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### OVERVIEW

#### Who We Are

According to Frost & Sullivan, we ranked the fourth among all Chinese drama series companies in terms of revenue in 2021. We typically create high viewership 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, six of our eight original drama series broadcast from 2019 to 2021 were high viewership drama series, representing a high viewership drama series rate of approximately 75.0%, far exceeding the average high viewership drama series rate of our top five competitors by revenue at approximately 45.9% from 2019 to 2021. In addition, our six high viewership drama series broadcast from 2019 to 2021 garnered a total of more than 16.3 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.

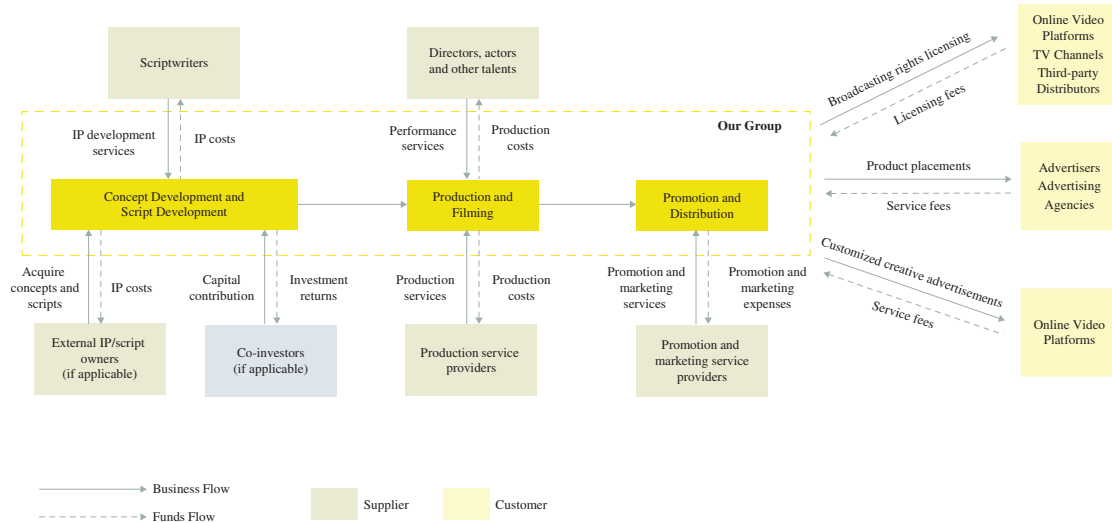
We pride ourselves in taking the lead in the development of premium original IP in-house and have built an abundant reserve of original IPs and strong pipeline, allowing us to possess a competitive edge over many of our competitors. Among the ten drama series we distributed from 2019 to 2021, eight of them are original drama series, representing a ratio of 80.0%. The ratio ranked the second among the top five producers in the industry from 2019 to 2021, according to Frost & Sullivan.

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.

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### OUR BUSINESS MODEL

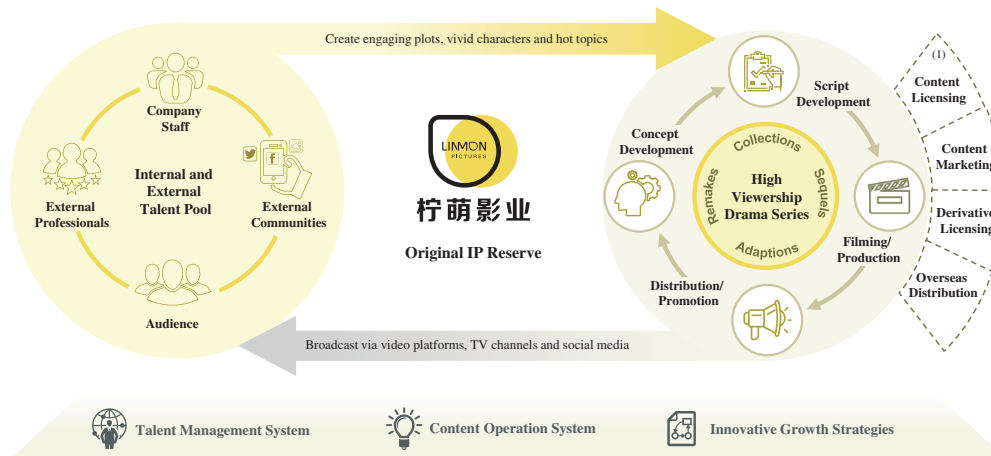
The chart below illustrates the business and funds flow of our original drama series and content marketing businesses:



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.

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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.

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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 high viewership drama series rate as high as 75.0% from 2019 to 2021, substantially higher than China’s industry average at approximately 7.1% and the average of our top five competitors by revenue at approximately 45.9% from 2019 to 2021. 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 in 2019 and 2020, and among the top 5 in 2021. In addition, the licensing fees of the first-run broadcasting rights of our drama series per episode for online video platforms ranged from RMB1.9 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.



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### **Abundant original IP content reserve**

We pride ourselves in taking the lead in the development of premium original IP in-house. Among the ten drama series we distributed from 2019 to 2021, eight of them are original drama series, representing a ratio of 80.0%. The ratio ranked the second among the top five producers in the industry from 2019 to 2021, according to Frost & Sullivan. 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.

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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.

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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 high viewership 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 and the three months ended March 31, 2022, we generated revenue of RMB25.8 million, RMB8.8 million, RMB12.2 million and RMB14.0 million, respectively, from the licensing of our original drama series to be broadcast on TV channels and platforms of regions other than Mainland China.<sup>(1)</sup>

### 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.

*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.

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- **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.
- **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

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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.

### 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. According to Frost & Sullivan, the high viewership drama series rate of all broadcast drama series increased from 6.2% in 2019 to 7.8% in 2021, indicating that the number of high viewership drama series in China increased by 25.8% from 2019 to 2021. In addition, the average viewership of high viewership drama series on TV channel increased from approximately 1.34% in 2019 to approximately 1.61% in 2021, indicating that the number of audience who watched high viewership drama series on TV channel increased by 21.8% from 2019 to 2021, according to the same source. 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) we will recruit both young graduates through campus recruitment and experienced professionals in the industry through our network. We also hold seminars and invite industry experts to share their experience and thoughts and provide regular training sessions to further enhance their skills; 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]”.

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- *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 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]”.

### **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 produce short video which usually lasts for one to three minutes on short video platforms pursuant to customers’ needs. Such video may be developed and produced based on our original drama series and our original IP, or developed and produced based on



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customers’ specifications on a project-by-project basis. We can charge production service fees in return for such services. 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 to provide integrated marketing campaign. See “– Our Business – Content Marketing” for details. We can charge content marketing services fees in return for such services. 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.

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. See “– Our Business – Content Marketing” for details. We can charge content marketing services fees in return for such services. In addition, we plan to closely work with emerging consumer brands through content licensing and co-branding.

Our IP monetization methods in emerging business opportunities include (i) producing short video and release on short video platforms; (ii) providing tailored integrated marketing campaign; and (iii) licensing IP derivative rights. 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

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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.

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]”.



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### OUR BUSINESS

We primarily engage in the development, production and distribution of high viewership 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.

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

	Year ended December 31,						Three months ended March 31,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Original drama series	1,632,658	91.0	1,207,423	84.7	1,051,435	84.2	9,608	20.0	456,190	96.9
Content marketing	58,832	3.3	65,961	4.6	109,766	8.8	–	–	14,119	3.0
Others <sup>(1)</sup>	102,674	5.7	152,775	10.7	87,763	7.0	38,475	80.0	339	0.1
<b>Total</b>	<b><u>1,794,164</u></b>	<b><u>100.0</u></b>	<b><u>1,426,159</u></b>	<b><u>100.0</u></b>	<b><u>1,248,964</u></b>	<b><u>100.0</u></b>	<b><u>48,083</u></b>	<b><u>100.0</u></b>	<b><u>470,648</u></b>	<b><u>100.0</u></b>

*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.

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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,						Three months ended March 31,			
	2019		2020		2021		2021		2022	
	Original drama series	Content marketing	Original drama series	Content marketing	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) <sup>(1)</sup>	-	-	-	-	-	-	-	-	-	-
“A Love for Separation” (小別離) <sup>(2)</sup>	792	-	1,353	-	178	-	174	-	-	-
“Fighter of the Destiny” (擇天記) <sup>(3)</sup>	-	-	-	-	-	-	-	-	-	-
“Only Side by Side with You” (南方有喬木) <sup>(4)</sup>	1,651	-	-	-	-	-	-	-	-	-
“Legend of Fuyao” (扶搖) <sup>(5)</sup>	-	-	-	-	-	-	-	-	-	-
“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) <sup>(6)</sup>	-	-	420,167	37,546	9,434	-	9,434	-	-	-
“A Little Dilemma” (小舍得)	-	-	-	-	426,305	53,887	-	-	-	-
“To Fly with You” (陪你逐風飛翔) <sup>(7)</sup>	-	-	-	-	219,293	13,499	-	-	3,382	-
“Xiaomin’s House” (小敏家) <sup>(8)</sup>	-	-	-	-	396,225	42,380	-	-	29,487	7,899 <sup>(9)</sup>
“Beyond” (超越)	-	-	-	-	-	-	-	-	299,664	5,387
“Under the Skin” (獵罪圖鑑)	-	-	-	-	-	-	-	-	123,657	833
<b>Total</b>	<b>1,632,658</b>	<b>58,832</b>	<b>1,207,423</b>	<b>65,961</b>	<b>1,051,435</b>	<b>109,766</b>	<b>9,608</b>	<b>-</b>	<b>456,190</b>	<b>14,119</b>

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*Notes:*

- (1) “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.
- (2) “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.
- (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) “To Fly with You” (陪你逐風飛翔) was under first-run broadcasting in 2021. Revenue from “To Fly with You” (陪你逐風飛翔) in the three months ended March 31, 2022 was from the licensing of the re-run broadcasting rights of such drama series.
- (8) “Xiamin’s House” (小敏家) was under first-run broadcasting in 2021. Revenue from “Xiamin’s House” (小敏家) in the three months ended March 31, 2022 was from the licensing of the re-run broadcasting rights of such drama series.
- (9) We generated content marketing revenue from Xiaomin’s House (小敏家) in the three months ended March 31, 2022 through integrated marketing campaign for the service period in the three months ended March 31, 2022.

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.

We act as the sole/lead investor and executive producer of our original drama series. We enter into investment agreements with co-investors and typically grant them variable return based on their respective proportionate shares of the entire investment income. See “– Salient Terms of Investment Agreements with Co-investors” for details. See “Financial Information – Critical Accounting Policies and Estimates – Accounting for the Co-investment Arrangement and Co-financing arrangement” and note 2.4 to the Accountant’s Report set out in Appendix I to this document for the details of the accounting treatments.

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During the Track Record Period, we produced and distributed ten 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, RMB1,051.4 million and RMB456.2 million, respectively, in 2019, 2020 and 2021 and the three months ended March 31, 2022, accounting for approximately 91.0%, 84.7%, 84.2% and 96.9% 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,						Three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Online video										
platforms <sup>(1)</sup>	1,257,358	77.0%	896,767	74.3%	722,459	68.7%	9,434	98.2%	334,804	73.4%
TV channels <sup>(2)</sup>	333,362	20.4%	276,026	22.9%	269,380	25.6%	134	1.4%	95,655	21.0%
Others <sup>(3)</sup>	41,938	2.6%	34,630	2.8%	59,596	5.7%	40	0.4%	25,731	5.6%
<b>Total</b>	<b>1,632,658</b>	<b>100.0%</b>	<b>1,207,423</b>	<b>100.0%</b>	<b>1,051,435</b>	<b>100.0%</b>	<b>9,608</b>	<b>100.0%</b>	<b>456,190</b>	<b>100.0%</b>

*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 mainly due to a relatively smaller investment scale considering its genre and target audience base. Our revenue from licensing of broadcasting rights of original drama series to online video platforms increased from RMB9.4 million in the three months ended March 31, 2021 to RMB334.8 million in the three months ended March 31, 2022, primarily because we recognized revenue from the licensing of the first-run broadcasting rights of two original drama series, namely “Beyond” (超越) and “Under the Skin” (獵罪圖鑑), to our online video platform customers following the broadcasting of

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such original drama series in the three months ended March 31, 2022 while we did not recognize revenue from the licensing of the first-run broadcasting rights of any original drama series in the same period to any online video platform customers 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 TV channels increased from RMB0.1 million in the three months ended March 31, 2021 to RMB95.7 million in the three months ended March 31, 2022, primarily because we recognized revenue from the licensing of the first-run broadcasting rights of one original drama series, namely “Beyond” (超越), to TV channels in the three months ended March 31, 2022 while we did not recognize revenue from the licensing of the first-run broadcasting rights of any original drama series in the same period in 2021.

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, RMB40,000 and RMB25.7 million in 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022, respectively. The increase of revenue from licensing of broadcasting rights of original drama series to other customers from 2020 to 2021 and from the three months ended March 31, 2021 to the three months ended March 31, 2022 was primarily in line with our expansion of distribution to overseas markets.

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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				The licensing fee per episode <sup>(1)</sup>				Time of the Initial Broadcasting	Major Broadcast Channels	Lead investor(s) and executive producer(s)	Co-investor(s) and non-executive producer(s)		
					Year ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	Three months ended March 31, 2021	Three months ended March 31, 2022	2021	2022					Pre-sale arrangement	Our Role
					(RMB in thousands)		(RMB in thousands)		(RMB in thousands)									
“To Be a Better Man” (好先生)	Original drama series	Modern	42	50.0%	-	-	-	-	-	-	-	-	May 2016	Beijing TV, Zhejiang TV, Jiangsu TV, LETV	Our Group and Shaanxi Wentou (Pictures) Yida Investment Co., Ltd.*	-		
“A Love for Separation” (小别离)	Original drama series	Modern	45	90.0%	792	1,353	178	174	-	17.6	30.1	4.0	3.9	-	Pre-sold	Lead investor and executive producer	Our Group	Shaanxi Wentou

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Name of the Drama Series	Production Mode	Genre	Number of Investment 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	Lead investor(s) and executive producer(s)	Co-investor(s) and non-executive producer(s)		
					Year ended December 31,		Three months ended March 31,		2019	2020							2021	2022
					2019	2020	2020	2021										
					(RMB in thousands)		(RMB in thousands)		(RMB in thousands)									
“Fighter of the Destiny” (悍夫記)	Original drama series	Costume	52	40.0%	-	-	-	-	-	-	-	April 2017	Human TV, Tencent Video, iQIYI, Mango TV, Youku	Our Group	Shanghai Tencent Pictures and Culture Communications Co., Ltd. (上海騰訊影業文化傳播有限公司), Shanghai Tencent Penguin Film Culture Co., Ltd. (上海騰訊影業文化傳播有限公司), China Reading Limited (上海閱文信息技術有限公司) and Hunan Happy Sunshine Interaction Entertainment Media Co., Ltd.* (湖南快樂陽光互動娛樂傳媒有限公司)			
“Only Side by Side with You” (南方有喬木)	Original drama series	Modern	40	100.0%	1,651	-	-	-	-	41.3	-	March 2018	CCTV, Jiangsu TV, Zhejiang TV, Tencent Video	Our Group	-			
“Legend of Fuyao” (扶搖)	Original drama series	Costume	66	90.0%	-	-	-	-	-	-	-	June 2018	Zhejiang TV, Tencent Video	Our Group	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司)			

**BUSINESS**

Name of the Drama Series	Production Mode	Genre	Number of Investment Episodes	Revenue from the licensing of original drama series					The licensing fee per episode <sup>(1)</sup>				Our Role	Time of the Initial Broadcasting	Major Broadcast Channels	Lead investor(s) and executive producer(s)	Co-investor(s) and non-executive producer(s)					
				Our Investment Percentage (%)	Year ended December 31,		Three months ended March 31,		Pre-sale arrangement	Year ended December 31,	Three months ended March 31,							Our Role				
					2019	2020	2021	2022			2019	2020							2021	2022		
					(RMB in thousands)		(RMB in thousands)															
“Novoland: Eagle Flag” (九州缥缈錄)	Original drama series	Costume	56	80.1%	1,005,857	-	-	-	-	-	-	17,961.8	-	-	-	-	Pre-sold	Lead investor and executive producer	July 2019	Zhejiang TV, Youku	Our Group	Beijing Dashenquan Culture Technology Co., Ltd.* (北京大神圖文化科技有限公司) and Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司)
“A Little Reunion” (小歡喜)	Original drama series	Modern	49	100.0%	624,358	-	-	-	-	-	-	12,742	-	-	-	-	Pre-sold	Sole investor and executive producer	July 2019	Dragon TV, Zhejiang TV, IQIYI	Our Group	-



