movies to the Tencent Group;
- produce customized creative advertisements for our drama series to be broadcast on Tencent video;
- license to the Tencent Group, among others, the promotion, distribution, sub-licensing and broadcasting rights of certain music used in our original drama series for which we own copyrights; and
- procure IP adaptation rights of certain literature work from the Tencent Group for the production, promotion and distribution of movie and drama series and other commercial works.

See “Connected Transactions” for further details of our continuing connected transactions with the Tencent Group which are expected to continue after [REDACTED]. Our Directors are of the view that it is unlikely that our relationship with Tencent would be terminated or otherwise materially adversely changed, as we believe that our cooperation with Tencent are mutually beneficial and complementary.

BUSINESS

Independence from Tencent Group

Having considered the following factors, our Directors believe that we have been and will continue to operate our business independently from the Tencent Group:

- As illustrated above, a significant portion of our revenue is derived from the licensing of the broadcasting rights of our original drama series to Tencent Video. Tencent Video, the online video platform operated by the Tencent Group, is a market-leading online entertainment service provider in China. Tencent Video has a strong demand for high-quality content generated by professional producers like us. We believe that licensing the copyrights of the drama series and movies produced by us to Tencent Video could be mutually beneficial to both parties by satisfying Tencent Video’s demand for high-quality contents as well as enabling us to generate revenue, and it is unlikely that our relationship with Tencent in terms of drama series copyright licensing would be terminated or otherwise materially adversely changed.

In addition, we also developed cooperation with various online platforms other than Tencent, such as domestic online video platforms including iQIYI and Youku and international video platforms as well as TV channels. For example, we have licensed the broadcasting rights of our original drama series, “Xiaomin’s Home” (小敏家), to a leading international broadcasting platform and the broadcasting rights of another original drama series, “To Fly with You” (陪你逐風飛翔), to a regional video streaming platform in Hong Kong. In addition, our possession of abundant original IPs allows us to further diversify our revenue streams to unleash the potential for monetization through the provision of content marketing services and the licensing of our original IPs in a broader range of entertainment forms, among others, therefore allowing us to generate additional revenue. We are able to, taking into consideration the nature of the drama series including the theme, the expected popularity and target audience of the drama series and movies, choose the appropriate video platforms to broadcast our original drama series to maximize its commercial value. As such, we believe our strategic cooperation with the Tencent Group as illustrated above will not give rise to our reliance on the Tencent Group in any material respect.

- There is no overlapping of executive directors or other senior management positions between Tencent Group or its close associates and our Group, and Tencent Group has never been involved in our daily management and operations. Although our non-executive Director, Mr. Sun Zhonghuai, held directorship in certain subsidiaries, business units or their associates under or invested by Tencent, his non-executive role in our Company would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Based on the above, we believe that we will be able to function independently from the Tencent Group upon [REDACTED] as we do not in any material respect rely on Tencent Group in the day-to-day operation of our business.

BUSINESS

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. As of the Latest Practicable Date, we had (i) 275 trademarks, 273 of which are registered in the Mainland, China, 46 are pending approval; (ii) 261 registered copyrights and (iii) 16 registered domain names.

In general, the proprietary rights attached to the content of our original drama series belong to us. As of the Latest Practicable Date, we had broadcast 15 original drama series in the PRC (among which we were the sole copyright owner of 13 of such drama series and the joint copyright owners of two original drama series). As of the Latest Practicable Date, we were also the wholly-owned copyright owner of two original drama series projects which under filming/post-production process in our pipeline. We also acquire third party IP for our further development to adapt to our original IP. As of the Latest Practicable Date, we had a total of 50 IP adaptation rights.

We protect our intellectual property rights through a combination of copyright, trademark and other intellectual property laws, as well as confidentiality and license agreements with our employees, suppliers, partners and others. In general, our employees must enter into a standard employment contract which prohibits the unauthorized disclosure of our confidential information, and we also require our employees to assign to us any inventions related to our business that they develop during the course of employment. Despite our precautions, however, third parties may obtain and use intellectual property that we own or license without our consent. Because of the huge market demand for entertainment content, and due to the easy accessibility of film and television works, during the Track Record Period, our intellectual property rights, like most film and television works on the market, have been infringed by third parties. Typical intellectual property infringement includes (i) pirated drama series or video clips; (ii) unauthorized use of our intellectual property for commercial use, including the name, characters and elements of our drama series; and (iii) unauthorized adaptation of our drama series. Upon such infringement, we usually issue demand letters, file complaints or lawsuits to protect our intellectual property rights. Unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use does not have a material adverse effect on our business and results of operations. See "Risk Factors – Risks Relating to Our Business and Industries – We are subject to risks of piracy and intellectual property infringement by third parties" for details.

As advised by our PRC Legal Advisor, we did not have any disputes or pending legal proceedings of intellectual property rights with third parties that may have a material adverse impact on our business during the Track Record Period and up to the Latest Practicable Date.

See "Appendix IV – Statutory and General Information – Intellectual Property Rights" for details of our intellectual property rights.

BUSINESS

EMPLOYEES

As of December 31, 2021, we had 162 full-time employees, all of whom were based in China, primarily in Beijing and Shanghai.

The following table sets forth a breakdown of our employees by business function as of December 31, 2021:

Department	Number of Employees	Percentage
Content production	43	26.5%
Sales and marketing	71	43.8%
Finance and legal	17	10.5%
Research and development	11	6.8%
Human resources and administration	12	7.4%
Senior management	4	2.5%
Strategy and investment	4	2.5%
Total	162	100.0%

Our content production department comprise of personnel from our production team, script center and film center. As of December 31, 2021, 144 employees had bachelor’s degrees or above, accounting for 88.9% of our total employees, and 45 employees had master’s degree or above, accounting for 27.8% of our total employees.

We maintain high recruitment standards and we recruit our employees based on a number of factors, including their level of knowledge, years of industry experience, education background and their conformity with our values. We are committed to establishing a competitive and fair remuneration and benefits system. In order to effectively motivate our business development through remuneration incentives and ensure that our employees receive competitive remuneration packages, we continuously refine our remuneration and incentive policies through market research and peers benchmarking. We conduct performance evaluation for our employees semi-annually to provide feedback on their performance. Compensation for our employees typically consists of basic salary, project bonus and year-end bonus. In order to incentivize our Directors, senior management and other employees for their contribution to our Group and to attract and retain suitable personnel to our Group, we adopted the Pre-[REDACTED] Share Option Scheme. See “Appendix IV – Statutory and General Information – Pre-[REDACTED] Share Option Scheme” for details.

BUSINESS

We provide our employees with basic pension insurance, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing providence funds in accordance with applicable PRC laws and regulations. We pay great attention to our employees' welfare, and continually improve our welfare system. We offer employees additional benefits such as annual leave, stipend, supplementary medical insurance, annuity and health examinations, among other things.

We provide regular and specialized trainings tailored to the needs of our employees in different departments. We regularly organize training sessions covering various aspects of our business operations including overall management, project execution and industry know-how. Through these trainings, we help our employees to stay up to date with both industry developments and skills and technologies. We also organize workshops from time to time to discuss specific topics.

During the Track Record Period, we did not have any strikes, protests or other material labor conflicts that may materially affect our business and image. As of the Latest Practicable Date, we had not established any labor union.

