You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with HKFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. In evaluating our business, you should carefully consider the information provided in the sections headed "Risk Factors" and "Forward-Looking Statements" in this document.

OVERVIEW

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 operation consisting including investment, production, promotion, distribution, licensing, as well as derivatives of drama series.

During the Track Record Period, we generated our revenue primarily from (i) licensing of broadcasting rights of original drama series produced by us; (ii) content marketing; and (iii) other businesses. Our revenue was RMB1,794.2 million, RMB1,426.2 million, RMB1,249.0 million and RMB470.6 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. For the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our gross profit was RMB400.8 million, RMB545.8 million, RMB559.0 million and RMB183.2 million, respectively, and our gross profit margin was 22.3%, 38.3%, 44.8% and 38.9%.

BASIS OF PRESENTATION

Pursuant to the reorganization of our Company, as more fully explained in the section headed "History, Reorganization and Corporate Development – Reorganization" in the document, our Company became the holding company of the companies now comprising our Group on August 31, 2021. As the Reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in any change of the respective voting and beneficial interests, the financial statement has been presented as a continuation of the then holding company by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

Due to regulatory prohibitions on foreign ownership in the production, distribution and licensing of broadcasting rights of drama series business in the PRC, the principal business carried out by Shanghai Linmon was prohibited or restricted from foreign ownership. Our wholly owned subsidiary, Shanghai Ninghe has entered into a series of Contractual Arrangements with the Consolidated Affiliated Entities and the Registered Shareholders. The Contractual Arrangements enable Shanghai Ninghe to exercise effective control over the Consolidated Affiliated Entities and obtain substantially all economic benefits of the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are controlled by our Company based on the Contractual Arrangements though we do not have any direct or indirect equity interest in the Consolidated Affiliated Entities. Details of the Contractual Arrangements are disclosed in the section headed "Contractual Arrangements" in this document. We do not have any equity interests in the Consolidated Affiliated Entities.

Our consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the Track Record Period include the results and cash flows of all companies now comprising us from the earliest date presented or since the date when the subsidiaries and/or businesses were established or acquired, where this is a shorter period. Our consolidated statements of financial position as of December 31, 2019, 2020 and 2021, and March 31, 2022 have been prepared to present the assets and liabilities of the subsidiaries now comprising us using the existing book values. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the reorganization. All intra-group transactions and balances have been eliminated on consolidation.

Our historical financial information has been prepared in accordance with HKFRS. All HKFRS effective for the accounting period commencing from January 1, 2022 together with the relevant transitional provisions, have been consistently applied by us in the preparation of the historical financial information throughout the Track Record Period. The historical financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the following are key factors that affect our results of operations:

Our ability to produce high-quality and popular drama series

We are a drama series company in China typically creating high viewership drama series based on our abundant reserve of original IPs. Our results of operation depend highly on our ability to develop high-quality IP reserve and produce high viewership drama series. Since our inception and up to the Latest Practicable Date, we produced 17 drama series and 15 of them are original drama series. In addition, we had two drama series projects that were under filming/post-production and pre-sold as of the Latest Practicable Date. Our drama series cover a comprehensive suite of trending subjects such as modern romance, heroism, costume and day-to-day life. According to Frost & Sullivan, we achieved a high viewership drama series rate as high as 75.0% from 2019 to 2021, which is substantially higher than the industry average in China, and the average of our top five competitors by revenue from 2019 to 2021. According to the same source, we had drama series ranked among the top ten in terms of viewership on TV channels or effective views on online video platforms in 2019 and 2020, and among the top five in 2021. Our future success is dependent on our ability to further develop high-quality original IPs and the acceptance of our drama series by the distribution channels and audience. In addition, our ability to produce high-quality and popular drama series is supported by industry professionals participating in the development, production and promotion of our drama series, including talented scriptwriters, directors and actors, filming and production crew, and promotion agencies. We believe that, as a drama series production company with proven track record, we are able to continuously produce high-quality and popular drama series leveraging our market leadership, original IP reserve, and quality service from leading industry professionals in the future.

Our project-based business nature

During the Track Record Period, our revenue was mainly derived from licensing of broadcasting rights of our original drama series to online video platforms, TV channels or other third-party distributors. Our business nature is generally project based and our revenue and gross profit of our drama series projects may vary depending on the genre, the number of drama series we produced and delivered and the number of episodes of each drama series. In particular, our revenue is largely affected by the number of episodes and licensing fees of a particular or a limited number of drama series we produced. For example, our revenue generated from licensing of broadcasting rights of original drama series produced by us decreased from RMB1,207.4 million in 2020 to RMB1,051.4 million in 2021, primarily due to (i) a decrease in total number of episodes of first-run original drama series licensed to our customers from 127 episodes in 2020 to 115 episodes in 2021, and (ii) a comparatively lower licensing fee per episode of "To Fly with You" (陪你逐風飛翔) broadcast in 2021. In addition, the impact of cost of a particular drama series on our gross profit margin may affect our results of operations during the same periods. For example, our gross profit margin of original drama series increased from 17.2% in 2019 to 42.2% in 2020, primarily because we produced "Novoland: Eagle Flag episodes" (九州縹緲錄) with relatively high production cost and low gross profit margin.

Regulatory environment and industry trends

Our production and distribution of drama series is generally subject to the uncertain government regulations and policies that affect the drama series industry in the PRC and the evolving market trends. According to Frost & Sullivan, the investment of drama series increased from RMB31.2 billion in 2019 to RMB34.0 billion in 2021. The drama series market in China is expected to resume and the investment is expected to increase in the next following years. Our business and results of operations are also affected by government policies and regulations applicable to our industry. In the event that the government policies change so that we are not able to distribute the drama series according to our business plan, we may be required to defer distribution, distribute drama series at a lower price than we anticipated. Moreover, the competent authorities may impose additional or more stringent laws or regulations on the investment, development, production, distribution and broadcast of drama series. This may adversely affect our results of operations and financial condition. For example, the NRTA has issued 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》) to impose restrictions on the maximum number and length of episodes of each drama series. This may affect our revenue from licensing our original drama series and limit our product placement services due to the reduction in the number and length of our drama series.

Our ability to procure sufficient funding in a timely manner

Drama series production and distribution business is capital intensive in nature. Our results of operations are primarily affected by the cost of producing our original drama series, which was the largest component of our cost of sales during the Track Record Period. Many of these costs need to be paid upfront before we receive the full amount of payment from our customers. Therefore, sufficient funding in a timely manner and our ability to manage our costs is crucial for our implementation of our production and investment plans. During the Track Record Period, we mainly satisfy our working capital needs from cash inflows from our operations, bank loans and other borrowings and equity financing from our shareholders. We plan to finance our drama series with similar funding sources in the future. If we fail to procure sufficient funding in the future, our production and investment plans will be affected, which will in turn negatively affect our financial condition.