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Name of the Drama Series	Production Mode	Genre	Number of Episodes	Our Investment Percentage (%)	Revenue from the licensing of original drama series					The licensing fee per episode <sup>(1)</sup>					Our Role	Time of the Initial Broadcasting	Major Broadcast Channels	Lead investor(s) and executive producer(s)	Co-investor(s) and non-executive producer(s)					
					Year ended December 31,		Three months ended March 31,		Year ended December 31,		Three months ended March 31,		Pre-sale arrangement	Pre-sold						Lead investor and executive producer	July 2020	Dragon TV, Beijing TV, Youku	Our Group	Beijing Yulebao Pictures Media Co., Ltd.* (北京娛樂電影傳媒有限公司) and China Film & TV Production Co., Ltd.* (中視影視製作有限公司)
					2019	2020	2021	2022	2019	2020	2021	2022												
“Hunting” (獵狐)	Original drama series	Modern	44	99.97%	-	428,758	-	-	-	-	9,744.5	-	-	-	Pre-sold	Lead investor and executive producer	April 2020	Dragon TV, Beijing TV, Youku	Our Group	Beijing Yulebao Pictures Media Co., Ltd.* (北京娛樂電影傳媒有限公司) and China Film & TV Production Co., Ltd.* (中視影視製作有限公司)				
“Twenty Your Life On” (二十不惑)	Original drama series	Modern	40	85.0%	-	357,145	-	-	-	-	8,928.6	-	-	-	Pre-sold	Lead investor and executive producer	July 2020	Human TV, iQIYI	Our Group	Zhejiang Wennan Ruyu Pictures Culture Co., Ltd.* (浙江溫潤如玉影視文化有限公司) and Shanghai Xiaowangshu Pictures Media Co., Ltd.* (上海笑忘書影視傳媒有限公司)				
“Nothing but Thirty” (三十而已)	Original drama series	Modern	43	100.0%	-	420,167	9,434	9,434	-	-	9,771.3	219.4	219.4	-	Pre-sold	Sole investor and executive producer	July 2020	Dragon TV, Tencent Video	Our Group	-				
“A Little Dilemma” (小舍得)	Original drama series	Modern	42	90.0%	-	426,305	-	-	-	-	-	10,150.1	-	-	Pre-sold	Lead investor and executive producer	April 2021	CCTV, Dragon TV, iQIYI	Our Group	Huang Lei (黃磊) and Fenghuoshi Culture Development (Beijing) Co., Ltd.* (風火石文化發展(北京)有限公司)				
“To Fly with You” (陪你逐風飛翔)	Original drama series	Modern	33	100.0%	-	219,293	-	3,382	-	-	6,645.2	-	102.5	Pre-sold	Sole investor and executive producer	November 2021	Human TV, Tencent Video	Our Group	-					

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Name of the Drama Series	Production Mode	Genre	Number of Investment Episodes Percentage (%)	Revenue from the licensing of original drama series						Pre-sale arrangement	Our Role	Time of the Initial Broadcasting	Major Broadcast Channels	Lead investor(s) and executive producer(s)	Co-investor(s) and non-executive producer(s)		
				Year ended December 31,		Three months ended March 31,		Year ended December 31,								Three months ended March 31,	
				2019	2020	2021	2022	2019	2020							2021	2022
				(RMB in thousands)													
				(RMB in thousands)													
				(RMB in thousands)													
				(RMB in thousands)													
				(RMB in thousands)													
“Xiao mini’s House” (小敏家)	Original drama series	Modern	40	-	-	396,225	-	29,487	-	9,905.6	737.2	Pre-sold	Lead investor and executive producer	December 2021	Hunan TV, Youku	Our Group	Fenghuoshi Culture Development (Beijing) Co., Ltd.* (風火石文化發展(北京)有限公司)
“Beyond” (超越)	Original drama series	Modern	29	-	-	-	299,664	-	-	-	10,333.2	Pre-sold	Sole investor and executive producer	January 2022	CCTV, Dragon TV, Beijing TV, Tencent Video, iQIYI, Youku	Our Group	-
“Under the Skin” (錦屏繡像)	Original drama series	Modern	20	-	-	-	123,657	-	-	6,182.9	Pre-sold	Sole investor and executive producer	March 2022	iQIYI, Tencent Video	Our Group	-	

### Notes:

- (1) The licensing fee per episode during the Track Record Period is calculated using the licensing revenue of each of our original drama series in each year by dividing the number of episodes of the relevant original drama series. For purposes of this calculation, the licensing revenue of our original drama series from all types of our customers (including online video platforms, TV channels and third-party distributors) and from both first-run broadcasting and re-run broadcasting are taken into account.
- (2) Our Group and Shaanxi Wentou both acted as the executive producer of “To Be a Better Man” (好先生).

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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)



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“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”  
(陪你逐风飞翔) (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 four drama series projects under filming/post-production. All four of pipeline drama series were pre-sold as of the Latest Practicable Date. The table below sets forth the details of the four 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	To be broadcast (obtained the web drama broadcasting record number (網絡影視劇上線備案號))	2022
“Twenty Your Life On II” (二十不惑 II)	Original drama series	Modern	100.0%	Sole investor and executive producer	To be broadcast (obtained the Television Drama Distribution License (國產電視劇發行許可證))	2022
“Nothing But You” (愛情而已)	Original drama series	Modern	100.0%	Sole investor and executive producer	Under filming	2022
“Utter Innocence” (赤子之心)	Original drama series	Modern	100.0%	Sole investor and executive producer	Under filming	2023



“Nobody Knows”  
(膽小鬼) (2022)



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

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“Nothing But You”  
(愛情而已) (2022)



“Utter Innocence”  
(赤子之心) (2023)

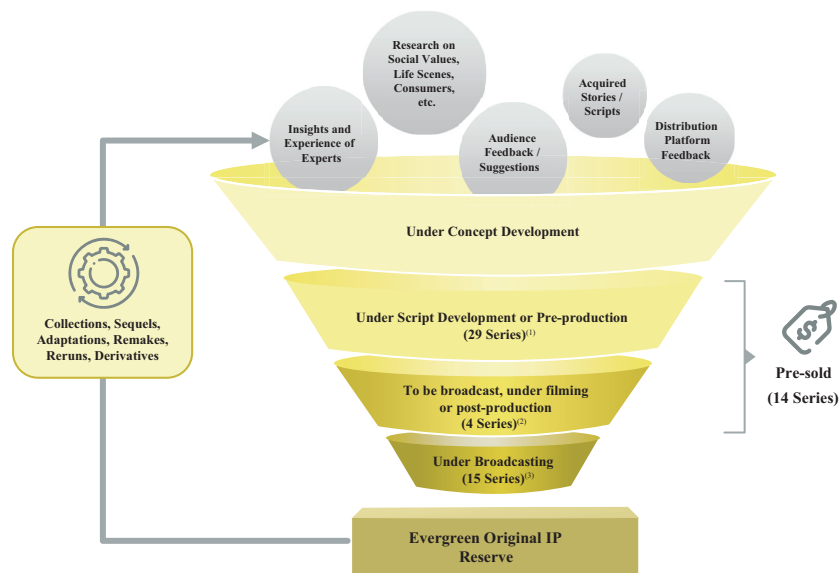
We actively and consistently develop IPs in house through research and development and also procure high-potential IPs from external sources for further development. This allows us to have an abundant reserve of original IPs and a strong project pipeline. Our development of high-quality original IPs 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. In addition, our employees are deeply involved in the production, distribution and promotion process to ensure project quality: including (i) our internal project managers assigned for each drama series project to provide overall management of the project; (ii) our internal producers to coordinate the production process with other external co-producers on site for our original drama series projects on a daily basis; (iii) our internal script center and executive editors to participate in the script development and production process to continuously develop and revise the scripts; (iv) our internal distribution and promotion personnel design and execute the marketing strategies; and (v) our accounting personnel responsible for the accounting and finance matters during the production. However, we do engage third party service providers, including directors, actors and production crew, to produce our original drama series. Leveraging our industry experience and insights, strong project management and research and development capabilities, we believe we will be able to continuously deliver premium original drama series to the market.



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As of the Latest Practicable Date, we had 29 drama series projects which were under script development and pre-production, two drama series projects that were under filming/post-production, two drama series project that were to be broadcast and 15 drama series which were under broadcasting. Among the 15 drama series which were under broadcasting, 11 of them were further developed by us based on third-party IPs and four of them were independently developed by us. All four drama series projects which were to be broadcast or under filming/post-production and ten of the drama series projects which were under script development and pre-production were pre-sold and expected to be broadcast within the next four years, subject to negotiations with customers, if any, 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. As of the Latest Practicable Date, the remaining 19 of the drama series projects which were under script development and pre-production but were not yet pre-sold were expected to be broadcast within the next eight years, subject to future pre-sale arrangements and actual development progress.

During the Track Record Period, we acquired (i) the adaptation rights of 30 novels with the cost ranged from RMB0.5 million to RMB10.0 million; (ii) the copyright of five scripts with the cost ranged from RMB2.1 million to RMB14.4 million; (iii) the adaptation rights of two drama series with the cost ranged from RMB1.5 million to RMB2.2 million and one film with the cost of RMB2.2 million; and (iv) the adaptation right of one comic book with the cost of RMB1.5 million and the total contractual amounts for our procurement of such third-party IP were RMB118.7 million. As of the Latest Practicable Date, (i) two of the acquired novels had been developed into drama series or movie which were under broadcasting, one of the acquired novels had been developed into drama series and were to be broadcast and the remaining 27 novels were under internal review, concept development or script development; (ii) three of the acquired scripts had been developed into drama series which were under broadcasting, one of the acquired scripts had been developed into drama series and were to be broadcast and the remaining one scripts were under concept/script development; (iii) one drama series and one film of which we acquired adaption rights were under concept/script development and one drama series of which we acquired adaption rights was under filming/post-production; and (iv) the one comic book of which we acquired adaption rights were under internal review. The following chart illustrates our original IP reserve and project pipeline as of the Latest Practicable Date:



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*Notes:*

- (1) We were the executive producer and sole investor in all the 29 original drama series which were under script development or pre-production as of the Latest Practicable Date.
- (2) We were the executive producer and sole investor in all the four original drama series which were to be broadcast, under filming or post-production as of the Latest Practicable Date.
- (3) We were the executive producer and lead investor of all the 15 original drama series which were under broadcasting 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.

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



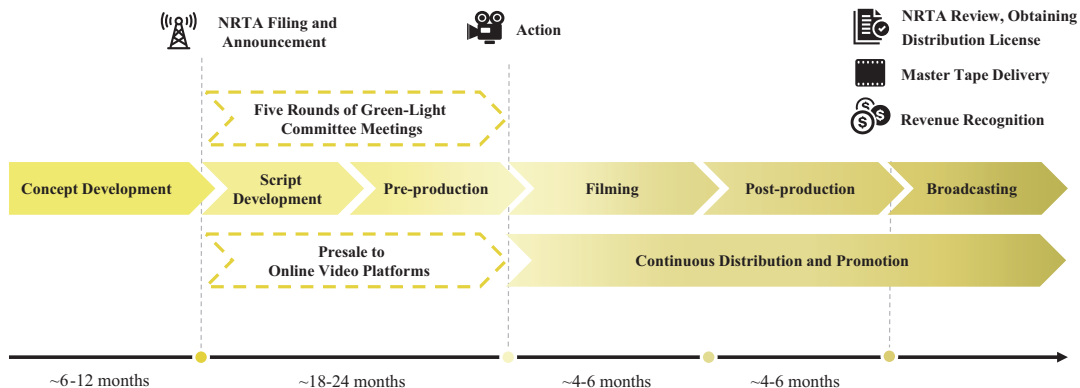
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that our projects will be completed within budget and on schedule. For example, for each project, we formulate a comprehensive budget plan and assign finance, production management and quality control staff on-site to monitor project expenditures closely 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 to online video platforms prior to or shortly after the commencement of filming and before the completion of scripts and receive approximately 30% of the total licensing fees within a certain period after signing of the agreements. Despite the fact that drama series projects are typically capital-intensive in nature, our pre-sale model ensures our liquidity in the production process. In addition, we also fund our drama series projects through capital contributions from cash from operations, third party investors, and bank borrowings. 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.

### *Operation Flow*

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



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### *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 (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 one to two times every month; and (iii) crafting stories through internal workshops and seminars with scriptwriters every month. 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 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.

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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 third party IPs, including novels, scripts and adaption rights, for our further development as our proprietary IPs. During the Track Record Period, we acquired (i) the adaptation rights of 30 novels with the cost ranged from RMB0.5 million to RMB10.0 million; (ii) the copyright of five scripts with the cost ranged from RMB2.1 million to RMB14.4 million; (iii) the adaptation rights of two drama series with the cost ranged from RMB1.5 million to RMB2.2 million and one film with the cost of RMB2.2 million; and (iv) the adaptation right of one comic book with the cost of RMB1.5 million. The total contractual amounts for our procurement of such third-party IP were RMB118.7 million. We procure such third-party IP for our further development. Our script center and executive editors use their professional judgement and experience to adapt or improve such third party IPs we acquire through their gathering of inspiration from online research and studies, expert interviews and the latest social trends and topics. In addition, our executive editors also structure the storylines, design characters and refine scripts based on the acquired third party IPs. The drama series produced using our scripts which are developed based on such acquired IPs become our own proprietary IPs after our development and we enjoy all subsequent rights as the IP owner, including the broadcasting rights and remake rights. Among the 15 drama series which were under broadcasting, 11 of them were further developed by us based on third-party IPs and four of them were independently developed by us.

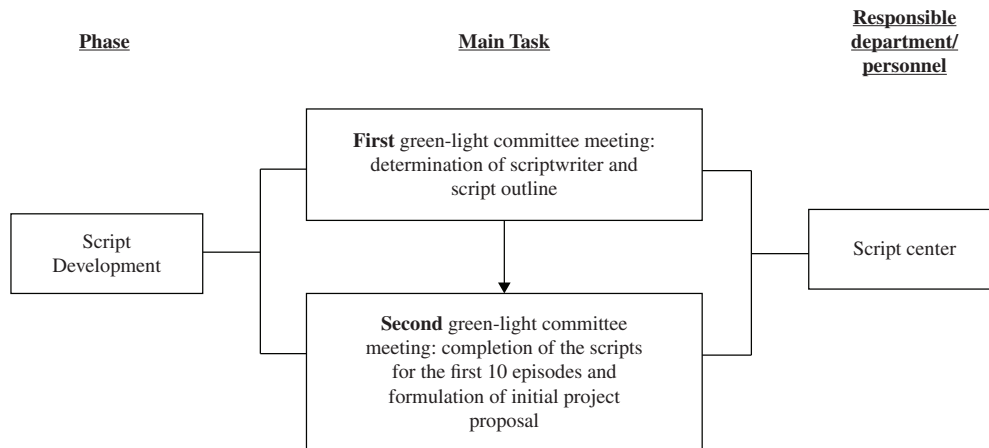
Similar to the concept development process, we fully utilize both internal and external resources to better facilitate our script development. Our script center actively participates in the entire script development process by providing feedback and supplying true-to-life source materials gathered from research and interviews. When necessary, we also consult external technical advisors with particular expertise for their professional opinions on the draft script

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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:

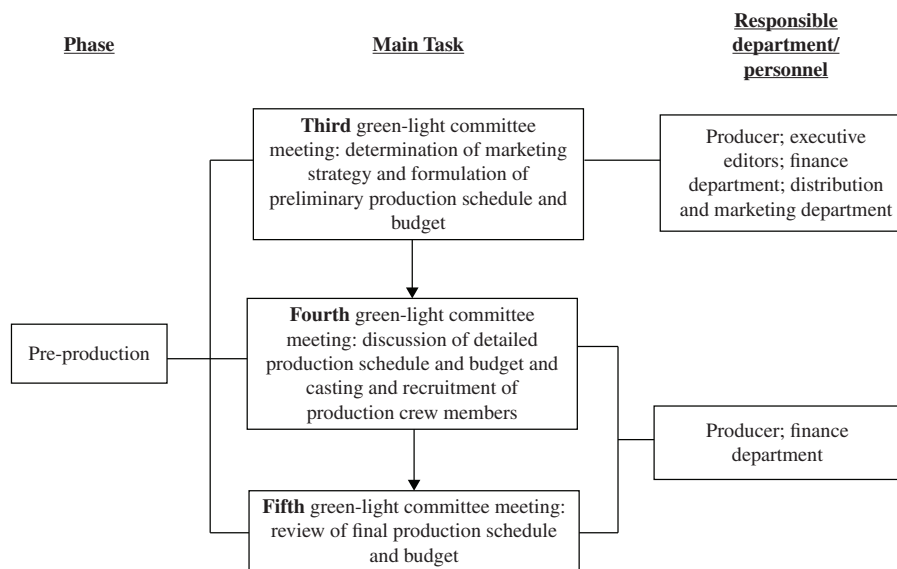


Once our initial project proposal and draft script are approved by the second green-light committee meeting, we proceed to file the Application for Public Record (備案公示申請) to the NRTA in accordance with the Administrative Measures of Record-filing and Announcement for Filming and Production of Drama Series (《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 March 31, 2022, we are not required to apply for the relevant individual production permit prior to the commencement of production of each drama series.

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### *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;

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- (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

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(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 according with the 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 diffident 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



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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.



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### *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;

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- *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 30% of the total licensing fees within a certain period after signing of the agreement, which is within the industry norm range. Such 30% licensing fees are typically determined based on the industry norm range and our business negotiations with our customers. Payments in instalments in accordance with the milestone payment schedules are set out in the relevant agreements, which are typically payable within a certain period after the execution of the agreements, the obtaining of relevant Television Drama Distribution Licenses, the delivery of the master tapes or the initial broadcasting of the drama series;
- *Bonus.* In certain agreements with online video platform customers, if our drama series reaches a certain level of viewership rate or 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 pursuant to the agreements;
- *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

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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;

- *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. In addition, we may be required to refund part or all the licensing fee to customers if the original drama series cannot be broadcast during the licensing period.