INSURANCE

During the Track Record Period, we purchased group accident insurance, group fixed-term insurance, critical illness rider insurance and supplementary commercial insurance. In line with general market practice, we do not maintain any business interruption insurance, which is not mandatory under PRC laws or relevant foreign laws. We do not maintain key man life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. We also do not maintain insurance policies against risks relating to the Contractual Arrangements.

During the Track Record Period, we did not make any material insurance claims in relation to our business. See "Risk Factors – Risks Relating to Our Business – Our limited insurance coverage could expose us to significant costs and business disruption" for details.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We are committed to providing a safe and healthy working environment for our employees. We have established policies and procedures with respect to health and work safety, including safety policies regarding to filming and production, location shooting, fire, detection and management of safety risks and on-site safety risk inspection. We have dedicated personnel to closely monitor and manage occupational health safety matters and implement and update internal safety policies. We also provide safety training to our employees to strengthen their knowledge and awareness on safety and accident prevention. 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.

BUSINESS

We believe that our future growth is based on the integration of social values into our business. We are committed to ensuring that environmental, social and corporate governance ("ESG") has a long-term positive impact on our customers, suppliers and the broader community on which our operations may impact. We are aware of the environmental, social responsibility and climate-related issues that may affect our business. We are committed to complying with ESG [REDACTED] reporting requirements.

Our ESG strategies and policies include, among others:

- (i) the establishment of a sub-committee of the Board to be responsible for ESG matters after the [REDACTED], which will comprise our chief executive officers, vice president of operations and the supervisor of each department. This committee will set, monitor and implement measures, strategies, and goals related to ESG;
- (ii) the identification and assessment of ESG-related risks, particularly the climate-related risks and impact on our business. In the short term, extreme weather conditions such as flooding, icing and snowing may adversely affect our filming and production process. The delivery of our drama series to our customers may be disrupted and we may be subject to claims to refund a portion or all of our contract liabilities, which may adversely and materially affect our business, results of operations and financial condition. We have implemented measures to adjust filming plans when extreme weather occurs, including, changing the shooting location to cities with fine weather conditions or conducting studio shooting when necessary from time to time. As confirmed by our directors, due to the nature of our business, we do not have other medium or long term environmental, social and climate-related risks or transition risks.
- (iii) environmentally-friendly internal guidance to encourage our employees to reduce carbon emission arising from our business operations. We require all unnecessary air conditioning and electric devices to be turned off to reduce waste of resources.

To the best knowledge of our Directors, we had no non-compliance incidents which materially and adversely affected our business and had not incurred any expenses in relation to the compliance with the relevant environmental laws, regulations and policies during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

OUR SOCIAL RESPONSIBILITIES

We are committed to contributing to positive societal impacts, particularly those related to education and public welfare. Our achievements and initiatives in the area of corporate social responsibility include the following:

Education

We believe in the power of education and strive to bring quality education to less-developed areas in China. For example, our “Linmon Little Drama Club” (柠萌小剧人) social program provides free drama training to elementary and middle school students in Baoshan and Tengchong of the Yunnan province. Since launching in 2019 and up to the Latest Practicable Date, we provided drama-related training to more than 300 students through our “Linmon Little Drama Club” program.

The following is an onsite picture of our “Linmon Little Drama Club” program:

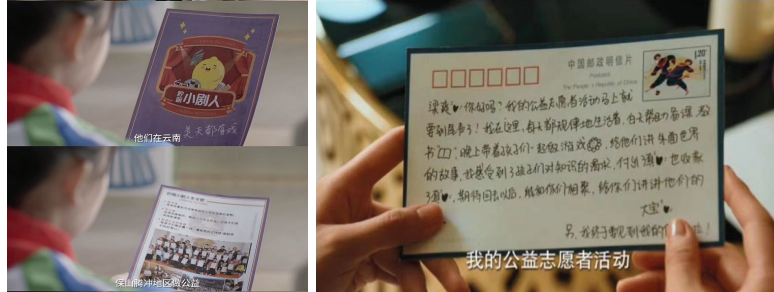


Public Welfare

We highly value the importance of public welfare for the disadvantaged groups. We are committed to leveraging our influence to assist and remove obstacles for the disadvantaged groups and promote charitable courses. For example, we embedded scenes related to a charity in “Nothing but Thirty” (三十而已) to promote public welfare for female children in rural areas

BUSINESS

and embedded scenes related to another charity in “Twenty Your Life On” (二十不惑) to promote college students’ volunteer programs and employment. The followings are pictures of embedded scenes in our drama series:



IMPACTS OF THE COVID-19 PANDEMIC

Since the outbreak of COVID-19, the PRC government had been implementing various anti-pandemic measures in response to the various stages of the pandemic, which directly impacted the drama series industry, including the lock-down of certain affected areas and social distancing policies. We extended the lunar new year holiday to February 10, 2020 pursuant to the Shanghai municipal government’s order. In addition, since March 14, 2022 and up to the Latest Practicable Date, we arranged our employees in Shanghai to work from home due to the COVID-19 pandemic in Shanghai and our Directors confirm such arrangement did not materially and adversely affect our business operations and financial performance as of the Latest Practicable Date. In addition, we also adopted strict disease prevention measures to reduce the risk of our employees and production crew onsite including sterilizing, ventilating the workplaces, and monitoring the body temperature of staff. During the COVID-19 pandemic, we adjusted the production plans of our drama series projects flexibly. For example, constructing shooting studio in case the filming schedule is disrupted by lockdowns or travel restrictions. In addition, we have formulated a business contingency plan for the COVID-19 outbreak, including protocols and procedures to follow to change shooting location from the cities with COVID-19 outbreak risks to other cities in China and from location shooting to studio shooting as necessary from time to time. As confirmed by our Directors, as of the Latest Practicable Date, none of the production schedules of our drama series projects was materially affected by the COVID-19 pandemic and we fulfilled our contract obligations to deliver all drama series to customers as agreed.

In addition, the PRC government also suspended the operation of cinemas during the pandemic in the first quarter of 2020. As a result, we promptly adjusted the distribution plan of our film, the “Monster Run” (怪物先生). Instead of licensing theatrical distribution rights to cinemas, we licensed the broadcasting rights to top domestic online video platforms including Tencent Video in 2020 and generated revenue of RMB135.0 million in 2020.

BUSINESS

Despite the above, our gross profit and adjusted net profit (a non-HKFRS measure) increased from RMB400.8 million and RMB150.9 million in 2019 to RMB545.8 million and RMB243.0 million in 2020 though our revenue decreased from RMB1,794.2 million to RMB1,426.2 million in 2020. Our Directors confirmed that, the COVID-19 pandemic did not have any material adverse impact on our business and results of operations, and is not expected to bring any permanent or material interruption to our operations. However, there can be no assurance that our business and financial condition will not be adversely affected, particularly if the pandemic continues for an extended period or worsens in the PRC. See "Risk Factors – Risks Relating to Our Business and Industry – The COVID-19 pandemic could have a material adverse effect on our business, financial condition and results of operations" for details.

PROPERTIES

Our corporate headquarters is located at Shanghai. As of the Latest Practicable Date, we did not own any properties. As of the Latest Practicable Date, we leased 26 properties in the PRC mainly in Beijing and Shanghai, with an aggregate gross floor area of 5,722.0 square meters. Our leased properties in the PRC are primarily used for business and office purposes. The relevant lease agreements have lease expiration dates ranging from September 19, 2022 to January 19, 2042.

Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local counterparts of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not obtained lease registration for certain properties that we leased in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that the unregistered leases are registered. Our PRC Legal Advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws. Our PRC Legal Advisor has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. See "Risk Factors – We had not obtained lease registration for certain properties" for details.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

BUSINESS

Compliance

We conduct our business mainly in the PRC and are, therefore, subject to the relevant regulations of the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material non-compliance incidents that have led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

There have been tightening of and changes in the regulatory environment of the drama series production industry in recent years. In particular, the NRTA has issued the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》) on October 31, 2018 to impose restrictions on the maximum compensation that actors can individually and collectively receive as a percentage of the total investment of a drama series. In particular, the NRTA requires that, among other things, the total payment for all actors of a drama series shall not exceed 40% of the total production costs, and the payment for principal actors shall not exceed 70% of the total payment of all actors. As confirmed by our Directors and advised by our PRC Legal Advisor, we had been in compliance with such notice since its issuance and had not been the subject of any review, enquiry or investigation by any PRC regulatory authorities in relation to such notice during the Track Record Period and up to the Latest Practicable Date. In addition, we have formulated our budget plan in accordance with the requirements of the notice. Specifically, we estimate the total budget for our drama series projects and determine the maximum amount of payments we can pay to actors and principal actors in accordance with the requirements of the notice, taking into consideration the transactions with entities controlled by, or other close associates of, each actor. In addition, we also submit reports disclosing the payments to actors and principal actors for the local competent authorities' review and approval and obtain Television Drama Distribution License (國產電視劇發行許可證) only after the completion of their review and approval. Based on the foregoing, our Directors, as advised by our PRC Legal Advisor, confirm that we have been in compliance with such notice since its issuance and such notice does not have a material adverse impact on our Company. Our Directors also confirm that the cost to comply with such notice is minimal. Based on (i) the discussions with us, the PRC Legal Advisor, the Joint Sponsors' PRC legal advisor, through which the Joint Sponsors noted the relevant requirements under the PRC regulations and how compliance with such notice can be assessed from the PRC law perspective, and with Frost & Sullivan, through which the Joint Sponsors noted the impact of such notice on the industry as a whole, (ii) the review of relevant materials provided by us with respect to our compliance with the aforementioned notice issued by the NRTA, including material contracts we entered into to engage the principal actors for our drama series, reports submitted to the NRTA with respect to the production cost of our drama series and the Television Drama Distribution Licenses subsequently issued by the NRTA with respect to our drama series, and (iii) the aforementioned Directors' views on the basis of the views of the PRC Legal Advisor that such notice did not have a material adverse impact

BUSINESS

on our Company and the aforementioned Directors' view that the cost to comply with such notice is minimal, nothing material has come to the Joint Sponsors' attention to cast doubt on the reasonableness of our view that such notice will not have any material adverse impact on our Group.

The radio and television administration department issues guidance on the content of TV drama series from time to time. For example, on July 29, 2019, the NRTA issued the notice on Properly Handling the Exhibition and Broadcasting of TV dramas in relation to celebrating the 70th anniversary of the founding of China (《關於做好慶祝新中國成立70周年電視劇展播工作的通知》), requiring that costume drama series and idol programs with strong entertainment shall not be broadcast during the "100 days' exhibition and broadcasting" activity of key TV drama series since August 2019. To the best knowledge of our Directors, none of our drama series was directly affected by such notice during the Track Record Period and up to the Latest Practicable Date. Based on the foregoing, our Directors, as advised by our PRC Legal Advisor, confirm that such notice did not have a material adverse impact on our Group during the Track Record Period and up to the Latest Practicable Date.

In addition, the NRTA also issued the Notice on Further Strengthening the Management of Arts and Their Personnel (《關於進一步加強文藝節目及其人員管理的通知》) on September 2021 requiring radio and television institutions and online audio-visual platforms to resolutely resist immoral personnel and personnel involved in illegal activities and avoid incorrect political positions and centrifugal from the Party and the country. In practice, if artists exposed to negative news arising from their involvement in illegal activities or behaviors which deviate from societal core value are part of the cast of our drama series, TV channels or online video platform may suspend the broadcasting of such drama series, which may result in us being obligated to repay all the payments we have received to our customers with respect to the relevant drama series and a material adverse change to our business and results of operations. To minimize such risks, our agreements with actors and directors include a negative publicity clause stating that we are entitled to seek repayment of the amount of service fees we paid to them in the event any lawsuits, personal misbehaviors, rumors or negative news related to them affected our distribution of the relevant drama series.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, the drama series we produced or under production by us do not involve any personnel which were involved in illegal activities or are considered to have committed to immoral acts since the issuance of the notice. In addition, we had not been the subject of any review, enquiry or investigation by any PRC regulatory authorities in relation to such notice during the Track Record Period and up to the Latest Practicable Date. In addition, as advised by our PRC Legal Advisor, even in the event in which any actors of the dramas series produced by us are exposed to any negative news or involved in any illegal activities, we will not be subject to any legal or administrative liabilities by the relevant competent government authorities merely because we produced such drama series. Based on the foregoing, our Directors, as advised by our PRC Legal Advisor, confirm that such notice did not have a material adverse impact on our Group during the Track Record Period and up to the Latest Practicable Date, and our Directors confirm that the cost to comply with such notice is

BUSINESS

relatively low. Based on (i) the discussions with us, the PRC Legal Advisor, the Joint Sponsors' PRC legal advisor and Frost & Sullivan in respect of the impact of such regulatory requirements on our business and on our industry generally, including any risk that we may fail to comply with the evolving laws, regulations and policies in the future, as set out below; (ii) the review of relevant materials provided by us with respect to our compliance with the aforementioned Notice on Further Strengthening the Management of Arts and Their Personnel issued by the NRTA, including list of the key actors and directors involved in our drama series and Television Drama Distribution Licenses obtained with respect to our drama series; (iii) the conduct of desktop news searches with respect to the key actors and directors involved in our drama series; and (iv) the aforementioned Directors' views on the basis of the views of the PRC Legal Advisor that such notice did not have a material adverse change on our Company, nothing material has come to the Joint Sponsors' attention to cast doubt on the reasonableness of our view that the aforementioned regulatory changes will not have any material adverse impact on our Group during the Track Record Period and up to the Latest Practicable Date.

Our drama series production business is required to follow such evolving regulatory and policies from time to time. We will closely monitor the latest development in the industry going forward. However, if we fail to comply with the evolving laws, regulations and policies in the future, our drama series may not be broadcast as scheduled and we may be required to repay all the prepayments we have received to our customers, which may materially and adversely affect our business, financial condition and results of operations. See "Risk Factors – The production and distribution of drama series are extensively regulated in the PRC. Our failure to comply with evolving laws, regulations and policies could materially and adversely affect our business, financial condition and results of operations".

Past Tax Compliance Self-checks

We conducted tax compliance self-checks in 2018, 2019 and 2020. The detailed information of the three tax compliance self-checks are set forth below.

2018 Tax Compliance Self-check

Background

In 2018, with an aim to standardize the local tax filing practice, the local tax administration in Horgos issued a notice requiring the entities incorporated in Horgos to conduct tax compliance self-checks. In response to such requirement, each of our two subsidiaries incorporated in Horgos, namely Horgos Linmon Black Tea and Horgos Linmon, conducted a tax compliance self-check in 2018 for their respective tax filings made since their establishment (the "**2018 Tax Compliance Self-check**").