Our ability to manage our operating cash flow

Our revenue directly comes from or is settled by various parties, including online video platforms, TV channels and third-party distributors. We typically pre-sell our original drama series prior to or shortly after the commencement of filming, allowing us to receive payments upfront. Our cash flow and profitability are also affected by the timely settlement of payments by our customers for the services we have rendered to them. Although generally it is contractually agreed to pay on a one-off basis or in installments in accordance with the milestone payment schedules set out in the relevant agreements, the actual settlement periods for our customers may be significantly longer in practice. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our trade and notes receivables were RMB462.1 million, RMB255.8 million, RMB385.6 million and RMB550.1 million, respectively. For the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our trade receivables turnover days were 50, 89, 89 and 83 days, respectively. We believe the level of balance of trade and notes receivables and the trade receivables turnover is generally in line with industry norms. We expect that our ability to collect trade and notes receivables on a timely basis will continue to be critical to maintain our liquidity and the pace of our expansion.

Preferential tax treatment and government grants

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%. Horgos Linmon and Horgos Linmon Black Tea, however, are entitled to EIT exemption for five years starting from the year in which the first revenue is generated. There is no assurance that we are able to continue to enjoy tax exemption in the future due to potential changes in the tax policies to be adopted by the PRC government authorities. In 2019, 2020 and 2021 and the three months ended March 31, 2022, local governments have also granted us various financial subsidies and we recorded government grants in other income of RMB28.8 million, RMB13.4 million, RMB42.3 million and RMB5.3 million, respectively, in our consolidated statements of profit or loss. To the extent that there is any loss of, or significant reduction in, any preferential tax treatment or government grant applicable to us, or increase in the effective tax rate, our tax expenses would increase accordingly, thus adversely affecting our results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in details in notes 2 and 3 to the Accountant's Report set out in Appendix I to this document.

Revenue Recognition

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between us and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

We are mainly involved in the licensing of broadcasting rights of drama series. Revenue is measured based on the fair value of consideration received or receivable specified in the contracts with customers.

(a) Licensing of broadcasting rights of original drama series

Revenue from the licensing of broadcasting rights of drama series is recognized at the point in time when the drama series are available to the licensee and the licensee is able to use and benefit from the license, generally on delivery of the drama series after the approval from the NRTA or receipt of the license for distribution of drama series from the provincial counterpart of the NRTA when a customer is provided with a right to broadcast the drama series as it exists at the point in time when the license is granted.

There are two situations in which variable consideration exists. Specifically:

(1) in certain agreements with customers, our Group is entitled to additional bonus based on the actual broadcasting performance, including viewership or additional or renewal of membership subscriptions. Revenue from such additional bonus is recognized when the amount is determined and confirmed by the customers.

(2) retrospective price adjustments may be made with respect to certain customers if the drama series licensed by our Group are taken down from broadcasting channels during the licensing period pursuant to the relevant broadcasting right licensing agreements.

In accordance with HKFRS15 paragraph 56, an entity shall include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Variable consideration in relation to additional bonus is constrained when licensing fee revenue is initially recognized, and therefore such variable consideration is not recognized as revenue then, but only until the uncertainty is resolved (i.e. broadcasting performance of the original drama series becomes available), which is essential for us to conclude that it is highly probable that a significant reversal of such additional bonus in the amount of cumulative revenue recognized will not occur.

Variable consideration in relation to price adjustments arising from risk of the drama series being taken down from broadcasting channels during the licensing period is not constrained as we have estimated that the expected price adjustments are immaterial when the uncertainty (i.e, the uncertainty of original drama series being taken down from broadcasting channels) is resolved.

Variable consideration is constrained only when it is highly probable that a significant reversal in the amount of cumulative revenue recognized will occur. Pursuant to the paragraph 57 of HKFRS15, in assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue will occur, a number of factors indicating the likelihood and the magnitude of revenue reversal should be considered, including, for example, (1) the amount of consideration susceptible to factors outside the entity's influence and (2) the entity's experience with similar types of contracts. For (1), the maximum exposure amount of variable consideration in relation to price adjustments arising from risk of the drama series being taken down from broadcasting channels which represents the total contract amounts that will be refunded to our customers under the worst scenario that is when all our drama series during the license period have been taken down from the broadcasting channels and such customers request full refund of contractual licensing fees with respect to the remaining license period was RMB3,266 million, RMB4,506 million, RMB5,591 million and RMB6,016 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. Using the expected value method and after taking into account of the possibility factor of risk of our drama series being taken down from broadcasting channels, the total estimation of variable consideration of our original drama series produced was less than RMB1.5 million as of the end of each year during the Track Record Period, accounted for less than 0.15% of our licensing revenue in the respective years as explained in detail below. For (2), we possess significant experience in licensing of broadcasting rights of our original drama series and we never refund any of the licensing fees to our customers due to our original drama series being taken down from broadcasting channels prior to the end of the licensing period since our inception and up to the Latest Practicable Date. Therefore, we conclude that, as it is highly probable that a significant reversal in the cumulative amount of revenue recognized for licensing fees will not occur when the uncertainty is resolved, the variable consideration in relation to price adjustments arising from risk of the drama series being taken down from broadcasting channels during the licensing period is not constrained.

A refund liability is recognized for the obligation to refund certain or all of the consideration received (or receivable) from a customer and is measured at the amount we ultimately expect we will have to return to the customer.

Refund liability is not applicable to additional bonus as no additional bonus would have been received or receivable by us before the constraint on the variable consideration is cleared (actual broadcasting performance becomes available).

For the price adjustments arising from risk of the drama series being taken down from broadcasting channels during the licensing period, no refund liability was recognized during the Track Record Period as the estimated amount that would be refunded was immaterial as detailed below.

Two of our original drama series produced during the Track Record Period had variable consideration in relation to additional bonus, including "Nothing but Thirty" (三十而已) and "Xiaomin's House" (小敏家). Pursuant to the relevant agreements with the original drama series customers, we are entitled to receive (i) licensing fees; and (ii) additional bonus, which is determined based on the actual broadcasting performance of the relevant original drama series. Pursuant to the agreements, variable considerations in relation to additional bonus amounted to RMB9.4 million and RMB9.4 million in connection with "Nothing but Thirty" (三十而已) and "Xiaomin's House" (小敏家), respectively. Accordingly, we recognized revenue from variable consideration of RMB9.4 million in connection with "Nothing but Thirty" (三十而已) in 2021 and RMB9.4 million in connection with "Xiaomin's House" (小敏家) in the three months ended March 31, 2022 upon reaching the stipulated broadcasting performance. The following table sets forth the amount of variable consideration recognized as revenue with respect to the two original drama series during the Track Record Period.