### *Salient Terms of Investment Agreements with Co-investors*

We enter into investment agreements with co-investors in drama series in which we act as the lead investor and executive producer on a project-by-project basis. The typical salient terms of the agreements with co-investors are as follows:

- *Details of the drama series*: The agreements typically set forth the official name, the number of episodes and major cast members of the drama series.
- *Investment details*: The agreements typically set forth the amount and percentage of capital investment made by the relevant investors and the investment payment schedule.
- *Investment return*: The investment return is typically variable return calculated based on investors’ proportionate shares of the entire investment income. The investment return is fixed return only when the relevant investors prefer not to undertake any investment risks and would like to receive fixed amount of return instead. During the Track Record Period, only certain investors’ investment in “Hunting” (獵狐) and “Novoland: Eagle Flag” (九州縹緲錄) are fixed-return.
- *Confidentiality*: Both parties typically undertake responsibilities not to disclose any information in connection with the agreements unless such information becomes publicly available.
- *Termination*: Agreements can typically be terminated after both parties reaches mutual consent.

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### 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,			Three months ended March 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Product placements	50,491	58,349	84,591	–	4,795
Customized creative advertisements	8,341	7,612	12,142	–	1,679
Integrated marketing campaign	–	–	13,033	–	7,645
<b>Total</b>	<b>58,832</b>	<b>65,961</b>	<b>109,766</b>	<b>–</b>	<b>14,119</b>

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.

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:



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During the Track Record Period, we also developed and produced customized creative advertisements for online video platforms and third-party advertising agencies and provide such advertisements to online video platforms and TV channels for the broadcasting during our original drama series. We produce such advertisements before and during 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. Therefore, integrated marketing services are project-based in nature and the details of the campaigns varied significantly in different projects. For example, we produce short video based on our original drama series and original IP pursuant to the specifications of our content marketing customers and release such video on short video platforms and social media platforms to achieve customers' marketing purposes. Since 2021, we also started to launch integrated marketing campaigns leveraging on the characters and actors in our original drama series and design advertisement campaigns and produce videos for our customers to promote their brands. In addition, we are also in the process of negotiating with a potential customer to provide marketing campaign design and operating services for their live streaming events on short video platforms and generate content marketing services revenue. According to Frost & Sullivan, the online video-based content marketing market in China experienced rapid growth at a CAGR of 23.6% from approximately RMB138.2 billion in 2017 to approximately RMB322.9 billion in 2021. By 2026, the online video-based content marketing market in China is expected to reach approximately RMB704.8 billion, representing a CAGR of approximately 16.9% from 2021 to 2026.

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,			Three months ended
	2019	2020	2021	March 31, 2022
Number of brands <sup>(1)</sup>	29	37	61	7

*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.

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### *Salient Terms of Product Placement Services Agreements*

We enter into agreements with customers for our product placement services on a project-by-project basis. The typical salient terms of the agreements with our customers for our product placement services are as follows:

- *Details of the drama series:* The agreements typically set forth the official name, the major cast member, the expected broadcasting time (if available), and the expected broadcasting channels (if available) of the drama series.
- *Details of the product placement services:* The agreements typically set forth the details of how the product placement services are provided, including, for example, the number of scenes to be shown in the drama series and whether the products are passively shown in the scene or the actors would actively interact with the relevant product.
- *Payment:* The agreements typically set of the amount of product placement service fees, which are typically fixed price with adjustment mechanism in case the fixed number of scenes broadcast deviate from the stipulated terms. The product placement service fees are typically payment in installments upon reaching the stipulated milestone events, including, for example, the execution of the agreement and the various milestone of drama series production.
- *Termination:* Product placement customers are entitled to terminate the agreement if we fail to obtain the relevant broadcasting license of the original drama series or the relevant drama series cannot be broadcast on the stipulated broadcasting channels before a specific date and both parties cannot reach consensus, and in such case we may be required to refund all costs paid by the relevant customers.

### *Salient Terms of Customized Creative Advertisement Services Agreements*

We enter into agreements with customers for our customized creative advertisement services on a project-by-project basis. The typical salient terms of agreements with our customers for our customized creative advertisement services are as follows:

- *Details of the drama series:* The agreements typically set forth the official name of the drama series.
- *Details of the customized creative advertisement services:* The agreements typically set forth the details of how the customized creative advertisement services are provided, including the advertising brand and the number, length and size of the advertisements to be produced. We are required to submit the advertisement for customers' review and obtain their confirmation.



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- *Payment:* The agreement typically sets forth the amount of customized creative advertisement service fees, which are typically fixed price payable within a certain period after (i) customers' confirmation on the produced advertisements; and (ii) customers' receipt and confirmation of the value-added tax invoices we issue.
- *Termination:* The agreements can be terminated in the event of material breach. For example, if we fail to deliver the advertisements to customers as stipulated and fail to cure within a certain period of time, customers are entitled to terminate the agreements and we may be required to refund the service fees we have received to such customers.

### *Salient Terms of Integrated Marketing Campaign Services Agreements*

We enter into agreements with customers for our integrated marketing campaign services on a project-by-project basis. The typical salient terms of agreements with our customers for our integrated marketing campaign services are as follows:

- *Details of the drama series:* The agreements typically set forth the official name and the major cast members.
- *Details of the integrated marketing campaign services:* Due to the nature of such services, the details of the integrated marketing campaign services we provide may vary in different agreements. The agreements typically set forth the details of how the integrated marketing campaign services are provided, including, for example, the marketing brand, the number of marketing videos and posts we are responsible for arranging the identified actors to participate in the campaign. We may also license the right to use the posters of our drama series (including the relevant actors) to the customers for the campaign.
- *Payment:* The agreements typically set forth the amount of integrated marketing campaign service fees and the payment schedule.
- *Termination:* Agreements can typically be terminated in the event of material breach. For example, if we fail to deliver the marketing materials as stipulated and fail to take remedial actions within a certain period of time, customers are entitled to terminate the agreements and we may be required to refund service fees and pay penalties as stipulated.

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

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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.

### ***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 only engaged to arrange and supervise the production of such drama series, including procurement and coordination of engagement of directors, producers and actors. We were not responsible for the distribution of the made-to-order drama series. The production of the two made-to-order drama series from filming to post-production took 12 to 15 months as such drama series contain gaming or costume scenes which typically take more production time. In return for our services, we generated revenue of approximately RMB73.1 million in 2019 and RMB28.2 million in 2021.

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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*

Given our established expertise in the drama series production industry, we also stepped into the film production industry leveraging our development and production capabilities and industry resources. While we primarily focus on producing original drama series, we also developed, produced and distributed one film, “Monster Run” (怪物先生), in 2020 and own the IP of such film. We also developed and filmed another film, “Counterfeit Secret Service” (冒牌特工隊), in 2020, but did not complete its post-production due to the expected decrease in popularity of its content among audience and our estimation of its profitability based on the overall market conditions and trends in 2020. Accordingly, we made a full provision for the impairment of “Counterfeit Secret Service” (冒牌特工隊) based on our review of the inventory condition and the market performance in accordance with our inventory provision policies. See “Financial Information – Description of Key Statement of Profit or Loss Items – Gross Profit and Gross Profit Margin” for details.

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

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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.

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 and expect to generate additional licensing fees in the near future.

Revenue generated from film production during the Track Record Period were all in relation to “Monster Run” (怪物先生), which amounted to RMB135.0 million in 2020. The gross profit margin of “Monster Run” (怪物先生) was 19.1% in 2020. However, primarily due to the full provision we made for the impairment of “Counterfeit Secret Service” (冒牌特工隊), the gross profit margin of our film production business was negative 17.2% in 2020, resulting in negative gross margin of our other businesses of negative 8.0% in 2020. See “Financial Information – Summary of Historical Financial Information – Gross Profit and Gross Profit Margin” for details.

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



“Monster Run”  
(怪物先生) (2020)

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### *Investment in Drama Series as A Non-executive Producer*

During the Track Record Period, from time to time, we chose to invest in high viewership 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 (i.e. the promotion and distribution service providers we have previously engaged). 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.

Since our inception and up to the Latest Practicable Date, we invested in four drama series as a non-executive producer. We invested 47.5% of the capital contributions to “Chronicle of Life” (寂寞空庭春欲晚) in 2015, 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 from investing in drama series including “Chinese Paladin 5” (仙劍雲之凡) and “Hand in Hand” (陪你一起長大) of RMB47.6 million in 2021.

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The below table sets forth the details of the co-investors and co-producers of the drama series in which we invested as a non-executive producer:

<b>Drama Series in which we invested as a non-executive producer</b>	<b>Lead investor(s) and executive producer(s)</b>	<b>Co-investor and non-executive producer</b>
“Chronicle of Life” (寂寞空庭春欲晚)	Zhejiang Menghuan Xingshengyuan Film and Television Culture Co., Ltd.* (浙江夢幻星生園影視文化有限公司) (47.5% of the capital contribution), Beijing Tianxing Shikun Culture Media Co., Ltd. * (北京天行勢坤文化傳媒有限公司) (5% of the capital contribution)	Our Group (47.5% of the capital contribution)
“Chinese Paladin 5” (仙劍雲之凡)	Tianjin Tangren Film and Television Holdings Co., Ltd.* (天津唐人影視股份有限公司) (90% of the capital contribution)	Our Group (10% of the capital contribution)
“The Chinese Style Relationship” (中國式關係)	Tianjin Tianma Yingxiang Film and Television Co., Ltd.* (天津天馬映像影業有限公司) (70% of the capital contribution)	Our Group (30% of the capital contribution)
“Hand in Hand” (陪你一起長大)	Shanghai Qingxin Culture Chuanbo Co., Ltd.* (上海青新文化傳播有限公司) (70% of the capital contribution)	Our Group (30% of the capital contribution)



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We enter into investment agreements with co-investors for drama series in which we invest as a non-executive producer on a project-by-project basis. During the Track Record Period, the investment return in “Hand in Hand” (陪你一起長大) in which we invested as a non-executive producer is variable return based on our proportionate shares of the entire investment income. Revenue generated from investing in drama series as a non-executive producer amounted to nil, nil, RMB47.6 million and nil in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. The typical salient terms of the agreements with co-investors are as follows:

- *Details of the drama series:* The agreements typically set forth the official name, the number of episodes and major cast members of the drama series.
- *Investment details:* The agreements typically set forth the amount and percentage of capital investment made by us and the investment payment schedule.
- *Investment return:* The investment return is all variable return calculated based on our proportionate shares of the entire investment income. During the Track Record Period, all of the investment income of the drama series in which we invested as a non-executive producer are variable return.
- *Confidentiality:* Both parties typically undertake not to disclose any information in connection with the agreements unless such information becomes publicly available.
- *Termination:* Agreements can typically be terminated after both parties reach mutual consent.

We engage an independent third-party valuer to use discounted cash flow method to evaluate the initial recognition and subsequent measurement of the fair value of financial assets arising from each investment and our management team and finance department monitor the subsequent measurement and make risk assessment from time to time.

### ***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 and the three months ended March 31, 2022, we generated revenue of RMB1.7

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million, RMB2.8 million, RMB4.0 million, and nil, 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.

### **PRICING**

The licensing fee of our original drama series is determined by the price per episode and the number of episodes of the drama series. The price of our original drama series per episode 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. The number of episodes of our original drama series is subject to, including but not limited to, the genre and the complexity of the plot.

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:

- drama series are priced higher if the total investment of the drama series is higher;
- licensing fees to online video platforms are typically priced higher than TV channels mainly because the budget of online video platforms is higher than the same of TV channels and the competition between online video platforms incentivizes them to procure high quality drama series to retain audience;
- licensing fees of the drama series which are expected to have higher rankings are typically priced higher than those which are not expected to have higher rankings;

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- licensing fees of the first-run broadcasting rights are typically higher than re-run broadcasting rights mainly because first-run broadcasting typically attracts stronger audience attention and more discussion than re-run broadcasting; and
- licensing fees of the drama series which are expected to be broadcast during prime time are typically priced higher than those which are not expected to be broadcast during prime time.

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 RMB1.9 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 RMB0.8 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. During the Track Record Period, the licensing fees of our original drama series (including first-run and re-run) were generally higher than the industry range, and as advised by Frost & Sullivan, this is because (i) our proven track record is highly valued by distribution channels, driving higher-than-average prices; and (ii) we have the ability to develop high viewership drama series which can effectively engage and impact audience and establish audience stickiness and therefore are expected to have high level of popularity.

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.

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

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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 introduce our drama series projects. For example, we maintain close communications with customers and introduce summary of script and highlights in drama series to potential customers as early as when the scripts outlines are created. 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. For example, we publish behind-the-scene clips and trailer on social media platforms and short video platforms to attract audience attention. We also initiate discussion topics relating to our drama series on social media platforms and invite actors to interact with audience through live-streaming to increase audience engagement.

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, and the three months ended March 31, 2021 and 2022, our marketing expenses for marketing and promotional activities amounted to RMB96.6 million, RMB118.4 million, RMB85.1 million, RMB9.7 million and RMB34.3 million, respectively.

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### 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遊部 & 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)

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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)



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### 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 18.2% of the total revenue generated from the licensing of drama series in 2021 in China. We ranked top 5 in terms of revenue for three consecutive years in 2019, 2020 and 2021.

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 and three months ended March 31, 2022, revenue generated from our top five customers in aggregate constituted approximately 93.2%, 88.1%, 77.6% and 85.9% of our total revenue, respectively. In 2019, 2020 and 2021 and three months ended March 31, 2022, revenue attributable to our largest customer amounted to RMB887.8 million, RMB466.7 million, RMB282.0 million and RMB196.6 million, respectively, accounting for approximately 49.5%, 32.7%, 22.6% and 41.8% of our total revenue, respectively.

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

*Year ended December 31, 2019*

Customer	Services provided	Amount of revenue (RMB in millions)	% of total revenue	Background	Commencement of business relationship
Customer A	Licensing of broadcasting rights of original drama series	887.8	49.5%	A group of companies operating one of the top online video platforms headquartered in Beijing. It includes a wholly owned subsidiary of a company which is listed on both the Hong Kong Stock Exchange and the New York Stock Exchange.	2016
Customer B	Licensing of broadcasting rights of original drama series and content marketing services	371.4	20.7%	A group of companies providing online entertainment services headquartered in Beijing, listed on Nasdaq in the U.S. It operates one of the top online video platforms in China.	2016
Customer C	Licensing of broadcasting rights of original drama series	213.0	11.9%	A state-owned radio and television media group located in Hangzhou, Zhejiang Province, founded in 2001. It operates one of the top five TV channels in China.	2015

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<b>Customer</b>	<b>Services provided</b>	<b>Amount of revenue (RMB in millions)</b>	<b>% of total revenue</b>	<b>Background</b>	<b>Commencement of business relationship</b>
Customer D	Licensing of broadcasting rights of original drama series	117.9	6.6%	A group of media companies located in Shanghai, founded since 2001. It operates one of the top five TV channels in China.	2019
Tencent Group	Made-to-order drama series production and content marketing services	79.9	4.5%	A group that develops innovative products and services headquartered in Shenzhen, listed on the Hong Kong Stock Exchange and New York Stock Exchange, founded in 1998. It operates one of the top online video platforms in China.	2015
<b>Total</b>		<b>1,670.0</b>	<b>93.2%</b>		

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*Year ended December 31, 2020*

<b>Customer</b>	<b>Services provided</b>	<b>Amount of revenue (RMB in millions)</b>	<b>% of total revenue</b>	<b>Background</b>	<b>Commencement of business relationship</b>
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 group that develops innovative products and services headquartered in Shenzhen, listed on the Hong Kong Stock Exchange and New York Stock Exchange, founded in 1998. It operates one of the top online video platforms in China.	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%	A group of companies operating one of the top online video platforms headquartered in Beijing. It includes a wholly owned subsidiary of a company which are listed on both the Hong Kong Stock Exchange and the New York Stock Exchange.	2016

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<b>Customer</b>	<b>Services provided</b>	<b>Amount of revenue (RMB in millions)</b>	<b>% of total revenue</b>	<b>Background</b>	<b>Commencement of business relationship</b>
Customer B	Licensing of broadcasting rights of original drama series, licensing of broadcasting rights of film and content marketing services	267.1	18.7%	A group of companies providing online entertainment services headquartered in Beijing, listed on Nasdaq in the U.S. It operates one of the top online video platforms in China.	2016
Customer E	Licensing of broadcasting rights of original drama series	130.2	9.1%	A group of companies operating one of the top five TV channel in China and providing film production services located in Changsha, Hunan Province, founded since 2000.	2016
Customer D	Licensing of broadcasting rights of original drama series	79.1	5.5%	A group of media companies located in Shanghai, founded since 2001. It operates one of the top five TV channels in China.	2019
<b>Total</b>		<b>1,258.5</b>	<b>88.1%</b>		

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*Year ended December 31, 2021*

<b>Customer</b>	<b>Services provided</b>	<b>Amount of revenue (RMB in millions)</b>	<b>% of total revenue</b>	<b>Background</b>	<b>Commencement of business relationship</b>
Customer B	Licensing of broadcasting rights of original drama series and content marketing services	282.0	22.6%	A group of companies providing online entertainment services headquartered in Beijing, listed on Nasdaq in the U.S. It operates one of the top online video platforms in China.	2016
Customer A	Licensing of broadcasting rights of original drama series and content marketing services	268.1	21.5%	A group of companies operating one of the top online video platforms headquartered in Beijing. It includes a wholly owned subsidiary of a company which are listed on both the Hong Kong Stock Exchange and the New York Stock Exchange.	2016



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<b>Customer</b>	<b>Services provided</b>	<b>Amount of revenue (RMB in millions)</b>	<b>% of total revenue</b>	<b>Background</b>	<b>Commencement of business relationship</b>
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 group that develops innovative products and services headquartered in Shenzhen, listed on the Hong Kong Stock Exchange and New York Stock Exchange, founded in 1998. It operates one of the top online video platforms in China.	2015
Customer E	Licensing of broadcasting rights of original drama series	132.3	10.6%	A group of companies operating one of the top five TV channel in China and providing film production services located in Changsha, Hunan Province, founded since 2000.	2016
Customer D	Licensing of broadcasting rights of original drama series	75.3	6.0%	A group of media companies located in Shanghai, founded since 2001. It operates one of the top five TV channels in China.	2019
<b>Total</b>		<b>969.1</b>	<b>77.6%</b>		

**BUSINESS**

*Three months ended March 31, 2022*

<b>Customer</b>	<b>Services provided</b>	<b>Amount of revenue (RMB in millions)</b>	<b>% of total revenue</b>	<b>Background</b>	<b>Commencement of business relationship</b>
Customer B	Licensing of broadcasting rights of original drama series	196.6	41.8%	A group of companies providing online entertainment services headquartered in Beijing, listed on Nasdaq in the U.S. It operates one of the top online video platforms in China.	2016
Tencent Group	Licensing of broadcasting rights of original drama series and content marketing services	74.2	15.8%	A group that develops innovative products and services headquartered in Shenzhen, listed on the Hong Kong Stock Exchange and New York Stock Exchange, founded in 1998. It operates one of the top online video platforms in China.	2015

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Customer	Services provided	Amount of revenue <i>(RMB in millions)</i>	% of total revenue	Background	Commencement of business relationship
Customer A	Licensing of broadcasting rights of original drama series and content marketing services	65.5	13.9%	A group of companies operating one of the top online video platforms headquartered in Beijing. It includes a wholly owned subsidiary of a company which are listed on both the Hong Kong Stock Exchange and the New York Stock Exchange.	2016
Customer F	Licensing of broadcasting rights of original drama series	45.8	9.7%	A state-owned radio and television group located in Beijing, founded since 2018. It operates one of the top five TV channels in China.	2015
Customer G	Licensing of broadcasting rights of original drama series	21.9	4.7%	A state-owned TV channel located in Beijing, founded since 2010.	2015
<b>Total</b>		<b>404.0</b>	<b>85.9%</b>		

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.