In the case of Horgos Linmon Black Tea, after the completion of the 2018 Tax Compliance Self-check, it issued self-check reports dated November 6, 2018 and November 15, 2018, and submitted the same to the local tax administration. As set out in the self-check reports, with respect to Horgos Linmon Black Tea's original drama series production services,

BUSINESS

due to the difference in timing for the issuance of VAT invoices and for the recognition of revenue with respect to a transaction, there were discrepancies between (i) the aggregate transaction amount on the VAT invoices issued by Horgos Linmon Black Tea and (ii) the total revenue shown on its income tax filings. Such difference was mainly due to the fact that Horgos Linmon Black Tea had already recognized revenue derived from the relevant services but the VAT invoice has not been issued yet at the time when the 2018 Tax Compliance Self-check was conducted.

In the case of Horgos Linmon, after the completion of the 2018 Tax Compliance Self-check, it issued and submitted a self-check report dated November 21, 2018 to the local tax administration. As set out in the self-check reports, the stamp duty had not been fully paid on a timely basis for certain procurement contracts and technical services contracts entered into by Horgos Linmon, resulting in a stamp duty payment and surcharge for overdue tax payment of RMB0.39 million in total on November 20, 2018. It was also noted that stamp duty of RMB0.27 million had not been fully paid on a timely basis for certain procurement contracts and technical services contracts entered into by Horgos Linmon Black Tea on November 15, 2018.

We believe the findings stated in the 2018 Tax Compliance Self-check were primarily due to the timing difference between the revenue recognition and VAT invoice issuance at the time when the 2018 Tax Compliance Self-check was conducted and due to an inadvertent oversight of the relevant accounting personnel.

Rectification Measures

Horgos Linmon Black Tea adjusted the tax filing for the difference between (i) the aggregate transaction amount on the VAT invoices issued by Horgos Linmon Black Tea and (ii) the total revenue shown on its income tax filings. Horgos Linmon Black Tea also included the amount of revenue for which it had not issued VAT invoices and re-submitted the adjusted VAT filings for the month ended September 30, 2018 and paid up the VAT of RMB18.79 million and VAT surcharges of RMB2.26 million on November 5, 2018, which could be deducted in the following year when the corresponding VAT invoices were issued. Horgos Linmon Black Tea also paid a surcharge for overdue value-added tax payment of RMB0.12 million on November 5, 2018. The stamp duty and surcharges for overdue tax payments of Horgos Linmon Black Tea and Horgos Linmon with an amount of RMB0.66 million in aggregate were also paid up.

In February 2022, we obtained the certifications from the Horgos Economic Development District Tax Administration of the State Tax Administration (國家稅務總局霍爾果斯經濟開發區稅務局) (the "**Horgos Tax Administration**") confirming that Horgos Linmon Black Tea and Horgos Linmon had no outstanding taxes due as of February 19, 2022. Our PRC Legal Advisor is of the view that the Horgos Tax Administration is the competent tax authority to issue such certifications.

BUSINESS

In addition, our PRC Legal Advisor is of the view, and the Joint Sponsors' PRC Legal Advisor concurs, that both the requirement to conduct the 2018 Tax Compliance Self-check and the payment of VAT and surcharges by our Group did not constitute any legal or administrative penalties, and hence, no penalty was imposed by any regulatory authorities, and the likelihood of our Company being penalized for the offences of tax evasion due to the underpayments discovered in the 2018 Tax Compliance Self-check is remote because (i) we conducted the 2018 Tax Compliance Self-check and paid up all the outstanding tax payments and surcharges; and (ii) we have obtained the certifications from the competent tax authority confirming that Horgos Linmon Black Tea and Horgos Linmon had no outstanding taxes due as of February 19, 2022.

2019 Tax Compliance Self-check

Background

The State Tax Administration issued the Notice on Preferential Policies for Enterprise Income Tax in Kashgar and Horgos Special Economic Development Zones of Xinjiang (“關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知”) and the Notice on Improving the Catalogue of Enterprise Income Tax Preferences for Key Industries Encouraged by the State for development in Poverty Areas of Xinjiang (“關於完善新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄的通知”) in November 2011 and July 2016, respectively. Based on such notices, a large number of enterprises in the film and television industry, including us, established subsidiaries in Horgos to enjoy EIT exemption for five years after the establishment of the relevant subsidiaries. Horgos Linmon and Horgos Linmon Black Tea were established by us in 2016 and 2017, respectively, and are entitled to enjoy EIT exemption for five years after their respective establishment.

In October 2018, the State Tax Administration issued the Notice to Further Standardize the Tax Order of the Films and Television Industry (《關於進一步規範影視行業稅收秩序有關工作的通知》) (the “**Notice**”). The Notice requires local tax administrations to notify entities and individuals in the film and television industry to conduct tax compliance self-checks. Correspondingly, we conducted a tax compliance self-check (the “**2019 Tax Compliance Self-check**”) in response to the issuance of a tax counselling notice (with the nature not being an administrative penalty or investigation) issued by the Filming and Television Committee of the State Taxation Administration (國家稅務總局影視專項工作組).

After the completion of the 2019 Tax Compliance Self-check, we issued and submitted two self-check reports dated April 14, 2019 and April 21, 2019 to the State Tax Administration. It was noted that Shanghai Linmon entered into contracts with Horgos Linmon and Horgos Linmon Black Tea, pursuant to which:

- Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon agreed to make investments in four drama series including “Legend of Fuyao” (扶搖), “Novoland: Eagle Flag” (九州縹緲錄), “Fighter of the Destiny” (擇天記), “Only Side by Side with You” (南方有喬木) and were entitled to share profits in proportion to their

BUSINESS

respective capital contributions. Horgos Linmon and Horgos Linmon Black Tea agreed to contribute the majority of the investment in such original drama series projects as well as to lead the investment, production and distribution of such original drama series;

- Generally, Horgos Linmon and Horgos Linmon Black Tea agreed to provide production services for such original drama series projects and in return receive production fees from Shanghai Linmon. Shanghai Linmon agreed to provide consulting services for the distribution of such original drama series projects and in return receive consulting service fees from Horgos Linmon and Horgos Linmon Black Tea.

Based on the above terms, the revenue generated from such original drama series projects was recognized by Horgos Linmon and Horgos Linmon Black Tea in proportion to their respective investment contributions and services provided in accordance with the stipulated contractual obligations, which were entitled to preferential income tax treatment as entities incorporated in Horgos. We entered into the above contracts as we planned to have Horgos Linmon and Horgos Linmon Black Tea to undertake more responsibilities and risks for the relevant projects and at the same time, legally utilize tax exemptions and lower taxes imposed on our entities established in Horgos. However, as Shanghai Linmon possesses the key production staff, IP, capital and industry resources, necessary adjustments have been made for the relevant original drama series to reflect that (i) it was Shanghai Linmon that led the investment and distribution of such original drama series projects and provided the majority of investment contributions to Horgos Linmon and Horgos Linmon Black Tea, while Horgos Linmon and Horgos Linmon Black Tea provided production services in such original drama series projects; (ii) it was Shanghai Linmon which bear the risk of such drama series, including risks in relation to marketing, development, production, customer development and maintenance and the overall corporate governance; (iii) it was Shanghai Linmon which developed and owns the IP of such drama series; and (iv) it was Shanghai Linmon which allocated the shares of profits proportionally to other co-investors. Based on the foregoing, although we discretionarily allocated the work to be performed within our Group, we concluded that part of the revenue should not have been recognized under Horgos Linmon or Horgos Linmon Black Tea. Instead, the revenue should be primarily recognized by Shanghai Linmon.