	Year ended December 31,			**Three months ended March 31,**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
"Nothing but Thirty" (三十而已)	–	–	9,433	9,433	–
"Xiaomin's House" (小敏家)	–	–	–	–	9,433

All of our original drama series produced since our inception and during the Track Record Period had variable consideration in relation to the possibilities of original drama series being taken down from broadcasting channels during the licencing period. The amount of variable consideration is a function of risk estimation at a particular point in time by multiplying the maximum amount of licensing fees we are required to refund if the original drama series is taken down from broadcasting channels during the licensing period (i.e. the maximum exposure) and by a possibility factor of risk of each original drama series being taken down from broadcasting channels (i.e. the possibility). In relation to this exercise, we engaged a third-party accredited valuer to produce a matrix of the possibility factor of risk in different scenarios based on the remaining years in the licensing period on the basis of discussions with the management, understanding of the latest industry practice and economic conditions using the random stimulation method (隨機模擬方法). According to the valuation report, the possibility factors of risks for first-run original drama series range from 0.0405% to 0.0825%, and the possibility factors of risks for original drama series which are under re-run range from 0.0036% to 0.0456% depending on the term of the remaining licensing period of an original drama series (ranging from one to ten years), with the possibility factor of risk decreasing as the number of years in the remaining licensing period decreases. Accordingly, the total estimated amount of variable consideration of our original drama series produced was less than RMB1.7 million as of the end of each period during the Track Record Period, accounted for less than 0.4% of our licensing revenue in the respective period and is therefore considered to be immaterial.

(b) Production of made-to-order drama series

We determine whether we are a principal or an agent in production of made-to-order drama series by evaluating the nature of our promise to the customer. When determining whether we are acting as the principal or agent in offering goods or services to the customer, we need to first identify who controls the promised goods or services before they are transferred to the customer. To assess whether we control the services before they are transferred to the customer, we have considered various factors, including but not limited to whether we are (i) the primary obligor in the arrangement, (ii) have general inventory risk, (iii) have discretion in establishing the selling price. We are the primary obligor and subject to general inventory risk in the arrangement that obtains control of any of the following: (i) a good or another asset from the other party that we then transfer to the customer; (ii) a right to a service to be performed by the other party, which gives us the ability to direct that party to provide the service to the customer on our behalf; (iii) a good or service from the other party that we then combine with other goods or services in providing the promised good or service to the customer. We record revenue on a gross basis if we are a principal and control promised services before transferring the services to the customer. Otherwise, we are an agent and record as revenue the net amount that we retain for our agency services if our role is to arrange to provide the services.

During the Track Record Period, we did not subject to any general inventory risk as we charged fixed production fees for production of made-to-order drama series, and therefore we acted as an agent and recognized revenue from production of made-to-order drama series at a net basis.

As the consideration for the production of made-to-order drama series is fully constrained until broadcasting, revenue from production of made-to-order drama series is recognized at point in time when made-to-order drama series are accepted by the customers, which is usually when the first broadcast occurs.

(c) Content marketing

Content marketing involves the production of advertisements which are either placed in the drama series produced by us or will be broadcast together with the drama series. During the Track Record Period, we (i) provided product placement services to our customers, (ii) developed and produced customized creative advertisements and placed such advertisements in our drama series broadcasting on online video platforms, and (iii) designed 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. Revenue from content marketing is recognized as follows:

Revenue from product placement services is recognized at a point in time when the services are accepted by our product placement customers, and the contract amount is determinable. The "acceptance" by the customers for product placement services only occurs when it is almost certain that the advertisements placed in the original drama series can be broadcast completely. At the point of revenue recognition, we have substantially fulfilled our performance obligations as agreed under the agreements with product placing customers.

We consider that our performance obligations under product placement services are nevertheless substantially satisfied upon the delivery of the master tape to online video platforms or TV channels due to the following reasons:

(1) during the Track Record Period and up to the Latest Practicable Date, the time of delivery of the master tapes of our original drama series has always been within the same month as the time of initial broadcast of the same drama series;

(2) by the time the master tapes were delivered to the relevant media platform, we had already obtained the relevant distribution licenses from the NRTA, meaning that the NRTA had already reviewed and approved the content of the drama series, including the relevant product placement components and that the broadcast schedule of the drama series had been confirmed by the relevant media platforms;

(3) since the inception of our Company, there has been no incidence where, subsequent to the delivery of the master tapes to the media platforms, we could not obtain the relevant distribution license for the broadcast of our drama series or that the relevant distribution license was revoked or terminated leading to early termination of the broadcast of our drama series before all the episodes were broadcast; and

(4) during the Track Record Period, product placement revenue was recognized at a point in time upon the substantial completion of the broadcast of the relevant original drama series and the contract amount is determinable. Our management considered that, given the content of a drama series already substantially broadcast (including the contents of the product placement scenes embedded therein) is public information, if the relevant customer did not raise any dispute or concern as to the content of the placement scenes therein at the time when broadcast is already substantially completed, this forms sufficient basis for our management to consider that the customers have accepted the services and our obligations have been satisfied.

We believe our revenue recognition policy of product placement services is not inconsistent in any material aspects with the industry practice.

Revenue from customized creative advertisements is recognized at a point in time when control of promised goods or services (i.e. customized creative advertisements) is transferred to customers (e.g. online video platforms), which generally occurs upon the confirmation of receiving the goods or services by the customers and when the contract amount is determinable.

Revenue from other content marketing services, including provision of marketing services or goods such as customized marketing campaigns or short video content, is recognized over time in which the services are rendered to or consumed by the customer simultaneously, or at a point in time upon the delivery and acceptance of the products to the customers in accordance with the terms of the underlying contracts and when the contract amount is determinable.

(d) Licensing of drama elements

Revenue from the sale of license of drama elements (script material, clips, music, etc.) is recognized at the point in time when the right to use the relevant intangible property in the drama series is transferred to licensee and the contract amount is determinable.

A sales-based royalty is recognized as revenue only when (or as) the later of the following events occurs: (a) the subsequent sale occurs; and (b) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied).

(e) Artiste management service income

Artiste management service income is derived from sourcing drama actor services, entertainment events and TV programs to the artistes. Revenue is recognized over the time of the service period. We have discontinued artiste management services since February 2020 when Shanghai Mengyang was disposed.

Revenue from other Sources

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Under co-financing arrangements where we are not entitled to any shares of legal rights (i.e. copyrights, broadcasting rights) of drama series, the investment amount paid by us is recognized as financial assets which are subsequently measured at amortized costs (for fixed return investments) or fair value (for variable return investments), with gains or losses recognized in other income (for fixed return investments) or revenue (for variable return investments), respectively.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Track Record Period, taking into consideration the interpretations and practices prevailing in the countries in which we operate.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Track Record Period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(i) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(i) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each of the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each of the Track Record Period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Track Record Period.