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### OUR SUPPLIERS

Our suppliers primarily include directors, actors and production related service providers. In 2019, 2020 and 2021 and three months ended March 31, 2022, the purchase from our top five suppliers in aggregate constituted approximately 26.1%, 27.3%, 33.3% and 30.0% of our total purchase from our suppliers, respectively. During the same period, purchase from our largest supplier constituted approximately 7.9%, 10.1%, 17.6% and 14.1% of our total purchase from our suppliers, respectively.

The table below sets forth the details of our five largest suppliers for the periods 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
<b>Total</b>		<b>214.8</b>	<b>26.1%</b>		

**BUSINESS**

*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	Non-acting services including drama series production supervising services	16.8	4.1%	Drama series production	2015
Supplier H	Artist performance services	15.1	3.7%	Drama series production	2020
<b>Total</b>		<b>111.9</b>	<b>27.3%</b>		

**BUSINESS**

*Year ended December 31, 2021*

<b>Supplier</b>	<b>Scope of Services/Goods provided</b>	<b>Purchase amount</b> <i>(RMB in millions)</i>	<b>% of total purchase</b>	<b>Supplier’s principal business</b>	<b>Commencement of business relationship</b>
Supplier I	Drama series planning, filming and production services	162.4	17.6%	Drama series production, distribution and consulting services	2017
Supplier G	Acting services and non-acting services including artistic supervising services, script development services and makeup 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
<b>Total</b>		<b>307.1</b>	<b>33.3%</b>		



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### *Three months ended March 31, 2022*

Supplier	Scope of Services/Goods provided	Purchase amount (RMB in millions)	% of total purchase	Supplier’s principal business	Commencement of business relationship
Supplier L	Artist performance services	13.6	14.1%	Drama series production	2019
Supplier E	Director services	5.0	5.2%	Drama series development and production	2016
Supplier M	Director services	3.8	3.9%	Drama series development and production	2019
Supplier N	Script development services	3.5	3.7%	Drama series development and production	2018
Supplier O	Content marketing services	3.0	3.1%	Online video platform	2016
<b>Total</b>		<b>28.9</b>	<b>30.0%</b>		

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.

Since our inception and up to the Latest Practicable Date, Supplier G provided both acting and non-acting services in “A Love for Separation” (小別離), “A Little Reunion” (小歡喜) and “Xiaomin’s House” (小敏家), and non-acting services in “A Little Dilemma” (小舍得). We paid Supplier G (i) acting services fee of RMB23.1 million for “A Love for Separation” (小別離) in 2015; (ii) acting services fee, drama series production supervising services fee, literature planning services fee and script development services fee of RMB36.6 million, RMB6.6 million, RMB0.5 million and RMB19.6 million, respectively, for “A Little Reunion” (小歡喜) in 2018 and content marketing related services fee of RMB8.8 million for “A Little Reunion” (小歡喜) in 2019; (iii) artistic supervising services fee of RMB16.8 million for “A Little Dilemma” (小舍得) in 2020; and (iv) acting services fee, artistic supervising services fee, script development services fee, makeup services fee and content marketing services fee of RMB19.6 million, RMB15.9 million, RMB9.4 million, RMB0.4 million and RMB1.9 million, respectively,

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for "Xiaomin's House" (小敏家) in 2021. The total purchase amount of Supplier G of RMB19.6 million for acting services in "Xiaomin's House" (小敏家) includes purchase amount of RMB18.9 million for acting services provided by Supplier G and RMB0.8 million for acting services provided by another actor managed by Supplier G. The total purchase amount of Supplier G of RMB49.0 million in 2021 includes purchase amount of RMB47.2 million for aforesaid artistic supervising services fee, acting services fee, script development services fee, makeup services fee and content marketing services as well as RMB1.8 million for share of revenue of content marketing services to Supplier G.

According to Frost & Sullivan, principal actors providing non-acting services is a common practice in the industry and, to its best knowledge, it is not aware of any market players in the industry being challenged and determined by the relevant authorities in violation of the relevant laws and regulations in respect of actor's remuneration. As advised by our PRC Legal Advisor, in relation to Supplier G, if the relevant authorities deem the non-acting services fees were part of actors' remuneration and determine that we are in violation of the relevant laws and regulations in respect of actor's remuneration, the NRTA may (i) suspend or cancel our drama series production license; and (ii) suspend or cancel the broadcasting of our relevant drama series "Little Reunion" (小歡喜) and "Xiaomin's House" (小敏家), upon which the two drama series may be required to be taken down from broadcasting channels. The amount of maximum exposure of variable consideration in relation to price adjustments arising from risk of all the aforesaid two drama series being taken down from broadcasting channels was RMB659 million, RMB659 million, RMB1,131 million and RMB1,100 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. As advised by our PRC Legal Advisor, considering that 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》) and the Circular of the National Radio and Television Administration on Further Strengthening the Administration of the Creation and Production of TV Series and Web Series (《國家廣播電視總局關於進一步加強電視劇網絡劇創作生產管理有關工作的通知》) make clear to restrict actors' remuneration only (which is consistent with the understanding of the competent officer of Shanghai RTA, with whom our PRC Legal Advisor interviewed in May 2022), it is considered that the possibility of non-acting services being deemed as part of the actors' remuneration by competent authorities to be remote. Therefore, the risk of the competent authorities suspending or cancelling the broadcast of the relevant TV drama series and suspend or cancel our Radio and TV Programs Production and Operation License is also remote. On the basis of (i) discussions with the PRC Legal Advisor in respect of the basis for its interpretation of "actor's remuneration" as restricted under the 2018 NRTA Notice and the 2020 NRTA Notice and (ii) the regulatory assurance provided by the officer of the Shanghai RTA, the Joint Sponsors concur with the PRC Legal Advisor's view that it considered the possibility of non-acting services being deemed as part of actors' remuneration by competent authorities to be remote and the risk of the competent authorities suspending or cancelling the broadcast of the relevant TV drama series and suspending or cancelling the Group's Radio and TV Programs Production and Operation License to thereby be remote.

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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.

### **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

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million in 2021; (ii) Customer E, one of our top five customers in 2020 and 2021, 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; and (iii) Customer A, one of our top five customers in 2019, 2020, 2021 and the three months ended March 31, 2022, was also one of our largest supplier (Supplier O) in the three months ended March 31, 2022 as it provided us with advertising spots on its online platforms for our content marketing services in the three months ended March 31, 2022. The relevant services we purchased from Customer A amounted to RMB3.0 million in the three months ended March 31, 2022.

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 and the three months ended March 31, 2022, the percentage of our total revenue attributable to our top five customers amounted to approximately 93.2%, 88.1%, 77.6% and 85.9% of our total revenue, respectively. During the same periods, the percentage of our total revenue attributable to our fifth largest, the largest, third largest and second largest customer in 2019, 2020 and 2021 and the three months ended March 31, 2022, Tencent Group, amounted to approximately 4.5%, 32.7%, 16.9% and 15.8%, respectively. According to Frost & Sullivan, the drama series broadcasting industry involves 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 2021, the revenue of Tencent group amounted to RMB560.1 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, 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.

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### 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 largest, third largest and second largest customer in 2019 and 2021 and three months ended March 31, 2022, respectively. Our revenue derived from Tencent Group amounted to RMB79.9 million, RMB466.7 million, RMB211.4 million and RMB74.2 million in 2019, 2020 and 2021 and three months ended March 31, 2022, respectively, accounted for approximately 4.5%, 32.7%, 16.9% and 15.8% of our total revenue in the same periods, respectively. We also procured from 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.

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

Nature of transactions	Year ended December 31,				Three months ended March 31,			
	2019		2020		2021		2022	
	% of our Group's (RMB in million) total revenue		% of our Group's (RMB in million) total revenue		% of our Group's (RMB in million) total revenue		% of our Group's (RMB in million) total revenue	
Drama series and movies copyrights licensing	–	N/A	450.7	31.6	180.7	14.5	74.0	15.7
Advertisement production and services	4.1	0.2	1.6	0.1	0.5	0.0	0.3	0.1
Music copyrights licensing	–	N/A	2.8	0.2	2.0	0.2	–	N/A
Made-to-order drama series production	73.1	4.1	–	N/A	28.2	2.3	–	N/A
Others	2.7	0.2	11.6	0.8	–	N/A	–	N/A
<b>Total</b>	<b>79.9</b>	<b>4.5</b>	<b>466.7</b>	<b>32.7</b>	<b>211.4</b>	<b>16.9</b>	<b>74.3</b>	<b>15.8</b>

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Revenue generated from Tencent Group fluctuated during the Track Record Period primarily in relation to the number of original drama series and movie we licensed to Tencent Group in each year. Revenue generated from Tencent Group increased significantly from 2019 to 2020 primarily due to the increase in drama series and movie copyrights licensing because we licensed “Nothing but Thirty” (三十而已) and “Monster Run” (怪物先生) to Tencent Group in 2020 but not in 2019, as partially offset by the decrease in revenue from made-to-order drama series in 2020 mainly because we produced “The King’s Avatar” (全職高手) for Tencent Group in 2019 but not in 2020. Revenue generated from Tencent Group decreased significantly from 2020 to 2021 primarily due to the decrease in drama series and movie copyrights licensing as we licensed “Nothing but Thirty” (三十而已) and “Monster Run” (怪物先生) to Tencent Group in 2020 while we only licensed “To Fly with You” (陪你逐風飛翔) to Tencent Group in 2021, as partially offset by the decrease in revenue from made-to-order drama series in 2021 mainly because we produced “Ancient Love Poetry” (千古玦塵) for Tencent Group in 2021 but not in 2020.

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

Nature of transactions	Year ended December 31,				Three months ended March 31,			
	2019		2020		2021		2022	
	% of our Group's total		% of our Group's total		% of our Group's total		% of our Group's total	
	(RMB in purchase million) amount		(RMB in purchase million) amount		(RMB in purchase million) amount		(RMB in purchase million) amount	
Procurement of Literature Works Copyrights	8.3	1.0	5.1	1.2	5.7	0.6	–	N/A
Procurement of the overseas distribution right of a drama series	–	N/A	–	N/A	6.0	0.6	–	N/A
<b>Total</b>	<b>8.3</b>	<b>1.0</b>	<b>5.1</b>	<b>1.2</b>	<b>11.7</b>	<b>1.2</b>	<b>–</b>	<b>N/A</b>

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During the Track Record Period, the revenue contribution from Tencent Group largely depends on our cooperation with 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	<b>Tencent Video</b>
Novoland: Eagle Flag (九州縹緲錄)	Original drama series jointly invested with 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, <b>Tencent Video</b>
Ancient Love Poetry (千古玦塵)	Made-to-order drama series produced by us upon request by Tencent Group	June 2021	<b>Tencent Video</b>
“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, <b>Tencent Video</b>
“Beyond” (超越)	Original drama series licenced to Tencent Group and produced by us	January 2022	CCTV, Dragon TV, Beijing TV, <b>Tencent Video</b> , 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



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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 Tencent Group**

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

- license the online broadcasting rights and distribution rights of our original drama series and movies to Tencent Group;
- produce customized creative advertisements for our drama series to be broadcast on Tencent video;
- license to 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 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 Tencent Group which are expected to continue after [REDACTED]. Our Directors are of the view that it is unlikely that our relationship with Tencent Group would be terminated or otherwise materially adversely changed, as we believe that our cooperation with Tencent Group are mutually beneficial and complementary.

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### 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 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 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 Tencent Group as illustrated above will not give rise to our reliance on 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 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.

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### 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) 276 trademarks, 274 of which are registered in the Mainland, China, 46 are pending approval; (ii) 265 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 51 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 Industry – We are subject to risks of piracy and intellectual property infringement" 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.

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### EMPLOYEES

As of March 31, 2022, we had 168 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 March 31, 2022:

Department	Number of Employees	Percentage
Content production	43	25.6%
Sales and marketing	78	46.4%
Finance and legal	16	9.5%
Research and development	10	6.0%
Human resources and administration	13	7.7%
Senior management	4	2.4%
Strategy and investment	4	2.4%
<b>Total</b>	<b>168</b>	<b>100.0%</b>

Our content production department comprise of personnel from our production team, script center and film center. As of March 31, 2022, 146 employees had bachelor’s degrees or above, accounting for 86.9% of our total employees, and 46 employees had master’s degree or above, accounting for 27.4% 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.

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

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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 and Industry – 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.

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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.



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### 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:



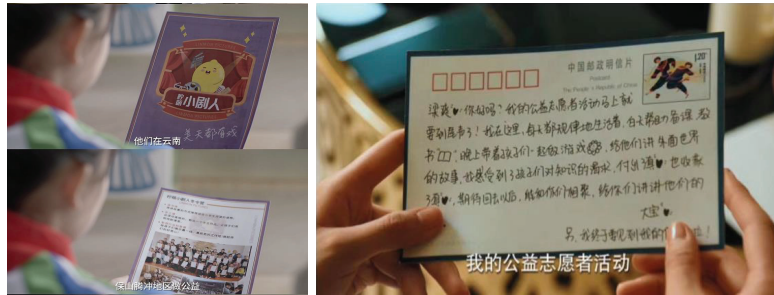
#### Public Welfare

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



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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. Although the general conditions of the COVID-19 outbreak had been substantially improved since the second half of 2020, there has been temporary, regional cases of COVID-19 in China. In March 2022, more than 30,000 COVID-19 asymptomatic and confirmed cases were recorded in Shanghai and Shanghai has been subject to lockdown restrictions as ordered by the government to contain the spread of the COVID-19 since April 1, 2022. In addition, in April 2022, more than 300 COVID-19 confirmed cases were recorded in Beijing.

### Our Precautionary Measures

In line with our continuing efforts to provide a safe and healthy working environment to our own employees, we have implemented the following measures in response to the outbreak of COVID-19:

- (i) precautionary measures for our offices:
  - circulating a memorandum to our employees for the purpose of reminding them the importance of good personal and public hygiene, suggesting our staff to monitor body temperature regularly;
  - requiring our employees to report to their supervisors or the human resources staff upon showing symptoms of infection (e.g. cough, shortness of breath), and seek immediate medical consultation;
  - requiring our employees to wear surgical masks and frequently use alcohol hand sanitisers;

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- disinfecting our office frequently, in particular areas with high human contacts, such as conference rooms and pantries; and
  - monitoring and keeping track of the development of the COVID-19 in China, and when necessary, updating the work from home policies, providing flexible working arrangement, and limiting non-essential business travel.
- (ii) precautionary measures for our drama series project sites:
- requiring our employees and third-party production service providers to wear surgical masks and reminding them of good personal and public hygiene when entering the drama series project sites;
  - reminding our employees and third-party production service providers to ensure and maintain a hygienic environment of the drama series project sites; and
  - requiring our employees and third-party production service providers to conduct COVID-19 tests regularly pursuant to local policies.

During the Track Record Period and up to the Latest Practicable Date, the total costs we spent for the precautionary measures and COVID-19 tests were less than RMB80,000. Our Directors are of the view that such costs did not materially and adversely affect our financial position.