Rectification Measures

After the completion of the 2019 Tax Compliance Self-check, Shanghai Linmon adjusted the income tax payable by the relevant entities in accordance with the different tax concession policies applicable in the city/province in which each such entity is situated and concluded that we were required to make an additional tax payment of RMB77.0 million. We made up the additional tax payment of RMB77.0 million with surcharge for overdue tax payment of RMB2.8 million by April 23, 2019. We have paid up all such tax payment and surcharge without being subject to any legal or administrative penalties from the competent tax authorities.

BUSINESS

Pursuant to the PRC Corporate Tax Law, taxes in relation to intra-group transactions which do not meet the requirements of independent transactions and result in decreased taxable income are subject to transfer pricing adjustment by the tax authorities. Specifically, to meet the requirements of independent transactions, intra-group transactions should be priced in a way similar to transactions with independent third parties. To further confirm whether the transactions among Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon are in compliance with the requirements of independent transactions under the PRC Corporate Tax Law after the 2019 Tax Compliance Self-check and corresponding adjustments, we engaged an independent tax counsel, King & Wood Mallesons, (the "**Tax Counsel**") to conduct transfer pricing analysis on the intra-group transactions among the aforementioned entities, and issued an analysis report in September 2021 (the "**Analysis Report**"). The Analysis Report uses the comparable uncontrolled price method to verify whether the production fees paid by Shanghai Linmon to Horgos Linmon and Horgos Linmon Black Tea for the provision of production services satisfied the requirements of independent transactions. The Analysis Report concluded that it is unlikely such production fees would be subject to any further transfer pricing adjustment as a result of violating the requirements of independent transactions as they were comparable to those under transactions with independent third parties. In addition, the Analysis Report used the transactional net margin method to analyse all the relevant transactions among Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon. As the transactional net margin method is used to verify the overall profit level of Horgos Linmon and Horgos Linmon Black Tea, it could also support to verify whether the consulting fees paid by Horgos Linmon and Horgos Linmon Black Tea to Shanghai Linmon for the provision of consulting services satisfied the requirements of independent transactions. It was concluded that it is unlikely that such consulting fees would be subject to additional transfer pricing adjustment as a result of violating the requirements of independent transactions as the average profit margin of Horgos Linmon and Horgos Linmon Black Tea during the relevant periods were not higher than the average profit margin of comparable companies in the film and television industry.

In August 2021, Our PRC Legal Advisor conducted a consultation with the relevant officer of the Thirteenth Branch of the Shanghai City Songjiang District Tax Administration of the State Tax Administration (國家稅務總局上海市松江區稅務局第十三所) (the "**Thirteenth Branch of Songjiang Tax Administration**") that is assigned for the supervision of tax matters of Shanghai Linmon. Such officer confirmed that (i) they are aware of the results of the 2019 Tax Compliance Self-check; (ii) since its inception, Shanghai Linmon had been in compliance with tax payment obligations and no penalties were imposed on Shanghai Linmon and (iii) Shanghai Linmon had not been subject to any investigation from the competent tax authorities. Furthermore, the Shanghai City Songjiang District Tax Administration of the State Tax Administration (國家稅務總局上海市松江區稅務局) (the "**Songjiang Tax Administration**") issued written tax matters reports dated August 16, 2021, October 27, 2021 and February 24, 2022 confirming that Shanghai Linmon had not been subject to any administrative penalties during the period from January 1, 2018 to December 31, 2021. As advised by our PRC Legal Advisor, the Thirteenth Branch of Songjiang Tax Administration and the Songjiang Tax Administration are the competent tax authorities for the purpose of tax matters of Shanghai Linmon and the relevant officer is a competent officer to be consulted with.

BUSINESS

Our PRC Legal Advisor is of the view, and the Joint Sponsors' PRC Legal Advisor concurs, that the 2019 Tax Compliance Self-check and the payment of relevant taxes and surcharges did not constitute any legal or administrative penalties, and hence, no penalty was imposed by any regulatory authorities, and the likelihood of our Company to be penalized for offences of tax evasion due to the underpayments discovered in the 2019 Tax Compliance Self-check is remote because (i) Shanghai Linmon conducted the 2019 Tax Compliance Self-check, and made up all the relevant tax payments and surcharges; (ii) taking into account the 2019 Tax Compliance Self-check and corresponding adjustments, our Tax Counsel is of the view that it is unlikely that the relevant parties will be subject to additional taxes due to violations of the requirements of independent transactions under the PRC tax laws and regulations; and (iii) the aforesaid confirmations by the relevant officer of the Thirteenth Branch of Songjiang Tax Administration, as well as the aforesaid written tax matters report issued by the Songjiang Tax Administration confirming that Shanghai Linmon had not been subject to any administrative penalties.

2020 Tax Compliance Self-check

Background

In 2020, the relevant tax authorities informed us that there were reports suggesting that there had been certain VAT invoice investigations against certain companies in Shanghai, including Shanghai Manjia Electronic Commerce Co., Ltd. (上海滿嘉電子商務股份有限公司) ("**Shanghai Manjia**"), an independent third-party supplier of our Group in 2016 and 2017. The business scope of Shanghai Manjia included, among other things, the sales of office supplies and goods, and the provision of information technology technical consultation services. To the best of our knowledge, except for the supplier relationship as aforementioned, we had no other relationships with the subsidiaries, shareholders, directors, senior management of Shanghai Manjia or any of their respective associates. We enquired with the local tax authorities for the sake of prudence and the local tax authorities recommended us to conduct a tax compliance self-check on our transactions with Shanghai Manjia (the "**2020 Tax Compliance Self-check**").

Each of Linmon Kaixin, Linmon Yuexin and Shanghai Linmon (the "**2020 Self-check Relevant Entities**"), being entities within our Group which had entered into transactions with Shanghai Manjia, conducted a 2020 Tax Compliance Self-check and issued and submitted self-check reports dated November 17, 2020, November 18, 2020 and November 20, 2020, respectively, to the relevant local tax authorities. The contracts entered into between the 2020 Self-check Relevant Entities and Shanghai Manjia provided that Shanghai Manjia shall provide market information services and goods to the 2020 Self-check Relevant Entities between 2016 and 2017 and Shanghai Manjia shall issue invoices with respect to both market information services and goods. However, Shanghai Manjia only issued service fee invoices to Shanghai Linmon and Shanghai Linmon recorded the procurement fees to Shanghai Manjia as "administrative expenses – service fee" accordingly in its management account (which would be deductible from its taxable income) in 2016 and 2017. However, during the course of the

BUSINESS

2020 Tax Compliance Self-check, it was identified that the transactions with Shanghai Manjia involved the procurement of goods. We believe such inconsistency was primarily due to Shanghai Manjia's issuance of the wrong invoices and the inadvertent oversight of the relevant accounting personnel.

Rectification Measures

Taking a prudent stance and considering the procurement was made for goods, which was different from the nature of such procurement stated on the VAT invoices (being for services), the 2020 Self-check Relevant Entities voluntarily made adjustments to take out the deduction from the Relevant Entities' respective taxable income. Accordingly, each of the 2020 Self-check Relevant Entities adjusted its taxable income in 2016 and 2017 by taking out the original cost deduction from the transactions with Shanghai Manjia, and concluded that we were required to make an additional enterprise income and individual income tax payment of RMB3.46 million and pay a surcharge for overdue tax payment of RMB1.69 million. We paid up all such tax and surcharges by November 24, 2020.