Deferred tax assets and deferred tax liabilities are offset if and only if we have a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Investments and Other Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and our business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which we have applied the practical expedient of not adjusting the effect of a significant financing component, we initially measure a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which we have applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" above.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Our business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that we commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statements of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to the consolidated statements of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized profit or loss.

This category includes equity investments which we had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by us, liabilities assumed by us to the former owners of the acquiree and the equity interests issued by us in exchange for control of the acquiree. For each business combination, we elect whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

We determine that we have acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of our previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. We performed our annual impairment test of goodwill as of December 31, 2019. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets (Other than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful life of 3 years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years, which is shorter of legal registered period and the period over which the trademark is expected to generate net cash inflows from the commercialization of product.

Artiste management agreements

Artiste management agreements are stated at cost less any impairment loss and are amortized based on the contract periods of artiste management agreements of 33 months.

Non-compete agreements

Non-compete agreements are stated at cost less any impairment loss and are amortized on the straight-line basis over the contract periods of non-compete agreements of 40 months.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Our financial liabilities include trade and other payables, lease liabilities, financial liabilities at fair value through profit or loss, amounts due to a joint venture, amounts due to a related party, dividend payable and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by us that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as of fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognized in profit or loss, except for the gains or losses arising from our own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

We designated the convertible redeemable preferred shares upon initial recognition as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities when the holders of the convertible redeemable preferred shares cannot demand the Company to redeem the convertible redeemable preferred shares until at least 12 months after the end of each of the Track Record Period.

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Inventories

Inventories include the cost of completed drama series, drama series in production and undeveloped scripts and purchased copyrights or broadcasting rights of drama series. Inventories are stated at the lower of cost and net realizable value. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses.

The amounts of inventories recognized as cost of sales for a given period is determined using the drama series forecast computation method. Under this method, the amortization of inventories and the accrual of participations and residuals is based on the proportion of the drama series' revenues recognized for such period to the drama series' estimated remaining ultimate revenues (i.e. the total revenue to be received throughout a drama series' life cycle).

Accounting for the Co-investment Arrangements and Co-financing Arrangements

Under the co-investment arrangements where we act as an executive producer, the investment from the other co-investors is considered as the selling of shares of interests and copyrights in drama series to such co-investors by us. If the co-investors bear full risk for the shares of interests and copyrights of drama series they invested in, the amounts received from such co-investors are recognized as reductions of the costs of the drama series upon the receipt of the license for distribution of drama series from the NRTA. The amounts paid to such co-investors for the share of interests of drama series pursuant to the co-investment arrangements are recognized as deductions of revenue.

When co-investors are not entitled to any shares of copyrights in drama series they invested in under co-investment arrangements and we act as principal and is obligated to share the licensing revenue with such co-investors at a fixed return basis or based on the respective investment ratio, the amounts received from such co-investors are recognized as financial liabilities. The financial liabilities are subsequently measured at amortized costs (for fixed return investments) or fair value (for variable return investments), with gains or losses recognized in finance costs (for fixed return investments) or other expenses (for variable return investments), respectively.

The amount paid under co-financing arrangements to the third-party investors by us in order to obtain shares of legal rights (i.e. copyrights, broadcasting rights) of drama series is recognized as prepayments under the co-investment arrangements and reclassified as inventories upon the receipt of the license for distribution of drama series from the NRTA. The amounts received for the share of legal rights of drama series are recognized as revenue.

The amount paid under co-financing arrangements to third-party investors by us where we are not entitled to any shares of legal rights (i.e. copyrights, broadcasting rights) of the drama series is recognized as financial assets. The financial assets are subsequently measured at amortised costs (for fixed return investments) or fair value (for variable return investments), with gains or losses recognized in other income (for fixed return investments) or revenue (for variable return investments), respectively.

The following table sets forth the investment return model adopted for each of the drama series that we invested in under co-investment arrangements or co-financing arrangements during the Track Record Period:

Co-financing/ Co-investment arrangements	**Drama series**	**Investment return model**
Co-financing arrangement in which we invested as a non-executive producer(1)	"Hand in Hand" (陪你一起長大)	variable return investments
Co-investment arrangements where we act as principal	"Hunting" (獵狐)	fixed return investments
	"Novoland: Eagle Flag episodes" (九州縹緲錄)	fixed return investments/ variable return investments(2)
	"Twenty Your Life on" (二十不惑)	variable return investments
	"A Little Dilemma" (小舍得)	variable return investments
	"Xiaomin's House" (小敏家)	variable return investments

Notes:

(1) We invested as a non-executive producer in "Chinese Paladin 5" (仙劍雲之凡) on a variable return basis in 2016 and generated revenue of RMB63,000 from such investment in 2021.

(2) We produced "Novoland: Eagle Flag episodes" (九州縹緲錄) as the lead investor and executive producer under the co-investment arrangements where we acted as principal. Under such arrangement, one co-investor invested in "Novoland: Eagle Flag episodes" (九州縹緲錄) on a fixed return basis, for which interest expenses in relation to its investments were recognized as financial costs. Investment from another co-investor was on a variable return basis and expenses arising from sharing of licensing revenue with the co-investor were recognized as fair value changes on financial liabilities of co-investment arrangements in other expenses.

Co-financing arrangements

From time to time, we chose to invest in high viewership drama series projects under co-financing arrangements to further monetize our production capability. Under co-financing arrangements, we act as a non-executive producer, generally contributing a minority investment sum. During the Track Record Period, we invested as a non-executive producer in "Hand in Hand" (陪你一起長大) on a variable return basis and generated revenue of RMB47.5 million from such investment in 2021. We did not invest in any drama series under co-financing arrangements in 2019, 2020 and the three months ended March 31, 2022.

Co-investment arrangements

We co-invested in drama series through co-investment arrangements with other industry players. Under co-investment arrangements where we act as an executive producer and are obliged to share the licensing revenue with such co-investors based on their respective investment amount, the amounts received from such co-investors are recognized as financial liabilities. During the Track Record Period, we produced "Hunting" (獵狐) as the executive producer and lead investor under co-investment arrangements in 2020, for which interest expenses in relation to investment from third-party co-investors on a fixed return basis were recognized as financial costs. We produced "Novoland: Eagle Flag episodes" (九州縹緲錄) as the executive producer and lead investor under co-investment arrangements in 2019, for which interest expenses in relation to the investment from one of the co-investors on a fixed return basis were recognized as finance costs. During the Track Record Period, our finance costs of interest expenses on financial liabilities under co-investment arrangements as mentioned above amounted to RMB3.7 million and RMB1.4 million in 2019 and 2020, respectively. We also acted as the executive producer and co-invested with other investors on a variable return basis in "Novoland: Eagle Flag episodes" (九州縹緲錄), "Twenty Your Life on" (二十不惑), "A Little Dilemma" (小舍得) and "Xiaomin's House" (小敏家), for which we recorded fair value changes on financial liabilities of co-investment arrangements in other expenses. The fair value changes on financial liabilities of co-investment arrangements represent the fair value losses in relation to the amounts received from third-party co-investors of such drama series. During the Track Record Period, our other expenses of fair value changes on financial liabilities of co-investment arrangements in relation to such investments amounted to RMB7.3 million, RMB13.7 million, RMB39.3 million and nil in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

Level 3 of Fair Value Measurement

In respect of the valuation of level 3 financial assets and financial liabilities, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 (the "**Guidance**") applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the financial assets and financial liabilities without readily determinable fair value; (ii) carefully considered available information in assessing the financial data and assumptions including but not limited to discount rate, political and industry conditions; (iii) engaged independent valuer to appraise the fair value of certain financial assets and financial liabilities that are significant, provided necessary financial information to the valuer for the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable and our financial statements are properly prepared.