### **Impact of the COVID-19 Outbreak on Our Group**

Pursuant to the lockdown arrangements, we arranged our employees in Shanghai to work from home due to the Shanghai Outbreak from March 14, 2022 to June 6, 2022. We also arranged our employees in Beijing to work from home due to the Beijing Outbreak from May 5, 2022 to May 30, 2022. Our Directors confirm that such arrangement did not materially and adversely affect our business operations and financial performance as of the Latest Practicable Date.

In addition, we also 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.

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Nonetheless, due to the Shanghai Outbreak, two of our original drama series projects which were under filming and pre-production were affected. Specifically:

- for the first original drama series which were under filming, we adjusted the shooting location from Shanghai to Shenzhen in May 2022 pursuant to our business contingency plan before entering into any agreements with the relevant local production service providers. Therefore, we have not incurred any actual cost or expect to incur any termination cost. In addition, the services of other services providers including, for example, actors and directors, are not affected as such services providers' provision of services are generally not subject to geographic restrictions. We expect such adjustments will not result in additional production costs as we engaged production service providers in Shenzhen with similar or more favorable pricing terms. We are required to deliver the drama series to our customer before December 31, 2023 pursuant to the relevant agreement and we expect we are able to deliver the drama series before the stipulated date. In addition, such drama series is expected to be broadcast in the fourth quarter of 2022 as we planned originally.
- for the second original drama series, we adjusted the shooting location from Shanghai to Qingdao and we postponed the commencement of filming from April 2022 to July 2022 pursuant to our business contingency plan. To prepare for the filming in Shanghai, we engaged third-party service providers for local services, including filming set decoration services, film studio rental services, accommodation services, and catering services, and we terminated such engagements due to our change of shooting location from Shanghai to Qingdao. As of the Latest Practicable Date, the actual costs and contract termination costs we incurred due to the COVID-19 pandemic amounted to approximately RMB3.7 million. Nonetheless, the services of other services providers including, for example, actors and directors, are not affected as such services providers' provision of services are generally not subject to geographic restrictions. In addition, we expect such adjustments and termination of agreements will not incur significant additional production costs as we plan to engage production service providers in Qingdao with similar or more favorable terms. We are required to deliver the drama series to our customer before June 30, 2024 pursuant to the relevant agreement and we expect we are able to deliver the drama series to our customer before the stipulated date. In addition, such drama series was originally planned to be broadcast in the fourth quarter of 2022 and is now expected to be delayed to be broadcast in the first quarter of 2023.

Our Directors confirm that we still expect to deliver the above two original drama series pursuant to the relevant agreements with our customers and the above adjustments did not materially and adversely affect our business operations and financial performance.

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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.

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 and further to RMB559.0 million and RMB279.5 million in 2021 though our revenue decreased from RMB1,794.2 million in 2019 to RMB1,426.2 million in 2020 and further to RMB1,249.0 million in 2021. In the three months ended March 31, 2022, our revenue, gross profit and adjusted net profit (a non-HKFRS measure) increased as compared to the same period in 2021. Our Directors confirmed that, the COVID-19 pandemic did not have any material adverse impact on our business and results of operations during the Track Record Period and up to the Latest Practicable Date, 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.

To the best knowledge of our Directors, as of the Latest Practicable Date, the Shanghai Outbreak and the Beijing Outbreak did not materially and adversely affect our customers’ business operations as the business of our customers (primarily online video platforms and major domestic TV channels) is online in nature. To the best knowledge of our Directors, as of the Latest Practicable Date, the Shanghai Outbreak and Beijing Outbreak may affect certain of our suppliers based in Shanghai and Beijing to a certain extent and we are able to engage alternative suppliers located at other locations with similar or more favorable terms.

## 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 27 properties in the PRC mainly in Beijing and Shanghai, with an aggregate gross floor area of 9,449.1 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

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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

We are subject to legal proceedings, disputes and claims that arise in the ordinary course of business. One of the Consolidated Affiliated Entities of our Company, Dongyang Linmon Kaixin, was involved in a legal proceeding brought by a PRC commercial bank (the “**Plaintiff**”) in January 2021 against a movie and drama series production and distribution company (the “**Defendant**”), which is one of our suppliers principally engaged in provision of movie and drama series filming, production and distribution and other relevant services. The Defendant has entered into a loan agreement with the Plaintiff, under which the loan of RMB8 million was secured by its trade receivables from Dongyang Linmon Kaixin for drama series production service provided by the Defendant including planning, site setting, filming and post-production of drama series which was specified in the service agreement entered into between the Defendant and Dongyang Linmon Kaixin. Dongyang Linmon Kaixin was obliged to make the payment in relation to the trade receivables to the bank account designated by the Plaintiff directly. However, the payment was inadvertently made to the Defendant by Dongyang Linmon Kaixin in 2020. In October 2021, the court ordered upon consideration that (i) the Defendant returns the outstanding principal amount of approximately RMB7.88 million and pays the relevant interests to the Plaintiff, and (ii) Dongyang Linmon Kaixin bears the joint liabilities with the Defendant. In November 2021, Dongyang Linmon Kaixin proceeded with an appeal to Shanghai Financial Court. In May 2022, the Shanghai Financial Court dismissed the appeal and upheld the original judgment.

Taking into account of the maximum exposure in relation to the proceedings, we prudently made a provision for the present obligation under the joint liabilities of Dongyang Linmon Kaixin based on the Plaintiff’s request and ruling of the first instance by court. The provision mainly reflected the outstanding principal amount and the relevant interests, amounting to RMB7.9 million and RMB8.6 million as of December 31, 2020 and 2021, which we believe did not and will not have a material adverse effect on our business, financial condition and results of operations. We have maintained active communication with the relevant party regarding the specific enforcement of the aforesaid judgment in order to protect our legal rights and interests and the negotiation was still in progress as of the Latest Practicable Date. We may decide to pursue repayment from the Defendant if any joint liability is born by Dongyang Linmon Kaixin.

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Except as disclosed above, 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.

### 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.

The NRTA 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 (the “**2021 NRTA Notice**”) 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, since the issuance of the 2021 NRTA Notice 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, except for one drama series “Chronicle of Life” (寂寞空庭春欲晚) co-invested by us as a non-executive producer in 2016, in which Zheng Shuang participated as a major cast member. In August 2021, the NRTA issued the Notice to Strictly Manage Actors and Relevant Institutions (《嚴肅處理違法違規演藝人員和相關機構》). This notice specifically requires all the programs (including drama series) in which Zheng Shuang participated are required to be taken down from all broadcasting channels. As such “Chronicle of Life” (寂寞空庭春欲晚) was taken down by both of the two relevant online video platform customers since then. As “Chronicle of Life” (寂寞空庭春欲晚) was first broadcast in 2016, all revenue from the licensing of such series (including first-run and re-run) had been fully recognized in 2016 after the delivery of the master tape of the drama series pursuant to our revenue recognition policy. The licensing period of “Chronicle of Life” (寂寞空庭春欲晚) granted to all of our customers has expired, except for two online video platform customers (the “**Relevant Customers**”). The



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licensing period of “Chronicle of Life” (寂寞空庭春欲晚) granted to the Relevant Customers was seven years from 2016 to 2023. We used expected value method to estimate the amount of variable consideration for the expected price adjustments and concluded the estimated amount for the price adjustments is not material. See “Financial Information – Critical Accounting Policies and Estimates – Revenue Recognition – (a) Licensing of broadcasting rights of original drama series” for details.

Pursuant to the Relevant Customers’ broadcasting rights licensing agreements with us, in the event the broadcast of the drama series was prohibited, the Relevant Customers may elect to (i) extend the licensing period of other drama series we licensed to them; or (ii) terminate the agreements and require us to reimburse the licensing fees with respect to the remaining licensing period. We proactively negotiated with one customer and granted them with an extended licensing period of another original drama series of us, namely, the “Legend of Fuyao”, from June 17, 2028 to November 22, 2029. As of the Latest Practicable Date, we had not received any feedback from the other customer. We engaged a PRC legal advisor to evaluate the risks of us being subject to reimbursement to the other customer regarding this matter. The PRC legal consultant concluded that (1) the maximum amount of reimbursement we may be subject to with respect to such customer is the licensing fees for remaining licensing period of this drama series and penalties of no more than 30% of the licensing fees for the remaining licensing period and (2) this customer is required to exercise its contractual rights to extend or terminate the agreement by August 2022 (within one year after it became aware of the drama series being taken down from its platform or such right will lapse pursuant to the Civil Codes of the PRC). Accordingly, we estimate that the maximum amount of reimbursement we may be subject to with respect to such customer amount to approximately RMB8.5 million. No provision has been made considering that (i) such amount is immaterial to our overall financial conditions, and (ii) even if the customer requests such reimbursement, our trade receivables due from such customer which was fully impaired in prior years before the Track Record Period can be used by us to offset the reimbursement claimed by such customer, and therefore we do not expect such amount will have any material impact to our cash flows and operating results. As of the Latest Practicable Date, we did not receive any reimbursement requests from the two customers and was not subject to any investigations, lawsuits or legal proceedings in connection with “Chronicle of Life” (寂寞空庭春欲晚). Based on the foregoing, our Directors are of the view that we had not been adversely and materially affected by such matter, nor are we aware of any potential material adverse impacts arising from any alleged or know involvement of key personnel in illegal or immoral acts.

To mitigate the risks going forward, we require all our agreements with all the actors and directors to include a negative publicity clause stating that we are entitled to seek reimbursement of the amount of service fees we pay to such actor or director in the event any lawsuits, personal misbehaviors, rumors or negative news related to them affected our distribution of the relevant drama series.

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



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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 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.

### *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 November 2018, with an aim to standardize the local tax filing practice, the local tax administration in Horgos verbally notified us that entities incorporated in Horgos were required 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, 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

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revenue shown on its income tax filings. Such difference was mainly due to the fact that Horgos Linmon Black Tea had already recognized the revenue derived from the relevant services but did not issue the corresponding tax invoices or include the revenue corresponding to the unissued invoices as part of its revenue for VAT filing purpose at the time of VAT filings due to inadvertent oversight of the relevant accounting personnel.

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 (because our VAT filings made for the month ended September 30, 2018 did not include the relevant amount of revenue for which we should have issued VAT invoices and hence we re-submitted the adjusted VAT filings for the same month) and paid up the VAT of RMB18.79 million and VAT surcharges of RMB2.26 million on November 5, 2018, which were deducted in the first quarter of 2019 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 June 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 March 31, 2022. Our PRC Legal Advisor is of the view that the Horgos Tax Administration is the competent tax authority to issue such certifications.

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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 March 31, 2022.

### *2019 Tax Compliance Self-check*

#### Background

##### 2010 – 2018

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, to boost the economic development of the Horgos, where the development of the culture, tourism, business logistics and high-tech industries are prioritized in Horgos. Companies established in the Horgos Economic Development Zone falling within the scope of afore-said key encouraged industries are entitled to claim a preferential treatment of a five-year EIT exemption.

Horgos Linmon and Horgos Linmon Black Tea were established in 2016 and 2017, respectively, to engage in the investment, production and distribution of drama series. Since the principal businesses of Horgos Linmon and Horgos Linmon Black Tea fall within “radio, film and television production, distribution, transaction, broadcasting, publishing, and derivative development” under the category of cultural services in the key encouraged industries, Horgos Linmon and Horgos Linmon Black Tea can legitimately enjoy the preferential tax treatment in Horgos for five years after the establishment.

On this basis, we intended to transfer our corresponding profits from distribution of certain drama series to Horgos Linmon and Horgos Linmon Black Tea by way of legitimate tax planning arrangements through structuring intra-group transactions, so as to fully enjoy the preferential tax treatment in Horgos. As advised by Frost & Sullivan, the arrangement of setting up a company in Horgos to shift profits into such Horgos-established entity to enjoy the preferential tax treatment became a popular choice in the PRC film and television industry upon the introduction of such favorable government policies.

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### After 2018

Since the relevant preferential tax policy had been implemented for a few years, it is witnessed that there has been a rapid growth in the number of companies established in Horgos. In 2018, the Horgos tax authority began to tighten its administration on the application of relevant preferential tax policy by emphasizing on the actual function and risk allocation in the transfer pricing arrangements between the Horgos-established companies and their related parties. The Horgos tax authority thereby notified a large number of film and television culture companies to conduct tax self-check with a focus on transfer pricing issues. This also coincided with the State Tax Administration's tightening its administration to gradually promote better tax supervision over the film and television industry by undertaking self-check and self-correction.

Accordingly, 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).

Against the background of the tightened tax administration, after reviewing the transactions between Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon, we found that, in practice, the actual personnel and capital funding arrangements were not strictly in line with the function and risk arrangements intended under the original tax planning, and thereby deviated from the original tax planning arrangement (the "**Deviations**") with respect to four of our original drama series, namely "Legend of Fuyao" (扶搖), "Novoland: Eagle Flag" (九州縹緲錄), "Fighter of the Destiny" (擇天記) and "Only Side by Side with You" (南方有喬木). Therefore, we adjusted and corrected the transfer price of the intra-group transactions and voluntarily paid the relevant underpaid taxes and surcharges.

### Details of the Tax Planning Arrangement

According to the contracts entered into among Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon (and in the case of co-investment drama series, also with the third-party co-investors) between 2016 to 2018 with respect to the four original drama series, Horgos Linmon and Horgos Linmon Black Tea agreed to contribute the majority of the investment amount as well as to lead the production of the four original drama series, and to lead the distribution of one original drama series. Accordingly, we recorded revenue and cost in proportion to the respective investment contributions of and services contemplated to be provided by Horgos Linmon and Horgos Linmon Black Tea in accordance with the stipulated contractual obligations, and Horgos Linmon and Horgos Linmon Black Tea claimed the preferential tax treatment in Horgos.

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### Details of the Deviations

We planned to and made efforts to arrange our personnel and capital funding in line with the function and risk arrangements intended under the above tax planning but did not achieve the intended purposes due to practical difficulties. As confirmed by our PRC Legal Advisor, as the preferential tax treatment policies in Horgos lacked detailed stipulations as to the requirements on personnel and capital funding arrangements at the time, our financial staff made the relevant arrangements at that time based on their interpretation of how personnel or capital funding arrangements should be made and did not regard the Deviations as falling short of the requirements under the preferential tax treatment policies in Horgos.

With the tightening of the administration of the preferential tax policies in Horgos, the local tax authorities have imposed more stringent requirements in examining the functions and risks borne by Horgos Linmon and Horgos Linmon Black Tea when carrying out the investment and distribution functions. Upon reviewing the implementation of the relevant tax planning arrangements in light of the stricter interpretation of the relevant policies subsequently applied, we made the relevant tax adjustments given the functions and risks borne by Horgos Linmon and Horgos Linmon Black Tea did not entirely correspond to the profits allocated to them.

Details of the Deviations in respect of the specific aspects of the investment and distribution functions are set out as follows:

(i) Personnel

Since the inception of Horgos Linmon and Horgos Linmon Black Tea, we planned to re-locate certain employees from Shanghai Linmon to Horgos Linmon and Horgos Linmon Black Tea as well as to recruit local employees in Horgos to carry out the investment and distribution of original drama series. However, due to the practical difficulties (including relevant employees' preference to be based in Shanghai and the difficulties to identify and recruit suitable local employees), Shanghai Linmon assigned nine of its employees to Horgos Linmon and Horgos Linmon Black Tea to carry out the investment and distribution of drama series projects. The total staff costs involved were RMB2.9 million, RMB2.3 million, RMB3.5 million and RMB3.9 million, respectively, in 2016, 2017, 2018 and 2019. As advised by our PRC Legal Advisor, such assignment is in compliance with the applicable PRC employment laws and regulations and it is common for parent companies and subsidiary companies to have such employment arrangements in China to enable subsidiaries to have necessary personnel for operation.

The relevant preferential tax policies at Horgos did not stipulate how the personnel arrangements are required to be made in such details, and accordingly, our finance staff, on the basis of their interpretation of the requirements of the policy, did not regard the Deviations as falling short of the requirements in such tax policies. Nevertheless, in light

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of the tightened administration and upon conducting the 2019 Tax Compliance Self-check, it was identified that Shanghai Linmon's employee assignment weakens the position of Horgos Linmon's and Horgos Linmon Black Tea's investment and distribution functions of the relevant original drama series from a transfer pricing perspective.

(ii) Decision-making process

The decision-making process for the operations and management of Horgos Linmon and Horgos Linmon Black Tea were set up independently from the other members of our Group. Horgos Linmon and Horgos Linmon Black Tea have the corporate power and capacity to independently make decisions with regard to the investment, production and distribution of drama series projects, while they are required to follow our Group's internal procedural requirements to report to their parent company in relation to other general corporate matters. Shanghai Linmon has the overarching approval rights as the parent company of Horgos Linmon and Horgos Linmon Black Tea in relation to the general corporate matters. However, certain decision-making processes of Horgos Linmon and Horgos Linmon Black Tea at the relevant time were found not to be evidenced with adequate written proof, which may also affect the strength of the position that all major functions and risks were clearly borne by Horgos Linmon and Horgos Linmon Black Tea.

(iii) Capital funding

Film and television production companies typically finance the investment of drama series or film projects through bank facilities. In line with the industry norm, we intended that Horgos Linmon and Horgos Linmon Black Tea would fund the capital investment for the four original drama series through bank financings. Horgos Linmon applied for a credit facility in 2017 but could not obtain the same as the relevant bank was of the view that the financial performance of Horgos Linmon did not meet the credit facility approval requirement yet.