In August 2021, Our PRC Legal Advisor conducted a consultation with the relevant officer of the Thirteenth Branch of Songjiang Tax Administration that is assigned for the supervision of tax matters of Linmon Kaixin and Linmon Yuexin. Such officer confirmed that (i) they are aware of the results of the 2020 Tax Compliance Self-check; and (ii) Linmon Kaixin and Linmon Yuexin had been in compliance with tax payment obligations since their inception. Furthermore, the Songjiang Tax Administration issued written tax matters reports dated August 16, 2021, October 27, 2021 and February 24, 2022 confirming that Linmon Kaixin and Linmon Yuexin had not been subject to any administrative penalties during the period from January 1, 2018 to December 31, 2021. As advised by our PRC Legal Advisor, the Thirteenth Branch of Songjiang Tax Administration and the Songjiang Tax Administration are the competent tax authorities for the purpose of tax matters of Linmon Kaixin and Linmon Yuexin and the relevant officers are competent officers to be consulted with. For Shanghai Linmon, we also consulted with the relevant officer of the Thirteenth Branch of Songjiang Tax Administration who confirmed that Shanghai Linmon had been in compliance with tax payment obligations since its inception and obtained written tax matters report from the Songjiang Tax Administration confirming Shanghai Linmon had not been subject to any administrative penalties during the period from January 1, 2018 to December 31, 2021. See "– 2019 Tax Compliance Self-check – Rectification Measures" for details.

In addition, our PRC Legal Advisor is of the view, and the Joint Sponsors' PRC Legal Advisor concurs, that neither the 2020 Tax Compliance Self-check nor the payment of tax and surcharges constituted any administrative penalties, and hence, no penalty was imposed by any regulatory authorities, and the likelihood of our Company being penalized for offences of tax evasion due to the underpayments discovered in the 2020 Tax Compliance Self-check is remote considering (i) we voluntarily conducted the 2020 Tax Compliance Self-check despite the fact that there was no mandatory requirement to do so, and voluntarily made adjustments to take out the deduction from the 2020 Self-check Relevant Entities' respective taxable income; and (ii) we obtained the certifications from the Songjiang Tax Administration confirming that it had

BUSINESS

no record showing the 2020 Self-check Relevant Entities were subject to any administrative penalties during the period from January 1, 2018 to December 31, 2021 and consulted the relevant competent authorities confirming that the 2020 Self-check Relevant Entities had been in compliance with its tax payment obligations since their inception.

Enhanced Internal Control Measures

We have strengthened our tax compliance management after the completion of the 2018 Tax Compliance Self-check, the 2019 Tax Compliance Self-check and the 2020 Tax Compliance Self-check with respect to the following aspects, among others:

- With respect to our intra-group transactions, to ensure the appropriate alignment of the contract obligations and actual work performed by a Group entity, we have enhanced our contract management policies requiring the review and approval of contracts by the responsible persons of the relevant operational departments from a day-to-day operational perspective, by our finance manager from the accounting and tax compliance perspective, by our legal manager from the legal compliance perspective and by our senior management from the overall business operation perspective. In addition, to ensure the compliance with the requirements of independent transactions with respect to the pricing basis for intra-group transactions under the PRC Corporate Tax Law, we have established transfer pricing management policies, pursuant to which we are required to price intra-group transactions based on the market prevailing rates, the expected budget and gross margin. In addition, to ensure revenue is recognized correctly under our Group, we require that Shanghai Linmon be the designated contracting entity on behalf of our Group when entering into agreements with customers and using our subsidiaries which are entitled to preferential tax treatment to do so is prohibited to ensure tax compliance going forward;
- To avoid inaccurate procurement cost recognition, we have enhanced our invoice management policies, requiring our accounting personnel to carefully review and verify the authenticity of the underlying transactions, accuracy and reasonableness of the invoices issued by suppliers on the official websites of the national and local tax authorities and certify each of the invoices received as being so reviewed and verified;
- To ensure timely and accurate tax payment filings, we have maintained a list setting forth the detailed types, rates and filing cycle of the taxes involved in our daily operations and require our relevant personnel to strictly follow and update the list from time to time. We require our accounting personnel to fill in the tax payment calculation reports on our enterprise resource planning system every month based on the latest requirements under the PRC tax laws, regulations and policies and submit the same for our finance managers' review and approval. In addition, our accounting personnel are required to regularly review our tax payable provisions, tax payables and the taxes actually paid and timely make adjustment accordingly; and

BUSINESS

- We strive to comply with all the latest tax filing requirements applicable to our industry and business from time to time. To this end, we have assigned dedicated personnel to keep track of the developments of the applicable PRC tax laws, regulations and policies on an ongoing basis. We also require the relevant personnel responsible for tax filings to maintain close communications with the competent authorities and actively seek advice and guidance from such authorities to fully understand the latest tax filing requirements. In addition, we also keep record of all the tax filings applications, internal tax management reports, corporate income tax settlement and payment reports and approvals and documents issued by tax authorities for review and inspection from time to time.

For details, see “– Risk Management and Internal Control – Risk Management – Legal and Tax Compliance Management”.

In preparation for the [REDACTED], in May 2021, we engaged an independent internal control adviser to perform an internal control review (the “**Internal Control Review**”) of our internal control system within the agreed scope which covers, among other things, taxation compliance. During the Internal Control Review, the internal control adviser identified a number of findings in relation to our internal control policies and procedures pursuant to which we have taken the internal control enhancement measures recommended by the internal control adviser. 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. For details, see “Business – Internal Control”.

Our Directors are of the view that the 2018 Tax Compliance Self-check, the 2019 Tax Compliance Self-check and the 2020 Tax Compliance Self-check and the payment of taxes and surcharges are not material or systematic non-compliances considering:

- Our PRC Legal Advisor is of the view that the findings in the tax compliance self-checks are immaterial non-compliance incidents considering the fact that (i) we conducted the tax compliance self-checks and made up all the relevant tax payments and surcharges, and therefore, we had no intention of tax evasion; and (ii) we have taken initiatives to eliminate the consequences and implications of the shortfall in tax payments;
- As advised by our PRC Legal Advisor, such incidents and the tax payments and surcharges do not constitute legal or administrative penalties imposed by the competent tax authorities and no penalty was imposed by any regulatory authorities in respect of the tax compliance self-checks. In addition, we conducted tax compliance self-checks and made up all the relevant tax payments and surcharges and submitted self-check reports to the relevant government authorities. Considering that the relevant government authorities are fully aware of our tax compliance self-checks and did not impose any penalty, our PRC Legal Advisor is of the view that the likelihood of our Company to be penalized for offences of tax evasion due to underpayments discovered in the tax compliance self-checks is remote;

BUSINESS

- We have obtained certifications from the competent regulatory authority confirming that Horgos Linmon Black Tea and Horgos Linmon had no outstanding taxes as of February 19, 2022. We have also obtained the certification from the Songjiang Tax Department confirming that it had no record showing Shanghai Linmon and the 2020 Self-check Relevant Entities were subject to any administrative penalties during the period from January 1, 2018 to December 31, 2021. In addition, the relevant officer of the Thirteenth Branch of Songjiang Tax Administration confirmed in a consultation that (i) Shanghai Linmon had been in compliance with tax payments with no violations of laws and regulations such as tax payment defaults, tax evasion or tax avoidance since its inception; (ii) Shanghai Linmon had not been subject to any administrative penalties and would not be subject to any administrative penalties; and (iii) Shanghai Linmon had not been subject to any investigation from the competent tax authorities;
- The 2018 Tax Compliance Self-check, the 2019 Tax Compliance Self-check and the 2020 Tax Compliance Self-check are isolated findings and not related to each other; and
- With respect to the 2019 Tax Compliance Self-check, taking into account corresponding adjustments, the Analysis Report confirms that the transactions among Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon are unlikely to subject such entities to additional taxes due to the violations of the requirement of independent transaction under the PRC tax laws and regulations.