The details on the fair value measurement, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in Note 27 and Note 37 in Appendix I to this document. On the basis of opining on the Historical Financial Information as a whole, the Reporting Accountants have performed procedures on the valuation of level 3 financial assets and financial liabilities as at each end of the Track Record Period in accordance with Hong Kong Standards on Auditing (the "**HKSA**") 540 (Revised) and other related HKSAs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

In relation to the fair value assessment of the financial liabilities and assets requiring level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) obtaining and reviewing the terms of the relevant agreements and documents regarding the financial liabilities and assets; (ii) considering the qualification, independence and credentials of the Independent Valuer; (iii) obtaining and reviewing the valuation report prepared by the Independent Valuer in respect of certain of the level 3 financial assets and liabilities; (iv) discussing with the Independent Valuer regarding the assumptions, valuation techniques and methodologies applied to determine the valuation; (v) discussing with the Company to understand its preparation of the underlying information used in the valuation of the level 3 financial liabilities and assets of the Group and the Company's views on the fairness and reasonableness of the assumptions, basis and approaches of the valuation so conducted; (vi) discussing with the Reporting Accountant in respect of audit procedures conducted regarding the valuation in accordance with Hong Kong Standards on Auditing and discussing with the Reporting Accountant about the relevant accounting treatments; and (vii) reviewing the relevant notes in the Accountant's Report as contained in Appendix I to this Document and the Reporting Accountant's opinion on the historical financial information as a whole for the Track Record Period. Based upon the due diligence work conducted by the Joint Sponsors as stated above, and having considered the view of the Directors and the Reporting Accountant, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation performed by the Independent Valuer and the Company or the valuation of the financial liabilities and assets requiring level 3 measurements are not made with reference to the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 and the Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The following table sets forth selected consolidated statements of profit or loss items 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*
				(Unaudited)	
Revenue	1,794,164	1,426,159	1,248,964	48,083	470,648
Cost of sales	(1,393,316)	(880,403)	(689,934)	(6,037)	(287,469)
Gross profit	400,848	545,756	559,030	42,046	183,179
Other income and gains	49,290	51,011	113,197	25,477	14,311
Selling and distribution expenses	(116,074)	(131,281)	(103,336)	(12,359)	(40,786)
Administrative expenses	(97,753)	(93,774)	(162,104)	(21,701)	(55,557)
Other expenses	(10,104)	(25,198)	(54,502)	(557)	(3,378)
Finance costs	(21,446)	(12,420)	(4,844)	(968)	(565)
Share of profits and losses of associates	(3,140)	(879)	2,200	174	(695)
Changes in fair value of convertible redeemable preferred shares	(93,924)	(239,176)	(225,852)	(49,665)	(70,539)
Profit/(loss) before tax	107,697	94,039	123,789	(17,553)	25,970
Income tax expense	(27,299)	(31,494)	(62,876)	5,625	(28,093)
Profit/(loss) for the year/period	80,398	62,545	60,913	(11,928)	(2,123)
Attributable to:					
Owners of the parent	82,951	50,130	60,913	(11,928)	(2,123)
Non-controlling interests	(2,553)	12,415	–	–	–
	80,398	62,545	60,913	(11,928)	(2,123)

Non-HKFRS Measure

To supplement our consolidated financial statements, which are presented in accordance with HKFRS, we also use adjusted net profit as additional financial measure, which is not required by, or presented in accordance with, HKFRS. We believe this non-HKFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items.

We believe this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net profit as net profit/(loss) for the period adjusted by adding back share-based payments, [**REDACTED**] expenses and changes in fair value of convertible redeemable preferred shares. The reconciling item is non-cash and does not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with guidance letter HKEX-GL103-19 issued by the Stock Exchange ("**GL103-19**"). In addition, we designated the convertible redeemable preferred shares upon initial recognition as financial liabilities at fair value through profit or loss. Upon [**REDACTED**], all convertible redeemable preferred shares will be reclassified from financial liabilities to equity as a result of their automatic conversion into ordinary shares. The reconciling item is non-cash and does not result in cash outflow, which complies with GL103-19. Further, we exclude [**REDACTED**] expense arising from activities relating to the [**REDACTED**].

The following table reconciles our adjusted net profit for the periods presented to the most directly comparable financial measures calculated and presented in accordance with HKFRS, which is net profit/(loss) for the period:

	Year ended December 31,			**Three months ended March 31,**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reconciliation of net profit/(loss) to adjusted net profit					
Profit/(loss) for the year/period	**80,398**	**62,545**	**60,913**	**(11,928)**	**(2,123)**
Add:					
Share-based payments(1)	101	1,094	5,543	154	6,128
[**REDACTED**] expenses(2)	–	–	19,411	–	6,947
Changes in fair value of convertible redeemable preferred shares(3)	70,443	179,382	193,641	37,249	70,539
Adjusted net profit(4)	**150,942**	**243,021**	**279,508**	**25,475**	**81,491**

Notes:

(1) Share-based payments mainly represent the arrangement that we receive services from certain eligible suppliers and employees as consideration for our equity instruments. Share-based payments are not expected to result in future cash payments.

(2) [**REDACTED**] expenses are mainly related to the [**REDACTED**] and commonly not included in similar non-HKFRS financial measures.

(3) All of the convertible redeemable preferred shares will convert to our ordinary shares upon the completion of the [**REDACTED**].

(4) A non-HKFRS measure.

Revenue

During the Track Record Period, we generated our revenue primarily from (i) licensing of broadcasting rights of original drama series produced by us; (ii) content marketing; and (iii) other businesses. See "Business – Our Business Model." During the Track Record Period, we generated a majority of our revenue from licensing of broadcasting rights of original drama series produced by us.