Therefore, Horgos Linmon and Horgos Linmon Black Tea sought to borrow the investment amount from Shanghai Linmon by way of an intra-group loan. Such intra-group loan is interest-free and was recognized as other receivables on the accounts of Shanghai Linmon and other payables on the accounts of Horgos Linmon and Horgos Linmon Black Tea. As advised by our PRC Legal Advisor, such intra-group loan transactions do not violate the prohibitive provisions of the applicable PRC laws and regulations. However, as Horgos Linmon and Horgos Linmon Black Tea did not enter into any loan agreement with Shanghai Linmon that stipulates the loan interest and the loan term, from a PRC transfer pricing perspective, the relevant original drama series were concluded to be principally funded by Shanghai Linmon, rather than funded by Horgos Linmon and Horgos Linmon Black Tea through intra-group loans. This deviated from the original contemplated function of Horgos Linmon and Horgos Linmon Black Tea under the tax planning scheme to contribute a majority of the capital investment for the relevant original drama series.



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The relevant preferential tax policies at Horgos did not stipulate how the capital funding arrangements are required to be made in such details, and accordingly, our finance staff, on the basis of their interpretation of the policy, did not regard the Deviations as falling short of the requirements in such preferential tax policies at the time. Nonetheless, Horgos Linmon and Horgos Linmon Black Tea have continued to try to and Horgos Linmon successfully obtained banking facilities in 2018, and subsequently made capital investment in “Novoland: Eagle Flag” (九州縹緲錄) using such funds obtained itself through the banking facilities, rather than entirely relying on the funding from Shanghai Linmon.

### Rectification Measures

During the 2019 Tax Compliance Self-check, we reviewed the implementation of the relevant tax planning arrangements in light of the stricter interpretation of the relevant policies subsequently applied and adjusted the profits previously attributed to the relevant functions and risks among our Group entities and paid the relevant underpaid taxes in full following the 2019 Tax Compliance Self-check. Such adjustment and payments were acknowledged by the competent tax authorities. In addition, it was also concluded that the profits from “Novoland: Eagle Flag” (九州縹緲錄) are not required to be adjusted as it was concluded that no adjustments in profits and income taxes have to be made for such drama series. The details of all adjustments made on our Group’s profits and corresponding income taxes based on the relevant functions and risks among Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea are set forth below:<sup>(1)</sup>

	<b>Adjustment in profits</b>			<b>Corresponding adjustment to income taxes</b>
<b>Horgos Linmon</b>	<b>Horgos Limon Black Tea</b>	<b>Shanghai Linmon<sup>(1)</sup></b>	<b>Our Group<sup>(2)</sup></b>	
	<i>(RMB’000)</i>			
(150,360)	–	150,360		37,590
–	(147,038)	147,038		36,758
	<b>Total</b>	<b>297,398</b>		<b>74,348</b>

*Notes:*

- (1) Shanghai Linmon shall be the Group entity to recognize the relevant revenue after adjustment.
- (2) The corresponding income tax adjustment of our Group shall be at 25% (common enterprise income tax rate in PRC) of income recognized in Shanghai Linmon after the adjustment, as the Horgos entities enjoyed tax preference prior to the adjustments.



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**Adjustment in  
Shanghai Linmon's  
deductible tax  
items<sup>(1)</sup>  
(RMB'000)**

Deductible tax items	(10,575)
Corresponding adjustment to income taxes	2,644

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*Note:*

- (1) The RMB10.6 million adjustment shown in the table above represents the amount of adjustment made to the deductible tax items of Shanghai Linmon, and did not have any impact on the income statement or profits of Shanghai Linmon.

The total enterprise income tax of our Group payable upon the 2019 Tax Compliance Self-check, being RMB76.99 million, comprised the corresponding income tax arising from the adjustment in revenue allocated from Horgos Linmon and Horgos Linmon Black Tea to Shanghai Linmon, being RMB74.35 million, and the corresponding income tax arising from a decrease in deductible tax items, being RMB2.64 million. We made up the total enterprise income tax of RMB76.99 million and surcharge for overdue tax payment of RMB2.8 million by April 23, 2019 without being subject to any legal or administrative penalties from the competent tax authorities.

### Tax Authority's Confirmations

In August 2021, our PRC Legal Advisors conducted an in-person interview 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), which is the competent officer and authority for the purposes of tax matters of (among others) Shanghai Linmon as confirmed by our PRC Legal Advisors. Such officer confirmed that (i) they were aware of the 2019 Tax Compliance Self-check; (ii) since 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.

In March 2022, our PRC Legal Advisors conducted an in-person interview with the relevant officer of the Taxpayer Service Department of the State Tax Administration, which is the competent officer and authority for the purposes of tax matters of (among others) Shanghai Linmon, Linmon Yuexin, Linmon Kaixin, Horgos Linmon and Horgos Linmon Black Tea as confirmed by our PRC Legal Advisors. During the interview:

- (i) the officer was specifically informed of the three tax compliance self-checks (including the 2019 Tax Compliance Self-check) and the transactions that led to the payment of tax and surcharges;

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- (ii) the officer confirms that tax compliance self-checks are not formal investigations or administrative penalties or indicative of tax violations; and
- (iii) the officer also confirms that there will be no investigations or administrative penalties on our Group in the future absent of evidence showing malicious intent. The officer pointed out that a finding that the relevant parties have malicious intent is required to determine if the relevant conduct constitutes tax evasion. The fact that the tax authorities have accepted our Group's conducting of the tax compliance self-checks and subsequent payment of the underpaid taxes and surcharges without further enquiries demonstrates the tax authorities' determination that our Group did not have any malicious intent to evade tax. Absent a finding of malicious intent, our Group's conduct does not constitute tax evasion and therefore there will be no formal investigations or administrative penalties on our Group in the future.

### Directors' View

Our Directors confirm that:

- (i) The Deviations do not constitute fraudulent behavior or tax evasion on the part of Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea.

The Directors reasonably believed that it was feasible for Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon to carry out legitimate tax planning arrangements and to perform the relevant contracts as agreed for the tax planning purpose: (i) the tax planning arrangement was implemented in a manner which we believed to be consistent with the local practice generally adopted in Horgos without challenges from tax authorities prior to the 2019 Tax Compliance Self-check and our Group intended to and made efforts to actualize the contractual contemplation but could not achieve the intended purposes in the manner originally intended; and (ii) the Deviations did not arise from any fraudulent behavior or malicious intention of tax evasion of our Group, and this is also demonstrated by the fact that no administrative penalties have been imposed on Shanghai Linmon, Horgos Linmon, Horgos Linmon Black Tea as a result of the Deviations by the tax authorities. More importantly, as the preferential tax treatment policies in Horgos lacked detailed stipulations on the requirements on personnel and capital funding arrangements at the time, the relevant finance staff of our Group could only rely on their interpretation of the policy and did not regard the Deviations as falling short of the requirements of the preferential tax treatment policies in Horgos.

Neither Shanghai Linmon nor Horgos Linmon or Horgos Linmon Black Tea provided any false information or conducted fraudulent behavior in entering into contracts with third parties (including service providers, customers or other external parties). In particular, (a) the co-investors of the relevant drama series were aware of the facts that Horgos Linmon or Horgos Linmon Black Tea were the contracting parties contemplated to be responsible for the investment and, in the case of one drama series,

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distribution of the relevant drama series projects. Horgos Linmon or Horgos Linmon Black Tea (as applicable) performed their respective obligations under the relevant contracts through contributing to the investment of the relevant drama series using funds transferred from Shanghai Linmon and through the assignment of employees from Shanghai Linmon; and (b) the production services providers for the relevant drama series were aware of the fact that Horgos Linmon or Horgos Linmon Black Tea were responsible for the production function.

Neither Shanghai Linmon nor Horgos Linmon or Horgos Linmon Black Tea has provided any false information to, concealed information from or deceived the tax authorities in connection with the tax planning arrangements in question as elaborated below.

The relevant officer of the Taxpayer Service Department of the State Tax Administration also confirmed in the interview on March 28, 2022 that tax compliance self-checks are not formal investigations or administrative penalties or indicative of tax violations and the fact that the tax authorities have accepted our Group's conducting of tax compliance self-checks and subsequent payment of the underpaid taxes and surcharges without further enquiries demonstrates the tax authorities' determination that our Group did not have any malicious intent to evade tax.

(ii) Our Directors were not involved in the actual implementation of the tax planning arrangement in question and were not made aware of any material tax risks with respect to the intragroup transactions.

In practice, the accurate implementation of tax planning arrangements rely in part on there being not only personnel of specialized knowledge in PRC tax laws and practice of transfer pricing, but also an accurate interpretation of the relevant tax policies on the basis of, for example, detailed stipulations in the policies or clear guidance from the authorities otherwise, or the prior experience of the relevant personnel having dealt with similar matters. The initial implementation of the tax planning arrangement, which primarily involved decisions related to the day-to-day operations of our Group (e.g. decisions made on hiring and borrowing of bank loans), was primarily driven by our finance staff.

We had originally planned to follow the tax planning arrangements and had to change how the implementation of the plan was done given the practical difficulties we faced. Given the relevant policies did not stipulate detailed requirements on how personnel or capital funding should be arranged in order to claim the tax preference, the finance staff could only rely on their interpretation of the tax policies to implement the tax planning scheme and reasonably believed that the Deviations would not disqualify Horgos Linmon and Horgos Linmon Black Tea from claiming the preferential tax treatment in Horgos and recorded revenue and cost in proportion to the respective investment contributions of and services contemplated to be provided by Horgos Linmon and Horgos Linmon Black Tea in accordance with the stipulated contractual obligations. On the basis of such belief, the finance staff did not consider the Deviations to pose a

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material tax risk warranting the reporting of the same to our Directors, and, only with the benefit of hindsight and in light of the tightened tax administration, the Deviations were later found in the 2019 Tax Compliance Self-check to not meet the requirements to claim the preferential tax policies.

Also, we believe that, at the time, it was rather common for media companies to establish its subsidiaries in Horgos to benefit from the tax relief and face the same difficulties as Horgos Linmon and Horgos Linmon Black Tea in terms of recruiting local talents in Horgos or their Horgos entities obtaining financing independently, which indicates that it might be a prevalent practice generally within the media industry to carry out the business operations of their Horgos entities in similar manner as that of Horgos Linmon and Horgos Linmon Black Tea, and that our finance staff's interpretation of the policy at the time was also consistent with market practice. In addition, neither the PRC auditors of our Group at the time nor the tax authorities raised any enquiries or challenges over the intragroup transactions arrangement prior to the 2019 Tax Compliance Self-check, which would have otherwise raised the Directors' attention to such arrangements as well.

(iii) It is legitimate and feasible for our Group to utilize the relevant preferential treatment in Horgos through the tax planning arrangement.

- As advised by our Tax Counsel, our Group can enjoy the relevant preferential tax treatments legitimately. The businesses of Horgos Linmon and Horgos Linmon Black Tea fall within "radio, film and television production, distribution, transaction, broadcasting, publishing, and derivative development" under the category of cultural services in the key encouraged industries and no other regulatory requirement need to be fulfilled by our Group.
- There was reasonable basis for our Group to allocate the relevant revenue or cost to Horgos Linmon and/or Horgos Linmon Black Tea in line with the contractual obligations and risks:
  - with respect to production, Horgos Linmon and Horgos Linmon Black Tea engaged third-party production services providers to set up a filming team to complete the shooting and engaged professional service providers to carry out postproduction. Moreover, Horgos Linmon and Horgos Linmon Black Tea entered into services agreements with service providers or assumed the obligation to pay the relevant production services providers, pursuant to which Horgos Linmon and Horgos Linmon Black Tea assumed the contractual obligations and risks therein, and incurred the relevant costs and expenses of original drama series production.

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- with respect to distribution of “Fighter the Destiny” (擇天記) in which the distribution function was originally contemplated to be undertaken by Horgos Linmon, Horgos Linmon’s registered business scope include “the production, operation and distribution of radio and television programs”, and it held a license of radio and television program production and operation (廣播電視節目製作經營許可證) at the relevant time. Therefore, Horgos Linmon has been duly qualified to carry out original drama series distribution. Moreover, the relevant joint investment agreements entered into between Horgos Linmon and other co-investors explicitly provide that Horgos Linmon shall act as the distributors of the relevant original drama series. Horgos Linmon also had distribution rights and assumed distribution obligations and risks pursuant to the relevant distribution agreements entered into with online video platforms for such drama series.
- with respect to investment, firstly, Horgos Linmon and Horgos Linmon Black Tea did enter into joint investment contracts with co-investors, pursuant to which Horgos Linmon and Horgos Linmon Black Tea assumed the corresponding contractual obligations and investment risks, and therefore, this could form the basis for the allocation of the relevant profits to Horgos Linmon and Horgos Linmon Black Tea. Secondly, although Horgos Linmon and Horgos Linmon Black Tea could not obtain credit facilities at first, they have continued to try to and Horgos Linmon successfully obtained banking facilities in 2018, and subsequently made capital investment in “Novoland: Eagle Flag” (九州縹緲錄) using such funds it obtained through the banking facilities, rather than entirely relying on the funding from Shanghai Linmon.

Accordingly, there is reasonable basis for our Group to allocate the relevant revenue or cost to Horgos Linmon and/or Horgos Linmon Black Tea from the perspectives of production, distribution and investment at the time of recognition because:

- (a) the preferential tax treatment policies in Horgos did not specify the detailed requirements on personnel and capital funding arrangements, which were the subject of interpretations by the tax authorities in 2019. Also, we believe that, at the time, it was rather common for media companies to establish its subsidiaries in Horgos to benefit from the tax relief and face the same difficulties as Horgos Linmon and Horgos Linmon Black Tea in terms of recruiting local talents in Horgos or their Horgos entities obtaining financing independently, which indicates that it might be a prevalent practice generally within the media industry to carry out the business operations of their Horgos entities in similar manner as that of Horgos Linmon and Horgos Linmon Black Tea.

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- (b) the relevant finance staff of Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea did not regard the Deviations as falling short of the requirements under the preferential tax treatment policies in Horgos and therefore recorded the revenue and cost of the relevant Group entities in accordance with the stipulated contractual obligations. Our PRC auditors that audited the financial statements of Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea at the time did not raise any issues with respect to such recognition of revenue and cost at the relevant time. More importantly, the recognition of revenue and cost of Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea in the respective period did not affect the consolidated financial performance of our Group as to revenue and costs.
  - (c) Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea made relevant disclosure in their respective tax filings to the relevant tax authorities with respect to the tax planning arrangement in question. Our Group has not concealed information from the tax authorities, while on the contrary, relevant information has been provided to the tax authorities. Our Company also confirms that no misleading information has been submitted to the relevant tax authorities by Shanghai Linmon, Horgos Linmon or Horgos Linmon Black Tea. Our Group was not subject to challenge by any tax authorities in relation to the tax planning arrangement and the Deviations prior to the 2019 Tax Compliance Self-check.
- Our Group has not provided any false information to, concealed information from or deceived the tax authorities in connection with the tax planning arrangements.

We confirm that Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon submitted true and accurate information of the intra-group transactions to the relevant tax authorities, which was set out in their respective single entity PRC audited financial statements submitted as part of the tax filing submission. In addition, Horgos Linmon and Horgos Linmon Black Tea also submitted (i) its income, cost and expenses in its annual enterprise income tax filings, (ii) information in relation to employee status and wages paid (if any) in its individual income tax payment record; and (iii) its shareholding relationship with Shanghai Linmon in its tax registration. The local tax authorities also, from time to time, communicate verbally with Horgos Linmon, Horgos Linmon Black Tea and Shanghai Linmon and have the right to request for access to all the relevant contracts, invoices and other related documents and information. To enjoy the tax preferential treatment, Horgos Linmon and Horgos Linmon Black Tea have also filed a list setting out the preferential income tax relief (減免所得稅優惠明細表) in their annual

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enterprise income tax filings each year to the relevant tax authorities. Therefore, based on the information provided through tax filings and tax e-system, Shanghai Linmon, Horgos Linmon and Horgos Linmon Black Tea have in the past submitted all requisite information for their respective tax filings, which included those information that was relevant to the Deviations.

Nevertheless, our Company's conduct with respect to its intragroup transactions was never challenged by any tax authorities before the 2019 Tax Compliance Self-check. Moreover, our Company has not been imposed any administrative penalty arising from or in relation to the relevant adjustment and payment of underpaid taxes as a result of the 2019 Tax Compliance Self-check.

- The Deviations and the payment of underpaid taxes after the 2019 Tax Compliance Self-check would not negate the legitimacy and feasibility of the tax planning arrangement

The transfer pricing arrangements of intra-group transactions fall within the anti-tax avoidance rules of the PRC tax laws. If a company's intra-group transactions comply with the arm's length principle, they will be treated as a legitimate tax planning arrangement, but if they fail to comply with the arm's length principle, they would be determined to be a tax avoidance arrangement in violation of China's transfer pricing rules. According to PRC tax laws, non-compliant transfer pricing arrangements shall be subject to transfer pricing adjustments, which necessitate the payment of additional taxes, but no existing PRC tax laws stipulate that intra-group transactions which violate the arm's length principle would constitute tax evasion or provide that the consequent tax adjustment constitutes an administrative penalty. As further elaborated in the sub-section headed "– Tax Counsel's Analysis, Key Findings and Views", the Tax Counsel has reviewed the intra-group transactions of our Group in relation to the 2019 Tax Compliance Self-check and is of the view that it is unlikely such transactions (as adjusted) would be subject to further transfer pricing adjustment as they were comparable to those under transactions with independent third parties and the overall profit margin of Horgos Linmon and Horgos Linmon Black Tea were comparable to other independent companies in the film and television industry post the adjustment.