In addition, we believe the above incidents do not affect our Director's integrity and competency because (i) as confirmed by our Directors, none of them was directly involved with respect to the circumstances leading to each of the tax compliance self-checks; (ii) we conducted the tax compliance self-checks and made up all the relevant tax payments and surcharges; (iii) our PRC Legal Advisor confirmed that our Directors will not be disqualified as a director under the Company Law of the PRC and the risk that our Directors will be penalized for offenses of tax evasion due to underpayments discovered in the tax compliance self-checks is remote because none of the above incidents constituted any legal or administrative penalties, and hence, no penalty was imposed by any regulatory authorities in the tax compliance self-checks, the likelihood of our Company to be penalized for offences of tax evasion due to underpayments discovered in the tax compliance self-checks is remote; and (iv) we have enhanced our relevant internal control measures to ensure on-going compliance of tax matters going forward. We engaged the Tax Counsel primarily to further evaluate each of our Group's entities' tax compliance since their inception and up to the end of the Track Record Period or the date of the de-registration of the relevant entities (as the case may be) primarily in relation to VAT, EIT, stamp duty and/or the other applicable taxes and surcharges. The key findings and conclusions of the tax compliance review are (i) the likelihood of the Group being penalized for the offenses of tax evasion due to the underpayments discovered in the three tax compliance self-checks is remote; (ii) the Tax Counsel did not identify any substantive tax risks that would have a material impact on the Group's financial performance or business operations; and (iii) the Tax Counsel is not aware of any material deficiencies in the Group's internal control measures with respect to the tax compliance aspects of our Group.

BUSINESS

Our Directors confirm that, (i) as of the Latest Practicable Date, our Company were not subject to any VAT invoice investigations; (ii) to the best knowledge of our Directors and upon making reasonable enquiry, during the same period, among its counterparties, except for Shanghai Manjia as disclosed above, none of them were the subject of any VAT invoice investigations; and (iii) we had no tax issues since our inception which will pose a material adverse impact on our Group.

On the basis of (i) the factors stated above and in particular, (a) the PRC Legal Advisor's view that both the requirements to conduct the tax compliance self-checks and the payment of VAT and surcharges by our Group did not constitute any administrative penalties, and hence, no penalty was imposed by any regulatory authorities, and the likelihood of our Company and our Directors to be penalized for the offenses of tax evasion due to the underpayments discovered in the tax compliance self-checks is remote and that our Directors will not be disqualified as a director of a PRC company under the PRC laws, (b) the regulatory confirmations obtained from the Shanghai City Songjiang District Administration of Tax and the certifications from competent tax authorities obtained for the relevant Group entities, (c) the causes of the shortfall in tax payment identified in each of the tax compliance self-checks were unrelated to one another; (ii) the findings of (a) the transfer pricing analysis on the intra-group transactions conducted by the Tax Counsel, in which the Tax Counsel concluded that it is unlikely for such intra-group transactions under analysis to be subject to any further transfer pricing adjustment for being not in line with the "independent transactions" principles, and (b) the tax substantive risk review conducted by the Tax Counsel over the tax practices of the Group entities since their respective dates of establishment and up until the end of the Track Record Period or the date of de-registration of the relevant Group entity, if earlier, in which the Tax Counsel did not identify any substantive tax risks engaged by the Group; (iii) the regulatory confirmations obtained from the Shanghai City Songjiang District Tax Administration of the State Tax Administration that no tax penalty has been imposed on each of Shanghai Linmon, Linmon Yuexin and Linmon Kaixin in respect of the Tax Compliance Self-checks, and from the relevant tax authorities in Horgos that each of Horgos Linmon and Horgos Linmon Black Tea was not subject to any outstanding tax liabilities; (iv) the explanation of the nature of tax compliance self-checks and the additional tax payments and overdue tax surcharge flowing therefrom under applicable PRC laws and regulations provided to the Joint Sponsors by our Tax Counsel, our PRC Legal Advisor and the Joint Sponsors' PRC legal advisor; (v) discussions with us, our PRC Legal Advisor, the Joint Sponsors' PRC legal advisor and the Tax Counsel; (vi) the views of our Directors, the PRC Legal Advisor, the Joint Sponsors' PRC legal advisor and the Tax Counsel as aforementioned; and (vii) the enhanced internal control measures adopted, specifically with respect to the particular processes that were relevant to the underpayment of taxes uncovered in the previous instances of tax compliance self-checks, and the independent internal control advisor having no further recommendation upon its review of, among other things, the Company's tax compliance-related controls, the Joint Sponsors did not identify any material findings that would contradict the Directors' views that the tax compliance self-checks did not constitute material or systemic non-compliances, and would not impugn on the Directors' integrity and competency. Furthermore, having considered the internal control measures and policies as adopted by the Company above and that the independent internal control advisor of the Company did not raise any further recommendation in its follow-up review with respect to tax-related internal controls, the Joint Sponsors are of the view that the Company's internal control measures in this respect are adequate having regards to the obligations of the Company and the Directors under the Listing Rules and other applicable laws and regulations.

BUSINESS

LICENSES, APPROVALS AND PERMITS

Our PRC Legal Advisor has advised that during the Track Record Period and up to the Latest Practicable Date, we had obtained all licenses, permits, approvals and certificates necessary to conduct our operations material from the relevant competent government authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect. The table below sets forth details of our material licenses and permits:

No.	Holder	Name of the License, Approval or Permit	Valid Term
1.	Shanghai Linmon	Permit to Produce or Operate Radio and Television Programs	April 1, 2021 – March 31, 2023
2.	Shanghai Linmon	Television Drama Production Permit (Class A)	April 1, 2021 – March 31, 2023
3.	Shanghai Linmon	Operating Permit for Film Distribution	October 21, 2021 – October 20, 2023
4.	Linmon Yuexin	Permit to Produce or Operate Radio and Television Programs	April 1, 2021 – March 31, 2023
5.	Horgos Linmon Black Tea	Permit to Produce or Operate Radio and Television Programs	April 1, 2021 – March 31, 2023
6.	Dongyang Linmon Yuexin	Permit to Produce or Operate Radio and Television Programs	April 16, 2021 – March 31, 2023
7.	Linmon Kaixin	Permit to Produce or Operate Radio and Television Programs	April 1, 2021 – March 31, 2023
8.	Dongyang Linmon Kaixin	Permit to Produce or Operate Radio and Television Programs	April 16, 2021 – March 31, 2023
9.	Dongyang Linmon	Permit to Produce or Operate Radio and Television Programs	April 15, 2021 – March 31, 2023
10.	Horgos Linmon	Permit to Produce or Operate Radio and Television Programs	April 1, 2021 – March 31, 2023
11.	Wuren Guanji	Permit to Produce or Operate Radio and Television Programs	April 1, 2021 – March 31, 2023
12.	Shanghai Ningchuan	Permit to Produce or Operate Radio and Television Programs	September 9, 2021 – September 8, 2023
13.	Hainan Linmon	Permit to Produce or Operate Radio and Television Programs	September 14, 2021 – March 31, 2023

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

Our business is exposed to various risks and we believe that risk management is essential to our growth and success. Key operational risks faced by us include, among other things, the administration of daily operations, drama series management, financial reporting and recording, compliance with applicable laws and regulations, changes in general market conditions and perceptions of drama series production, investment and distribution, changes in the regulatory environment in the PRC. Please refer to the section headed "Risk Factors" in this document for the disclosures on various risks we face.