The following table sets forth our revenue breakdown by business line in absolute amounts and as percentages of our total revenue 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*	*%*
							(Unaudited)			
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	102,674	5.7%	152,775	10.7%	87,763	7.0%	38,475	80.0%	339	0.1%
Total	**1,794,164**	**100.0%**	**1,426,159**	**100.0%**	**1,248,964**	**100.0%**	**48,083**	**100.0%**	**470,648**	**100.0%**

We recorded relatively low revenue from the licensing of broadcasting rights of original drama series in the three months ended March 31, 2021 primarily because we did not license the first-run broadcasting rights of any original drama series to any customers in the three months ended March 31, 2021.

Original Drama Series

During the Track Record Period, we produced and distributed a total of ten original drama series with two, three, three, two original drama series distributed in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. 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*	%
							(Unaudited)			
Online video platforms[1]	1,257,358	77.0%	896,767	74.3%	722,459	68.7%	9,434	98.2%	334,804	73.4%
TV channels[2]	333,362	20.4%	276,026	22.9%	269,380	25.6%	134	1.4%	95,655	21.0%
Others[3]	41,938	2.6%	34,630	2.8%	59,596	5.7%	40	0.4%	25,731	5.6%
Total	**1,632,658**	**100.0%**	**1,207,423**	**100.0%**	**1,051,435**	**100.0%**	**9,608**	**100.0%**	**456,190**	**100.0%**

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 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 to any online video platform customers in the same period 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 a higher licensing fees of one costume drama series in 2019, driven by the relatively 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. 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, 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 further expansion of distribution to overseas markets.

Content Marketing

During the Track Record Period, we (i) provided product placement services to our customers, (ii) developed and produced customized creative advertisements and placed such advertisements in our drama series broadcasting on online video platforms, and (iii) designed 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. Revenue generated from our content marketing services amounted to RMB58.8 million, RMB66.0 million, RMB109.8 million and RMB14.1 million, respectively, in 2019, 2020 and 2021 and the three months ended March 31, 2022, accounting for approximately 3.3%, 4.6%, 8.8% and 3.0% of our total revenue in the same periods, respectively.

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*
				(Unaudited)	
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
Total	**58,832**	**65,961**	**109,766**	**–**	**14,119**

We did not recognize any revenue from content marketing services in the three months ended March 31, 2021 because (i) we did not license the first-run broadcasting rights of any original drama series to any customers in the three months ended March 31, 2021 and therefore did not recognize any revenue from product placements and customized creative advertisements in the period; and (ii) we did not commence our integrated marketing campaign services in the three months ended March 31, 2021.

Other Businesses

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

The following table sets forth our revenue breakdown of other businesses 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*
				(Unaudited)	
Made-to-order drama series production	73,082	–	28,190	–	–
Movie distribution	–	135,000	–	–	–
Investing in drama series as a non-executive producer	–	–	47,589	38,475	–
Licensing IP derivatives adaptation rights	1,699	3,207	3,989	–	–
Artiste management services	23,872	422	–	–	–
Others	4,021	14,146	7,995	–	339
Total	**102,674**	**152,775**	**87,763**	**38,475**	**339**

Revenue generated from our other businesses amounted to RMB102.7 million, RMB152.8 million, RMB87.8 million, RMB38.5 million and RMB0.3 million, respectively, in 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022, accounting for approximately 5.7%, 10.7%, 7.0%, 80.0% and 0.1% of our total revenue in the same periods, respectively. During the Track Record Period, we produced and generated revenue from two made-to-order drama series in 2019 and 2021 and one film in 2020. Revenue from the two made-to-order drama series is recognized on a net basis, with an amount of RMB73.1 million attributable to "The King's Avatar" (全職高手) in 2019 and RMB28.2 million attributable to "Ancient Love Poetry" (千古玦塵) in 2021, respectively. Revenue generated from movie distribution in 2020 was primarily attributable to "Monster Run" (怪物先生), a film we produced and distributed in 2020. Revenue generated from investing in drama series as a non-executive producer amounted to RMB47.6 million in 2021, which was mainly attributable to our investment of the capital contributions to "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer. With respect to artiste management services, we did not record revenue in 2021 because we disposed of Shanghai Mengyang, the subsidiary providing artiste management services in 2020, to focus our resources on original drama series business. Revenue generated from licensing IP derivatives adaptation rights during the Track Record Period was primarily attributable to the licensing of adaptation rights of our original drama series to online gaming and music companies. In the three months ended March 31, 2022, revenue generated from our other businesses was from our production and release of short videos (not content marketing-related).

Cost of Sales

The following table sets forth a breakdown of our cost of sales in absolute amounts and as percentages of our total cost of sales 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*	*%*
							(Unaudited)			
Original drama series	1,352,352	97.1%	698,015	79.3%	632,835	91.7%	5,442	90.1%	281,027	97.8%
Production cost(1)	1,341,546	96.3%	686,628	78.0%	621,752	90.1%	–	–	280,020	97.4%
Provision for write-down of inventories(2)	10,806	0.8%	11,387	1.3%	11,083	1.6%	5,442	90.1%	1,007	0.4%
Content marketing(3)	19,859	1.4%	17,444	2.0%	46,773	6.8%	–	–	6,286	2.1%
Others(4)	21,105	1.5%	164,944	18.7%	10,326	1.5%	595	9.9%	156	0.1%
Total	**1,393,316**	**100.0%**	**880,403**	**100.0%**	**689,934**	**100.0%**	**6,037**	**100%**	**287,469**	**100%**

Notes:

(1) Production cost mainly represents the net cost incurred for producing our original drama series, being the net amount after taking into account the government subsidies in connection with the development of scripts and production of drama series with an amount of RMB6.6 million, RMB16.7 million, RMB5.1 million and RMB10.9 million in 2019, 2020, 2021 and the three months ended March 31, 2022.

(2) Provision for write-down of inventories mainly represents provision for write-down of inventories in connection with our original drama series.

(3) Cost of content marketing mainly represents remuneration of actors and directors, and advertisement production cost.

(4) Others include production cost of made-to-order drama series, film production cost, cost in connection with artiste management services and provision of write-down of inventories in connection with film production.

Our cost of original drama series decreased from RMB1,352.4 million in 2019 to RMB698.0 million in 2020, primarily because (i) we produced "Novoland: Eagle Flag episodes" (九州縹緲錄) with relatively high production cost in 2019, and (ii) we further tightened the budget control of our drama series through adopting various measures including reducing the numbers of travels among different filming and shooting sites, setting more compact filming schedules for our drama series and strategically reducing the use of large-scale production services providers that provide multiple types of services, and directly engaging more small-scale production services providers which directly provide specific types of services to enhance our bargaining power and cost-effectiveness. The relatively high production cost of "Novoland: Eagle Flag episodes" (九州縹緲錄) was 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 incur higher costs for make-up, costumes, production sets and post-production, especially the special effects. Our cost of original drama series decreased from RMB698.0 million in 2020 to RMB632.3 million in 2021, primarily due to a decrease in production cost of original drama series mainly attributable to a decrease in total number of episodes of first-run original drama series produced by us from 127 episodes in 2020 to 115 episodes in 2021. Our cost of original drama series increased from RMB5.4 million in the three months ended March 31, 2021 to RMB281.0 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 customers following the broadcasting of 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 in 2021.