In addition, as advised by the Tax Counsel, in practice, a finding that the relevant parties have malicious intent is required for the State Tax Administration to rule that the relevant conduct constitute tax evasion. Our Group planned to and made efforts to arrange the personnel and capital funding in line with the function and risk arrangements intended under the original tax planning scheme, but could not achieve the intended purposes due to the Deviations. The tax planning arrangement in question in relation to the 2019 Tax Compliance Self-check stemmed from a reasonable and legitimate



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intention to make use of the preferential tax treatment in Horgos, without an intention to maliciously underpay taxes. Therefore, the Tax Counsel is of the view that our Group's conduct did not fall within any of the three categories of tax evasion behaviors, nor did our Group have the malicious intent to conduct tax evasion. Therefore, the Tax Counsel is of the view that the intra-group transactions in relation to the 2019 Tax Compliance Self-check shall not constitute violations under PRC tax laws that are subject to administrative penalties. In terms of PRC tax practice, the Tax Counsel is not aware of any precedents where PRC tax authorities treated transfer pricing arrangements as tax evasion or imposed administrative penalties thereon.

- (iv) Tax compliance self-checks are not formal investigations or indicative of tax evasion.

The PRC tax laws do not prescribe specific procedures applicable to tax compliance self-checks and therefore, a tax compliance self-check is a process that is largely driven by common practice in the PRC. In PRC tax practice, tax compliance self-checks typically refer to a process whereby, with or without the tax authorities' recommendations, taxpayers voluntarily conduct a check on whether there is any non-compliance or inappropriate tax filing issue regarding their tax payments and other tax related matters during a specific period of time, and taxpayers subsequently correct any non-compliance or inappropriate tax filing issues identified.

In practice, in circumstances where the tax compliance self-checks are initiated by the taxpayers based on a tax authority's recommendations, taxpayers would typically receive a verbal notice from the tax authority requesting them to conduct the self-checks. Certain tax authorities would issue a Notice of Tax Matters (《稅務事項通知書》) to notify a taxpayer to conduct the self-check. During the process of the tax compliance self-checks, the tax authorities would not normally specify any specific tax treatment for the potential tax issues or any desired amount of taxes to be paid by the taxpayers upon the self-check. Instead, the taxpayers pay the underpaid taxes (if any) according to the result of their own self-checks.

According to the relevant regulations issued by the State Tax Administration, if taxpayers voluntarily make corrections and pay the underpaid taxes before the tax authorities initiate a tax inspection or examination and the tax authorities do not have any evidence to prove that the taxpayers had an intention of tax evasion, the taxpayers shall not be considered as having conducted tax evasion and the tax authorities shall not impose administrative penalties on the taxpayers.

Tax compliance self-checks have an entirely different nature as compared with the tax authorities' formal investigations such as tax inspections (稅務檢查) or tax examinations (稅務稽查). If the tax authorities initiate tax inspections on taxpayers, the tax authorities shall issue a Notice of Tax Inspection (《稅務檢查通知書》), and the tax authorities' officials shall present their identification documents and the Notice of Tax

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Inspection when conducting the on-site tax inspection. If the tax authorities initiate a tax examination of a taxpayer, the relevant personnel at the tax authorities would collect relevant data and information from the taxpayer and make an administrative decision of the tax treatment and/or impose a penalty on the taxpayer by delivering a Decision on Tax Treatment (《稅務處理決定書》), Decision on Tax Administrative Penalty (《稅務行政處罰決定書》), Decision on Not Imposing Tax Administrative Penalty (《不予稅務行政處罰決定書》) or Tax Examination Conclusion (《稅務稽查結論》) and other tax documents to state the results of tax examinations. This process is contrasted with that in a tax compliance self-check, where in the case of a self-check, the collection of the relevant data and information and the assessment of the tax position are driven and completed by the taxpayer itself in accordance with the relevant tax laws and rules, as opposed to by the relevant tax authority, and the documentation issued by the tax authorities (if any) is also different in both cases.

With respect to the 2019 Tax Compliance Self-check conducted by our Group, (i) the relevant members of our Group voluntarily conducted the checks and paid the underpaid taxes and surcharges in full; (ii) the competent tax authorities did not initiate any tax inspection or tax examination procedure against the relevant members of our Group; (iii) the competent tax authorities did not issue any written tax document to any member of our Group; and (iv) the relevant officer of the Taxpayer Service Department of the State Tax Administration also confirmed that there will be no investigations or administrative penalties on our Group in the future as our Group did not have malicious intent to evade tax, and tax compliance self-checks are not formal investigations or administrative penalties or indicative of tax evasion. Therefore, the Tax Counsel is of the view that the likelihood of the tax authorities proceeding to conduct tax investigations or impose administrative penalties under general circumstances is remote.

### Tax Counsel's Analysis, Key Findings and Views

We engaged an independent tax counsel, King & Wood Mallesons, (the "**Tax Counsel**") to conduct transfer pricing analysis on the tax planning arrangement 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

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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.

Our Tax Counsel also further evaluated the transfer pricing risks and 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 that (i) our Group has not engaged in any conduct that would potentially lead to substantive tax issues during the period under review; (ii) the likelihood of our Group being penalized for the offenses of tax evasion due to the underpayments discovered in the 2019 Tax Compliance Self-check is remote; (iii) the Tax Counsel did not identify any substantive tax risks that would have a material impact on our Group’s financial performance or business operations; (iv) the Tax Counsel is not aware of any material deficiencies in our Group’s internal control measures with respect to the tax compliance aspects of our Group.

Specifically, with respect to the 2019 Tax Compliance Self-check, the Tax Counsel is of the view that (i) the Deviations would not negate our legitimacy to enjoy the preferential tax treatments in Horgos; (ii) as confirmed by our Company and the third-party consultancy service provider engaged by the Horgos Subsidiaries to handle its various administrative matters, the arrangement had been accepted as a common practice without challenges from tax authority at the time prior to the 2019 Tax Compliance Self-check; and (iii) the Deviations are unlikely to lead to any further tax adjustment or penalty.

### *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. We ceased to procure goods and services from Shanghai Manjia primarily as we chose to work with other suppliers due to business considerations. 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**”).

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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 in a total amount of RMB13.7 million. 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 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, which was the date when the last payment was made pursuant to our tax compliance self-checks.

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, February 24, 2022 and June 20, 2022 confirming that Linmon Kaixin and Linmon Yuexin had not been subject to any administrative penalties during the period from January 1, 2018 to March 31, 2022. 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

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Songjiang Tax Administration confirming Shanghai Linmon had not been subject to any administrative penalties during the period from January 1, 2018 to March 31, 2022. See “– 2019 Tax Compliance Self-check – Rectification Measures” for details.

In September 2021, our PRC Legal Advisor also conducted an interview with a department director of the Shanghai Radio and Television Administration (the “**Shanghai RTA**”), in which the department director confirmed that, for the period between January 1, 2018 and September 14, 2021, being the date of the relevant interview, each of Shanghai Linmon, Linmon Yuexin and Linmon Kaixin has not been subject to any inquiry, administrative investigation, rectification order, penalty or fines as a result of any non-compliance of relevant laws, regulations or other regulatory documents, nor any outstanding complaints or disputes with the Shanghai RTA in respect of its production of TV drama series business operations. Shanghai RTA is mainly responsible for the business guidance and industry supervision of various radio and television institutions in Shanghai. The department director is mainly responsible for guiding the creation and production of radio and television programs, and is also responsible for guiding and supervising the creation, production and broadcasting of documentaries and animations, guiding the development and promotion of online audio-visual program service, and examining and supervising the content of audio-visual programs disseminated through networks and public carriers. As advised by our PRC Legal Advisor, considering that Shanghai Linmon, Linmon Kaixin and Linmon Yuexin are incorporated in Shanghai and engage in drama series production business, Shanghai RTA is the competent authorities to provide such confirmation for Shanghai Linmon, Linmon Kaixin and Linmon Yuexin. In addition, as the interviewee is a department director of the Shanghai RTA, our PRC Legal Advisor is of the view that he is the competent officer to provide such confirmation for Shanghai Linmon, Linmon Kaixin and Linmon Yuexin. As confirmed by our PRC Legal Advisor, as the confirmations given by the interviewee is factual confirmation as to whether Shanghai Linmon, Linmon Yuexin and Linmon Kaixin had been subject to any penalty or fines, such factual confirmations, in view of the duties of the Shanghai RTA and the position of the interviewee, it is concluded that such factual confirmation will not be challenged by higher authorities.

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 no record showing the 2020 Self-check Relevant Entities were subject to any administrative penalties during the period from January 1, 2018 to March 31, 2022 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.

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### *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:

- We have established a set of tax-related internal control measures to ensure our ongoing compliance, including (i) the tax administration measures, which set forth the daily tax treatment, tax filing procedures, dispute resolution procedures and reporting procedures in case of any tax non-compliance incidents; (ii) sales and payment internal control procedure, which sets forth standard sales and payment processes, including sales budget management, sales expenses management, sales personnel performance appraisal, accounts receivable collection and contingency management as well as code of conduct for marketing; (iii) procurement and supplier management policies which sets forth detailed management processes covering price enquiry and comparison, order processing and acceptance, as well as detailed supplier screening process requiring us to conduct background search and evaluation of our suppliers and maintain and update supplier list from time to time; (iv) transfer pricing management policies as discussed in detail below; and (v) training provided to the relevant tax personnel at our finance and legal department to strengthen their knowledge of the relevant laws and regulations and increase their awareness on tax compliance. In particular, the tax administration measures and the transfer pricing management policies set forth detailed requirements of the tax review, tax payment, tax document management and tax matters in relation to intra-group transactions. We require separation of duties so that the employees who submit tax application documents should be different from those who review such application documents to ensure the review quality. As confirmed by the Internal Control Consultant, our dedicated tax personnel at our finance department are responsible for day-to-day operational tax matters of our Group, and our chief financial officer is responsible for supervising and reviewing the tax management process to ensure the appropriate and timely tax filings and payments;
- 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



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Group, we require that Shanghai Linmon be the designated contracting entity on behalf of our Group when entering into agreements with customers and third-party co-investors and our intra-group transactions to be conducted according to the business substance of, and the actual functions and risks assumed by, the relevant subsidiaries, as well as in compliance with the applicable transfer pricing and tax laws and regulations in China;

- 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 further 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
- To ensure accurate and timely VAT invoice issuance and filings, we have standardized the VAT invoice issuance and filing process in our sales and payment internal control procedure. We require our sales personnel to fill in and submit standardized invoice application forms based on the payment terms and contract amounts specified in the relevant agreements to our finance department for review. After the review of the relevant agreements and invoice amount, our finance department authorizes a third party invoice issuance agency to issue VAT invoices accordingly.
- In respect of the verification of the authenticity of the transactions and the accuracy and reasonableness of the invoices issued by suppliers, we have established our supplier invoice management procedure, requiring our accounting personnel to verify the contract amount and payment terms against the issued invoices and verify the authenticity of the transactions and the accuracy of the invoices through online invoice verification system. After the verification, our accounting personnel are required to mark the invoices as "verified invoices" and submit the invoices together with the payment application for finance managers' review and approval.



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- To ensure timely and accurate revenue recognition, we have established the sales and payment internal control procedure to set out a standard management process, including the revenue recognition procedures.
  - o with respect to our licensing of broadcasting rights of original drama series, we typically deliver the master tape of our original drama series to our TV channel and online video platform customers after obtaining the Television Drama Distribution License from the NRTA or completion of the record filing of the drama series with the relevant competent authorities. Our production personnel is responsible for the internal review of the master tape. After passing our internal review, we deliver the master tape to our customers by mail or hand delivery. Our customers typically provide acceptance documents upon the completion of the acceptance (i.e. receipt of the master tape signed or sealed by the technical examination specialist of the customers' platform technical department) and our agreements typically set forth the starting date of the licensing period which usually occurs after the acceptance of the master tape. Upon our fulfilment of such obligations, we recognise revenue in the month (typically at the end of each month due to our accounting period) in which the licensing period commences (i.e. when the drama series are available to the licensee and the licensee is able to use and benefit from the license).
  - o with respect to our content marketing services:
    - pursuant to the agreements with product placement customers, our content marketing team communicates with our customers regarding the details of the product placement scenes, and we obtain customers' preliminary confirmation of our fulfilment of contractual obligations and ascertain the price adjustment (if any) and agree on the total contract amount. Customers typically provide their acceptance notice after the drama series initially broadcasts pursuant to the relevant agreements, and we recognize revenue accordingly (typically at the end of each month due to our accounting period).
    - pursuant to the agreements with our customized creative advertisement customers, our content marketing team sends the advertisement video with watermarks to our customers for review and acceptance. Our customers typically provide their acceptance notices in written form. We recognize revenue in the month (typically at the end of each month due to our accounting period) in which we receive the customers' written acceptance and we ascertain the price adjustment (if any) and agree on the total contract amount with our customers.
    - since integrated marketing campaign involves multiple performance obligations, from which our customers could separately benefit, we deliver the integrated marketing campaign services pursuant to the

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relevant agreements. Our customers typically provide their acceptance notice in written form. We recognize revenue when each of the performance obligation is satisfied. For customized marketing services, we recognize revenue over the relevant service period. For customized marketing products, we recognize revenue in the month when we receive the customers' written acceptance and we ascertain the price adjustment (if any).

- o with respect to our production of made-to-order drama series, we deliver the master tape of the made-to-order drama series to our customers and our customers are responsible for submitting the drama series to the NRTA for review and obtaining the Television Drama Distribution License/completion of the record filing of the drama series with the relevant competent authorities. We obtain the initial broadcasting proof and recognize revenue in the month (typically at the end of each month due to our accounting period) in which the made-to-order drama series initially broadcast.
- 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 legal and accounting 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.
- We have engaged a third-party tax expert since May 2020 and will continue to engage them to provide tax advice and support on our daily operations to ensure our tax compliance on an ongoing basis. We have established a protocol setting out a list of matters requiring tax expert's review, including, for example, any intra-group transactions, establishment of any new entities or new business lines.

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

In preparation for the [REDACTED], in May 2021, we also engaged an independent internal control consultant (the “**Internal Control Consultant**”) 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 Consultant 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

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Consultant performed a follow-up review on the enhancement measures taken by us in response to the findings and enhancement recommendations from the Internal Control Consultant. For details, see "Business – Internal Control".

The Internal Control Consultant conducted internal control review pursuant to the relevant technical bulletin AATB1 issued by the Hong Kong Institute of Certified Public Accountants and is not aware of any material deficiencies based on the tested samples during its review period in respect of our Group's intra-group transactions and supplier invoice management processes.

In particular, the Internal Control Consultant has reviewed the Company's internal control measures in relation to tax matters as below:

- (1) With respect to the matters subject to 2018 Tax Compliance Self-check:
  - VAT filing: To avoid the difference in timing for the issuance of VAT invoices and for the recognition of revenue with respect to a transaction, at the time of revenue recognition, we require our finance personnel to declare the VAT payable corresponding to the uninvoiced revenue in our enterprise resource planning system based on the total revenue recognized minus the invoiced amount. Upon the review by our chief financial officer, we make tax payments accordingly pursuant to the relevant tax laws and regulations. With respect to the aforementioned process, the Internal Control Consultant conducted sample tests and obtained the samples of our monthly VAT declaration, including the VAT financial data, tax calculation sheets and approval records of our chief financial officer in our enterprise resource planning system for the period, tax declaration record sheet, tax payment certificate, accounting vouchers in our enterprise resource planning system and relevant supporting documents (such as bank remittance receipts), and checked the compliance and timeliness of the VAT filing process; and
  - Stamp duty filings: In the month of transaction or stamp duty payment, our accounting personnel make the relevant stamp duty filing. Upon review by our chief financial officer, we make the tax payment accordingly pursuant to the relevant tax laws and regulations. The Internal Control Consultant conducted sample tests and obtained samples of our monthly stamp duty filings, including the stamp duty financial data in our enterprise resource planning system, tax and fee calculation sheets and approval records of our chief financial officer, tax return records, tax payment certificate, accounting vouchers in our enterprise resource planning system and relevant supporting documents, and verified the compliance and timeliness of the stamp duty filing process;

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- Training: We have provided compliance training relating to the VAT filing and stamp duty filing to the relevant tax personnel at our finance and legal department to strengthen their knowledge of the relevant laws and regulations and our internal control measures and increase their awareness on tax filing compliance.
- (2) With respect to the matters subject to the 2019 Tax Compliance Self-check:
- Business function performed by each Group entities: We established the transfer pricing management policies to ascertain the roles and responsibilities of our Group entities and the pricing standard of intra-group transactions. In addition, we maintain a tax rate list specifying the tax rates applicable to each of our Group entities for our internal reference. In addition, to ensure revenue is recognized correctly under our Group, we require that Shanghai Linmon to be the designated contracting entity on behalf of our Group when entering into agreements with customers and third-party co-investors and our intra-group transactions to be conducted according to the business substance of, and the actual functions and risks assumed by, the relevant subsidiaries, as well as in compliance with the applicable transfer pricing and tax laws and regulations in China. The Internal Control Consultant conducted sample tests and reviewed various types of intra-group transaction agreements and confirmed that the signing parties are in compliance with the transfer pricing management policies; and
  - Fairness of pricing and approval process of intra-group transactions: We require comprehensive consideration of market prevailing rate, project budget and expected gross margin to ensure the fairness of our pricing of the intra-group transaction. Our sales and payment internal control procedure sets forth the details of the pricing process. The Internal Control Consultant has reviewed the procedure, pursuant to which the pricing process policy shall be implemented after Directors' approval. The Internal Control Consultant conducted sample tests and reviewed samples of our intra-group procurement agreements (commissioning the production of drama series), and verified the fairness of the pricing by comparing with the pricing terms in agreements for similar services we entered into with third party suppliers. In addition, we have also established a standard contract review and approval process in our office automation system, requiring all intra-group transactions to be reviewed through the system by our finance, legal, business department and the vice president leading the business departments. The Internal Control Consultant verified the pricing and contract approval process of samples of our intra-group procurement agreements in our office automation system, and confirmed that samples of our agreements have been reviewed and approved by the vice director of our finance, legal, business department and the vice president leading the business departments in accordance with the standard review and approval process;