We are committed to an effective risk management approach that strictly abides by legal and compliance requirements to achieve reasonable risk-adjusted returns. 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.

IP Management

We pride ourselves in establishing an abundant reserve of IPs. In order to protect our IPs, we enter into agreements with our employees and suppliers (including corporate entities and individuals) requiring them to keep confidential our IPs. We have dedicated personnel to be responsible for the protection of our IP on a daily basis by conducting regular and ad hoc online searches to identify IP infringement activities. We require prompt reporting to our legal department in the event any IP infringement is identified. Our legal department usually issues demand letters, or files complaints or lawsuits to protect our intellectual property rights.

Budget Control System

We have a comprehensive budget management system for budget planning, execution and adjustment. For example, our finance department forecasts the financial profitability of our projects to formulate a budget plan. Then we adjust the budget plans according to the schedule and progress of each project in a timely manner. We also review the operational budget execution of our Group every six months and adjust our profit forecasts accordingly. Our senior management will evaluate and adjust the budget plans when significant variances occur.

Specifically, for each drama series and film production project, we establish dedicated production and finance teams to formulate budget plans covering IP procurement, engagement of actors and production crew and purchase of equipment, marketing and promotion services. Our legal department reviews such budget plans to ensure the compliance with the latest PRC laws and regulations. Budget plans will be reviewed and approved by our green-light committee comprising of our four co-founders. In addition, we also require our finance team to monitor project expenditures in accordance with the budget plans to prevent budget over-runs during the filming process.

BUSINESS

Legal and Tax Compliance Management

We have implemented a set of policies to monitor our tax-related matters. Specifically:

- With respect to our intra-group transactions, to ensure the appropriate alignment of the contract obligations and actual work performed by a Group entity, we have enhanced our contract management policies requiring the review and approval of contracts by the responsible persons of the relevant operational departments from a day-to-day operational perspective, by our finance manager from the accounting and tax compliance perspective, by our legal manager from the legal compliance perspective and by our senior management from the overall business operation perspective. In addition, to ensure the compliance with the compliance with the requirements of independent transactions with respect to the pricing basis for intra-group transactions under the PRC Corporate Tax Law, we have established transfer pricing management policies, pursuant to which we are required to price intra-group transactions based on the market prevailing rates, the expected budget and gross margin. In addition, Shanghai Linmon is the designated contracting entity on behalf of our Group when entering into agreements with customers and using our subsidiaries which are entitled to preferential tax treatment to do so is prohibited to ensure tax compliance going forward;
- To avoid inaccurate procurement cost recognition, we have enhanced our invoice management policies, requiring our accounting personnel to carefully review and verify the authenticity of the underlying transactions, accuracy and reasonableness of the invoices issued by suppliers on the official websites of the national and local tax authorities and certify each of the invoices received as being so reviewed and verified;
- To ensure timely and accurate tax payment filings, we have maintained a list setting forth the detailed types, rates and filing cycle of the taxes involved in our daily operations and require our relevant personnel to strictly follow and update the list from time to time. We require our accounting personnel to fill in the tax payment calculation reports on our enterprise resource planning system every month based on the latest requirements under the PRC tax laws, regulations and policies and submit the same for our finance managers' review and approval. In addition, our accounting personnel are required to regularly review our tax payable provisions, tax payables and the taxes actually paid and timely make adjustment accordingly; and
- We strive to comply with all the latest tax filing requirements applicable to our industry and business from time to time. To this end, we have assigned dedicated personnel to keep track of the developments of the applicable PRC tax laws, regulations and policies on an ongoing basis. We also require the relevant personnel responsible for tax filings to maintain close communications with the competent authorities and actively seek advice and guidance from such authorities to fully understand the latest tax filing requirements. In addition, we also keep record of all the tax filings applications, internal tax management reports, corporate income tax settlement and payment reports and approvals and documents issued by tax authorities for review and inspection from time to time.

BUSINESS

We are committed to ensure the legal compliance of our operations and have put in place legal compliance measures. Our legal department is primarily responsible to keep track of evolving laws, regulations and policies on an on-going basis, including, for example, national tax policies, regulations on drama series and film production and marketing and promotion. Our legal department, together with other responsible departments, is also responsible to communicate with competent authorities and conduct legal research and studies from time to time and update the management to ensure the legal compliance of our daily operation. In addition, our legal department also provides compliance training to new joiners.

In particular, to ensure our continuous compliance with the Notice on Further Strengthening the Management of Arts and Their Personnel (《關於進一步加強文藝節目及其人員管理的通知》), our agreements with actors and directors include a negative publicity clause stating that we are entitled to seek reimbursement of the amount of service fees we paid to them in the event any lawsuits, personal misbehaviors, rumors or negative news related to them affected our distribution of the relevant drama series. During the Track Record Period and up to the Latest Practicable Date, we have not been the subject of any review, enquiry or investigation by any PRC regulatory authorities in relation to such notice.

To ensure our continuous compliance with the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》), we have formulated our budget plan in accordance with the requirements of the notice. Specifically, we estimate the total budget for our drama series projects and determine the maximum amount of payments we can pay to actors and principal actors in accordance with the requirements of the notice, taking into consideration the transactions with entities controlled by, or other close associates of, each actor. In addition, we submit reports disclosing the payments to actors and principal actors for the local competent authorities' review and approval and can only obtain Television Drama Distribution License (國產電視劇發行許可證) after their review and approval.

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

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. We are in the drama series production industry and therefore it is of critical importance for us to prevent leakage during our production process. We require producers' approval for the review of the video clips by any of the production crew and other personnel, including personnel from our finance and legal department, before the official broadcasting. Only when the relevant producers approve such review and our production team adds watermark showing the purpose and date of the review and the identity of the personnel, we will allow the relevant personnel to review the released video clips using our designated secured platforms to ensure confidentiality and prevent leakage. 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 senior management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, conflict of interests and corruption. We provide trainings to employees to help them fully understand our guidelines. We also have in place an anti-corruption policy to prevent corruption issues. Our anti-corruption reporting system is made available to all of our staff for anonymous reports to our organization and human resources department and legal department for investigations and further actions.

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 Ms. Tang Songlian, Mr. Zhang Rong and Ms. Long Yu. For the professional qualifications and experiences of the members of our Audit Committee, see "Directors and Senior Management – Directors." Our legal department is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Members of legal department hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The legal department reports to the audit committee to ensure that any major issues identified thus are channelled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

BUSINESS

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee, legal 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 [REDACTED], in May 2021, we engaged an independent internal control adviser to perform an internal control review (the “**Internal Control 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 Internal Control 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 long-term assets 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.

Anti-corruption, Anti-bribery and Anti-money Laundering Policies

We have in place anti-corruption, anti-bribery and anti-money laundering policies to safeguard against any such activities. The policy explains potential conducts of anti-corruption, anti-bribery and anti-money laundering and the relevant 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 will liaise with our legal department to investigate any reported incidents and take appropriate measures.