Our content marketing cost remained relatively stable at RMB19.9 million in 2019 and RMB17.4 million in 2020. Our content marketing cost increased from RMB17.4 million in 2020 to RMB47.3 million in 2021, primarily attributable to integrated marketing campaigns business which incurred comparatively higher costs. We started to provide integrated marketing campaigns service since 2021 as expanding into integrated marketing campaigns brings in additional revenue streams monetizing our IPs and our relationships with advertising customers. Our content marketing cost was RMB6.3 million in the three months ended March 31, 2022, while we did not record content marketing cost in the three months ended March 31, 2021, primarily because we recognized content marketing revenue from two original drama series of which we licensed the first-run broadcasting rights to our customers and which were broadcast in the three months ended March 31, 2022 while no such original drama series were broadcast in the same period in 2021.

Our cost of other businesses increased from RMB21.1 million in 2019 to RMB164.9 million in 2020, and decreased from RMB164.9 million in 2020 to RMB10.3 million in 2021. The fluctuation of our cost of other businesses from 2019 to 2021 was primarily due to our production and distribution of a film in 2020. Our cost of other businesses remained relatively stable at RMB0.6 million in the three months ended March 31, 2021 and RMB0.2 million in the three months ended March 31, 2022.

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit by business line in absolute amounts and as a percentage of revenue, or gross profit margin, for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Original drama series	280,306	17.2%	509,408	42.2%	419,167	39.9%	4,166	43.4%	175,163	38.4%
Content marketing	38,973	66.2%	48,517	73.6%	62,427	56.9%	–	0.0%	7,833	55.5%
Others	81,569	79.4%	(12,169)	(8.0)%	77,436	88.2%	37,880	98.5%	183	54.0%
Total	**400,848**	**22.3%**	**545,756**	**38.3%**	**559,030**	**44.8%**	**42,046**	**87.4%**	**183,179**	**38.9%**

Our gross profit increased from RMB400.8 million in 2019 to RMB545.8 million in 2020 primarily because (i) we produced "Novoland: Eagle Flag episodes" (九州縹緲錄) in 2019 with relatively high production cost, which was mainly due to the large scale of the project and the genre of this drama series as a costume and fantasy drama series, which generally incur higher costs for make-up, costumes, production sets and post-production, especially the special effects; and (ii) we further tightened the budget control of our drama series through adopting various measures including reducing the numbers of travels among different filming and shooting sites, setting more compact filming schedules for our drama series and strategically reducing the use of large-scale production services providers that provide multiple types of services, and directly engaging more small-scale production services providers which directly provide specific types of services to enhance our bargaining power and cost-effectiveness. As a result, our gross profit margin increased from 22.3% in 2019 to 38.3% in 2020.

Our gross profit remained relatively stable at RMB545.8 million and RMB559.0 million in 2020 and 2021, respectively. Our gross profit margin increased from 38.3% in 2020 to 44.8% in 2021, primarily due to the increase of gross profit margin of other businesses in 2021, which was mainly because (i) we invested in "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer and charged net licensing fees in proportion to our investment, and (ii) we charged fixed production fees for production of "Ancient Love Poetry" (千古玦塵), a made-to-order drama series, and recognized revenue at a net basis, which entailed a relatively higher gross profit margin. Our gross profit margin of content marketing business decreased from 73.6% in 2020 to 56.9% in 2021, primarily attributable to integrated marketing campaigns business which incurred comparatively higher costs and entailed comparatively lower gross margin. Our gross profit margin of other businesses was negative 8.0% in 2020, primarily due to the impairment loss of "Counterfeit Secret Service" (冒牌特工隊), a film that completed filming while did not complete post-production since we ceased our continued investment into its production due to the expected decrease in popularity of its content among audiences and our estimation of its profitability based on the overall market conditions and trends in 2020. 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.

Our gross profit increased from RMB42.0 million in the three months ended March 31, 2021 to RMB183.2 million in the three months ended March 31, 2022, primarily due to a significant increase in revenue generated from licensing of broadcasting rights of original drama series to our customers. Our gross profit margin decreased from 87.4% in the three months ended March 31, 2021 to 38.9% in the three months ended March 31, 2022, primarily because we invested in "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer and charged net licensing fees in proportion to our investment, which entailed a relatively higher gross profit margin in three months ended March 31, 2021.

Other Income and Gains

Our other income and gains primarily consist of (i) government grants which represent the non-recurring incentives from local governments to support our operation, (ii) additional deduction for input VAT, (iii) interest income on cash and bank balances, time deposits and revenue contracts, (iv) investment income from financial assets at fair value through profit or loss, (v) fair value gains on financial assets at fair value through profit or loss, (vi) gain on disposal of a subsidiary, and (vii) others.

The following table sets forth a breakdown of other income and gains 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*
				(Unaudited)	
Government grants	28,777	13,449	42,287	3,913	5,317
Additional deduction for input VAT	–	–	25,686	12,672	1,039
Interest income	1,598	10,325	17,728	3,878	4,457
Investment income from financial assets at fair value through profit or loss	9,706	13,146	24,023	2,638	1,442
Fair value gains on financial assets at fair value through profit or loss	9,060	12,521	2,913	2,376	2,048
Gain on disposal of a subsidiary	–	487	–	–	–
Others	149	1,083	560	–	8
Total	**49,290**	**51,011**	**113,197**	**25,477**	**14,311**

During the Track Record Period, our government grants in other income were RMB28.8 million, RMB13.4 million, RMB42.3 million and RMB5.3 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our government grants primarily consist of (i) subsidies granted by local governments for our production of original drama series, and (ii) subsidies as rewards to our contribution to the local economy. The non-recurring government grants we received from local government authorities are subject to the satisfaction of certain conditions, including compliance with the applicable incentive agreements or relevant government policies and regulations, and are recognized as government grants in other income when certain conditions or contractual obligations are satisfied. There were no unfulfilled conditions or contingencies attached to these government grants.

Additional deduction for input VAT is a preferential tax treatment pursuant to the relevant VAT regulations in China. From April 1, 2019 to December 31, 2021, pursuant to the Announcement on Deepening Policies related to VAT reformation (《財政部稅務總局海關總署關於深化增值稅改革有關政策的公告》) (Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39 財政部稅務總局海關總署公告[2019年]第39號) issued by the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs, we can add 10% of the current deductible input tax to offset the VAT payable. During the Track Record Period, our additional deduction for input VAT of RMB25.7 million in 2021 and RMB1.0 million in the three months ended March 31, 2022 was recognized as other gains in accordance with the tax regulations as a result of a higher output VAT as compared with input VAT in the relevant reporting period. We did not record additional deduction for input VAT in 2019 and 2020, primarily because we incurred relatively large amount of input VAT in the relevant reporting periods and none of the additional deduction for input VAT was recognized as other gains in accordance with the tax regulations.