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- Training: We have provided intra-group transaction compliance training to the relevant personnel at our finance and legal department to strengthen their knowledge of the relevant laws and regulations and our internal control measures and increase their awareness on tax compliance.
- (3) With respect to the matters subject to the 2020 Tax Compliance Self-check:
- Procurement and supplier management policies: We have established the procurement and supplier management policies requiring background search and evaluation to be conducted prior to the procurement. We also maintain supplier files and update such files from time to time to ensure the reasonableness and standardization of suppliers selection and management. The Internal Control Consultant conducted sample tests of the screening process of various types of suppliers conducted by our Group and verified the reasonableness and standardization of the relevant process;
  - Internal review of supplier agreements: Before signing any agreements with suppliers, we require multiple departments to review the terms of the agreements using our office automation system, including our finance and legal department to ensure the reasonableness, sufficiency and compliance with respect to the accounting and legal aspects. The Internal Control Consultant conducted sample tests and reviewed our agreements with suppliers and verified the compliance and timeliness of our internal review process; and
  - Transaction authentication and invoice verification: We have established our supplier invoice management process to ensure the authenticity of the transactions and the accuracy and reasonableness of the invoices issued by suppliers. We require our accounting personnel to verify the contract amount and payment terms against the issued invoices and verify the authenticity of the transactions and the accuracy of the invoices through our online invoice verification system. After the verification, our accounting personnel are required to mark the invoices as "verified invoices" and submit the invoices together with payment application for finance managers' review and approval. The Internal Control Consultant conducted sample tests and reviewed relevant documents of our payment process (i.e. invoices, bank notes, payment approval documents on our office automation system, contract and invoice verification results). The Internal Control Consultant conducted sample tests and verified that the tax item, tax amount and other information on the sampled supplier invoices are consistent with the terms in the agreements and confirmed the authenticity of the sampled supplier invoice as well as the reasonableness and compliance of the supplier invoice management process;

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- Training: We have provided compliance training relating to procurement and supplier management, transaction authentication and invoice verification to the relevant personnel at our finance and legal department to strengthen their knowledge of the relevant laws and regulations and our internal control measures and increase their awareness on tax compliance.

We confirm that, we have been following such measures to minimize our tax compliance risk since the establishment of the aforementioned enhanced internal control management measures.

### *Conclusions*

Since the 2020 Tax Compliance Self-check, we confirm that the relevant tax authorities have not made any further enquiry with our Group or requested our Group to conduct any follow-up or new tax compliance self-checks.

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;
- We have obtained certifications from the competent regulatory authority confirming that Horgos Linmon Black Tea and Horgos Linmon had no outstanding taxes as of March 31, 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 March 31, 2022. In addition, the relevant officer of the Thirteenth Branch of Songjiang Tax Administration confirmed in a

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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) the 2018 Tax Compliance Self-check and the 2020 Tax Compliance Self-check are both in relation to the daily accounting matters in which our Directors do not directly participate and the findings are due to the inadvertent oversight of the relevant personnel;
- (ii) with regard to the 2019 Tax Compliance Self-check, as elaborated above in "– Directors' View", our Directors were not involved in the actual implementation of the tax planning arrangement in question and were not made aware of any material tax risks with respect to the intragroup transactions. In addition, we had originally planned to follow the tax planning arrangements and had to change how the implementation of the plan was done given the practical difficulties we faced. Given (1) the relevant policies did not stipulate detailed requirements on how personnel or capital funding should be arranged in order to claim the tax preference, and (2) we believe that, at the time, it was rather common for media companies to establish its subsidiaries in Horgos to benefit from the tax relief and face the same difficulties as Horgos Linmon and Horgos Linmon Black Tea in terms of recruiting local talents in Horgos or their Horgos entities obtaining financing independently our finance staff could only rely on their interpretation of the tax policies to implement the tax planning arrangement at the time and reasonably believed that the Deviations would not disqualify Horgos Linmon and Horgos Linmon Black Tea from claiming the preferential tax treatment in Horgos and recorded revenue and cost in proportion to the respective investment contributions of and services contemplated to be provided by Horgos Linmon and Horgos Linmon Black Tea in accordance with the stipulated contractual obligations. On the basis of such belief, the finance staff did not consider the Deviations to pose a material tax risk warranting the reporting of the same to our



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Directors back then. Especially considering that even the finance staff could not well foresee that the administration would be tightened prior to the 2019 Tax Compliance Self-check, the Directors were unlikely to be aware of the Deviations back then, especially where the finance staff at the time could not have reasonably foreseen the subsequent tightening of the tax administration prior to the 2019 Tax Compliance Self-check. In addition, neither the PRC auditors of our Group nor the tax authorities raised any enquiries or challenges over the intragroup transactions arrangement prior to the 2019 Tax Compliance Self-check, which would otherwise have raised the Directors' attention to such arrangements as well;

- (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.

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.

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### PRC Legal Advisors' View on the Tax Compliance Self-checks

Our PRC Legal Advisor is of the view that the tax compliance self-checks nor the payment of taxes and surcharges constituted any administrative penalties, and hence, no penalty was imposed by any regulatory authorities, and the likelihood of the Company being penalized for offences of tax evasion due to the underpayments discovered in the three tax compliance checks is remote considering, among others, (i) our Group voluntarily conducted the tax compliance self-checks and paid all underpaid taxes and surcharges; and (ii) our Group obtained the certifications from the competent tax authorities confirming that the relevant entities of our Group had no outstanding taxes or were not subject to any administrative penalties during the relevant periods.

Our PRC Legal advisor is also of the view that the findings in the tax compliance self-checks are immaterial non-compliance incidents because: (i) our Company conducted the tax compliance self-checks and paid up all the outstanding tax payments and surcharges, (ii) the payment of the underpaid taxes and surcharges under the 2018 Tax Compliance Self-check, 2019 Tax Compliance Self-check and 2020 Tax Compliance Self-check do not fall within any of the tax evasion categories under PRC tax laws, (iii) our Company has obtained the certifications from the competent tax authorities confirming that Shanghai Linmon, Linmon Yuexin and Linmon Kaixin had not been subject to any administrative penalties during the period from January 1, 2018 to March 31, 2022; (iv) our Company has obtained the certifications from the competent tax authorities confirming that Horgos Linmon and Horgos Linmon Black Tea had no outstanding taxes due as of March 31, 2022 and (v) our Company consulted the relevant competent authorities confirming that Shanghai Linmon, Linmon Yuexin and Linmon Kaixin had been in compliance with its tax payment obligations since their inception.

### Joint Sponsors' View on the Tax Compliance Self-checks

On the basis of:

- (1) From a legal and regulatory perspective,
  - (a) the regulatory assurance obtained from the State Tax Administration that (i) a tax compliance self-check is a routine exercise of the tax authorities in its exercise of regulatory oversight and is not an administrative penalty, and (ii) if there is no subjective intention to conduct tax evasion, there will not be any penalties imposed and the fact that the tax authorities accept the tax compliance self-check reports and the payment of additional tax and surcharges without any follow-up actions demonstrates the tax authorities' determination that no subjective intention to conduct tax evasion was involved, and regulatory confirmations obtained from the Shanghai City Songjiang District Administration of Tax that a tax compliance self-check is a means for the tax authorities to exercise their regulatory oversight over taxpayers which the authority regards as low-risk;

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- (b) further 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 written certifications issued by the relevant tax authorities in Horgos that each of Horgos Linmon and Horgos Linmon Black Tea was not subject to any outstanding tax liabilities;
  - (c) the Tax Counsel's view that the likelihood of the tax authorities proceeding to tax investigations or further imposing administrative penalties on a taxpayer that has already conducted a tax compliance self-check and adjusted its tax payment accordingly is remote, and that the intra-group transactions relating to the 2019 Tax Compliance Self-check do not constitute "tax evasion" behaviour under PRC tax laws; and
  - (d) the PRC Legal Advisor's view that both the requirements to conduct the tax compliance self-checks and the payment of the underpaid tax, the VAT and the surcharges by our Group did not constitute any administrative penalties under applicable PRC laws and regulations, and hence, no penalty was imposed by any regulatory authorities, and the likelihood of our Company and our Directors being 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 from acting as a director of a PRC company under the PRC laws;
- (2) From the perspective of the underlying transactions subject to the tax compliance self-checks and the circumstances leading to the Deviations,
- (a) discussions with us and the Tax Counsel and the review of documents relating to the transactions we entered into with third party customers and suppliers in respect of the investment, production and distribution of the four original drama series relevant to the 2019 Tax Compliance Self-check, through which the Joint Sponsors noted the policy background behind the tax preference claimed, an indication of our initial commitment towards carrying out the tax planning scheme through Horgos Linmon or Horgos Linmon Black Team undertaking the contractual obligations in the drama series investment, production and distribution processes, and that Horgos Linmon or Horgos Linmon Black Tea was able to meet its contractual obligations pursuant to the terms of the relevant agreements;
  - (b) discussions with us, the Tax Counsel, and relevant third parties service providers and the review of documents with respect to the actual implementation of the aforementioned tax planning scheme, through which the Joint Sponsors noted evidence indicating a positive intention on the part of

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- Horgos Linmon and Horgos Linmon Black Tea to try to carry out the relevant functions as originally planned, and the reasons and circumstances giving rise to the practical difficulties, which eventually led to the Deviations;
- (c) the fact that the causes of the shortfall in tax payment identified in each of the tax compliance self-checks were unrelated to one another; and
  - (d) discussions with the Tax Counsel in respect of its analysis of the shift in emphasis in the relevant economic and tax policy of the PRC administration, and consequentially, the tightened tax administration, and discussions with a third-party service provider in respect of the change in business environment in Horgos prior to the 2019 Tax Compliance Self-check, which enables the Joint Sponsors to understand the reasonableness of the basis on which the finance personnel interpreted the requirements to claim the tax preference;
- (3) From the perspective of our general tax compliance practices and internal controls,
- (a) 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;
  - (b) the review conducted by the Internal Control Consultant in respect to control processes relevant to the matters that were subject to each instance of tax compliance self-check, and that pursuant to its review, the Internal Control Consultant is not aware of any material deficiencies based on its testing in respect of our intra-group transactions and supplier invoice management processes;
  - (c) the enhanced internal control measures adopted as set out in the above in detail, addressing the particular processes that were relevant to the underpayment of taxes uncovered in the previous instances of tax compliance self-checks, and the Internal Control Consultant having no further recommendation upon its review of, among other things, our tax compliance-related controls; and

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- (d) our continued engagement of a third-party tax expert to provide tax advice and support to aid our continued tax compliance, and our protocol requiring that matters such as any intra-group transactions are to be subject to the tax expert's review, further demonstrating our commitment towards managing our business in a manner consistent with the requirements under relevant tax laws and regulations.
- (4) discussions with us, our PRC Legal Advisor, the Joint Sponsors' PRC legal advisor and the Tax Counsel, and the views of our Directors, the PRC Legal Advisor, the Joint Sponsors' PRC legal advisor and the Tax Counsel as aforementioned.

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 factors laid out in the above, and in particular, (1) the enhanced internal control measures and policies as adopted by us and set out above, (2) the confirmation by the Internal Control Consultant that it is not aware of any material deficiencies based on its testing in respect of our intra-group transactions and supplier invoice management processes, and (3) that the Internal Control Consultant did not raise any further recommendation in its follow-up review with respect to tax-related internal controls, nothing material has come to the Joint Sponsors' attention that would cast doubt over the adequacy and effectiveness of the enhanced internal control measures, if implemented continuously by us, to prevent recurrence of similar non-compliance.

## 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

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<b>No.</b>	<b>Holder</b>	<b>Name of the License, Approval or Permit</b>	<b>Valid Term</b>
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
14.	Yuri Juzeng	Permit to Produce or Operate Radio and Television Programs	March 1, 2022 – February 29, 2024

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### 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.



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### *Legal and Tax Compliance Management*

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

- We have established a set of tax-related internal control measures to ensure our ongoing compliance, including (i) the tax administration measures, which set forth the daily tax treatment, tax filing procedures, dispute resolution procedures and reporting procedures in case of any tax non-compliance incidents; (ii) the sales and payment internal control procedure, which sets forth standard sales and payment process, including sales budget management, sales expenses management, sales personnel performance appraisal, account receivable collection and contingency management as well as marketing code of conduct; (iii) the procurement and supplier management policies which sets forth the detailed management processes covering price enquiry and comparison, order processing and acceptance; and (iv) the transfer pricing management policies as discussed in detail below;
- 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, Shanghai Linmon is the designated contracting entity on behalf of our Group when entering into agreements with customers and third-party co-investors and our intra-group transactions to be conducted according to the business substance of, and the actual functions and risks assumed by, the relevant subsidiaries, as well as in compliance with the applicable transfer pricing and tax laws and regulations in China;
- 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;

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- 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
- To ensure accurate and timely VAT invoice issuance and filings, we have standardized the VAT invoice issuance and filing process in our sales and payment internal control procedure. We require our sales personnel to fill in and submit standardized invoice application forms based on the payment terms and contract amounts specified in the relevant agreements to our finance department for review. After the review of the relevant agreements and invoice amount, our finance department authorizes third party invoice issuance agency to issue VAT invoices accordingly.
- To ensure the authenticity of the transactions and the accuracy and reasonableness of the invoices issued by suppliers, we have established our supplier invoice management process, requiring our accounting personnel to verify the contract amount and payment terms against the issued invoices and verify the authenticity of the transactions and the accuracy of the invoices through online invoice verification system. After the verification, our accounting personnel are required to mark the invoices as "verified invoices" and submit the invoices together with the payment application for finance managers' review and approval.
- To ensure the timely revenue recognition, we have established the sales and payment internal control procedure to set out the standard management process, including the revenue recognition procedures.
  - o with respect to our licensing of broadcasting rights of original drama series, we typically deliver the master tape of our original drama series to our TV channel and online video platform customers after our obtaining of the Television Drama Distribution License from the NRTA or completion of the record filing of the drama series with the relevant competent authorities. Our production personnel is responsible for the internal review of the master tape. After passing our internal review, we deliver the master tape to our customers by mail or hand delivery. Our customers typically provide acceptance documents upon the completion of the acceptance (i.e. receipt of the master tape signed or sealed by the technical examination specialist of the customers' platform technical department) and our agreements typically set forth the starting date of the licensing period which usually occurs after the acceptance of the master tape. Upon our fulfilment of such obligations, we recognise revenue in the

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month (typically at the end of each month due to our accounting period) in which the licensing period commences (i.e. when the drama series are available to the licensee and the licensee is able to use and benefit from the license).

- o with respect to our content marketing services:
  - pursuant to the agreements with product placement customers, our content marketing team communicates with our customers regarding the details of the product placement scenes, and we obtain customers' preliminary confirmation of our fulfilment of contractual obligations and ascertain the price adjustment (if any) and agree on the total contract amount. Customers typically provide their acceptance notice after the drama series initially broadcasts pursuant to the relevant agreements, and we recognize revenue accordingly (typically at the end of each month due to our accounting period).
  - pursuant to the agreements with our customized creative advertisement customers, our content marketing team sends the advertisement video with watermarks to our customers for review and acceptance by email. Our customers typically provide their acceptance notices in written form. We recognize revenue in the month (typically at the end of each month due to our accounting period) in which we receive the customers' written acceptance and we ascertain the price adjustment (if any) and agree on the total contract amount with our customers.
  - since integrated marketing campaign involves multiple performance obligations, from which our customers could separately benefit, we deliver the integrated marketing campaign services pursuant to the relevant agreements. Our customers typically provide their acceptance notice in written form. We recognize revenue when each of the performance obligation is satisfied. For customized marketing services, we recognize revenue over the relevant service period. For customized marketing products, we recognize revenue in the month when we receive the customers' written acceptance and we ascertain the price adjustment (if any).
- o with respect to our production of made-to-order drama series, we deliver the master tape of the made-to-order drama series to our customers and our customers are responsible for submitting the drama series to the NRTA for review and obtaining the Television Drama Distribution License/completion of the record filing of the drama series with the relevant competent authorities. We obtain the initial broadcasting proof and recognize revenue in the month (typically at the end of each month due to our accounting period) in which the made-to-order drama series initially broadcast.

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- 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.

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.

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### ***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.

### ***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

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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.

### *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 the Internal Control Consultant 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 Consultant 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 Consultant, 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 Consultant performed a follow-up review on the enhancement measures taken by us in response to the findings and enhancement recommendations from the Internal Control Consultant. 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.