Selling and Distribution Expenses

Our selling and distribution expenses consist of (i) marketing expenses, (ii) staff cost and welfare of our sales staff, and (iii) office expenses. The following table sets forth a breakdown of our selling and distribution expenses 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*	*%*
							(Unaudited)			
Marketing expenses	96,583	83.2%	118,353	90.2%	85,079	82.3%	9,720	78.6%	34,267	84.0%
Staff cost and welfare	11,779	10.1%	8,369	6.4%	13,913	13.5%	2,064	16.7%	5,911	14.5%
Office expenses	7,712	6.6%	4,559	3.5%	4,344	4.2%	575	4.7%	608	1.5%
Total	**116,074**	**100.0%**	**131,281**	**100.0%**	**103,336**	**100.0%**	**12,359**	**100.0%**	**40,786**	**100.0%**

Administrative Expenses

Our administrative expenses primarily consist of (i) staff cost and welfare of our administrative staff, (ii) depreciation and amortization, (iii) office expenses, (iv) professional service expenses, (v) impairment loss or reversal of impairment loss on trade receivables, (vi) tax and surcharges, (vii) [**REDACTED**] expenses, and (viii) others. The following table sets forth a breakdown of our administrative expenses 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* (*Unaudited*)	*%*	*RMB'000*	*%*
Staff cost and welfare	41,240	42.2%	42,249	45.1%	74,054	45.7%	13,191	60.7%	31,334	56.5%
Depreciation and amortization	22,759	23.3%	16,388	17.5%	18,310	11.3%	3,945	18.2%	5,624	10.1%
Office expenses	17,173	17.6%	18,497	19.7%	20,845	12.9%	2,642	12.2%	4,609	8.3%
Professional service expenses	2,942	3.0%	5,059	5.4%	5,576	3.4%	449	2.1%	557	1.0%
Impairment loss/ (reversal of impairment loss) on trade receivables	3,760	3.8%	534	0.6%	10,980	6.8%	(2,280)	(10.5)%	545	1.0%
Tax and surcharges	3,163	3.2%	2,067	2.2%	4,463	2.7%	1,183	5.5%	3,024	5.4%
[**REDACTED**] expenses	–	–	–	–	21,416	13.2%	–	0.0%	7,797	14.0%
Others	6,716	6.9%	8,980	9.6%	6,460	4.0%	2,571	11.8%	2,067	3.7%
Total	**97,753**	**100.0%**	**93,774**	**100.0%**	**162,104**	**100.0%**	**21,701**	**100.0%**	**55,557**	**100.0%**

During the Track Record Period, our administrative expenses were RMB97.8 million, RMB93.8 million, RMB162.1 million and RMB55.6 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. We have 62, 76, 113 and 123 administrative staff as of December 31, 2019, 2020 and 2021 and March 31, 2022. Our staff cost and welfare increased from RMB42.2 million in 2020 to RMB74.1 million in 2021, and increased from RMB13.2 million in the three months ended March 31, 2021 to RMB31.3 million in the three months ended March 31, 2022, primarily due to an increase in the number of our administrative staff from 76 as of December 31, 2020 to 113 as of December 31, 2021 and further increased to 123 as of March 31, 2022 and we granted our employees with project bonus in the three months ended March 31, 2022. The increase in the number of our administrative staff was primarily due to the increased headcount in our subsidiaries newly established since 2021 to support our new business including provision of video-based marketing content design and production service and the expansion of overseas distributions of our drama series. We expect the number of administrative staff may continue to increase alongside the growth and further expansion of business in line with our strategies to continue to strengthen our drama series production capabilities and explore new business models to diversify our products and services offerings. However, the increase of the number of administrative staff is expected to remain at a relatively stable and slow rate as we plan to effectively control our administrative expenses through prudently monitoring the growth and the necessity of new administrative staff and streamlining organizational structure to enhance the efficiency and systematic operation of administrative management.

Our impairment loss on trade receivables was RMB3.8 million, RMB0.5 million, RMB11.0 million and RMB0.5 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. The increase in impairment loss on trade receivables in 2021 was primarily due to the increase in provisions made for the trade receivables aged two to three years in accordance with our accounting policies.

Other Expenses

The following table sets forth a breakdown of our other expenses 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*
				(Unaudited)	
Fair value changes on financial liabilities of co-investment arrangements	7,283	13,699	39,261	51	–
Others	2,821	11,499	15,241	506	3,378
Total	**10,104**	**25,198**	**54,502**	**557**	**3,378**

During the Track Record Period, our fair value changes on financial liabilities of co-investment arrangements were RMB7.3 million, RMB13.7 million, RMB39.3 million and nil in 2019, 2020 and 2021 and the three months ended March 31, 2022. We co-invest in drama series through co-investment arrangements with other industry players. Our fair value changes on financial liabilities of co-investment arrangements represent the fair value losses in relation to the amounts received from third-party co-investors of our drama series. Under the co-investment arrangements where the co-investors are not entitled to any shares of copyrights in drama series they invested in and we act as an executive producer, we are obliged to share the licensing revenue with such co-investors based on their respective investment ratio, and the amounts received from such co-investors are recognized as financial liabilities. See "– Critical Accounting Policies and Estimates – Accounting for the Co-investment Arrangements and Co-financing Arrangements" for details.

Others in our other expenses increased from RMB2.8 million in 2019 to RMB11.5 million in 2020, primarily due to a provision made for a lawsuit during the ordinary course of our business. See "Business – Legal Proceedings and Compliance – Legal Proceedings" for details. Others in our other expenses increased from RMB11.5 million in 2020 to RMB15.2 million in 2021 and increased from RMB0.6 million in the three months ended March 31, 2021 to RMB3.4 million in the three months ended March 31, 2022, primarily due to the exchange loss.

Finance Costs

Our finance costs primarily comprise of (i) interest on bank loans, (ii) interest expenses on financial liabilities under co-investment arrangements, (iii) interest on lease liabilities, and (iv) interest on discounted notes receivable. The following table sets forth a breakdown of our finance costs 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*
				(Unaudited)	
Interest on bank loans	16,280	5,321	2,873	–	–
Interest expenses on financial liabilities under co-investment arrangements(1)	3,702	5,550	–	–	–
Interest on lease liabilities	1,464	1,418	1,018	249	200
Interest on discounted notes receivable	–	131	953	719	365
Total	**21,446**	**12,420**	**4,844**	**968**	**565**

Note:

(1) Interest expenses on financial liabilities under co-investment arrangements mainly represent the interest expense in relation to the investment amount we received from third-party co-investors of our drama series. Under the co-investment arrangements for drama series where we act as an executive producer and our co-investors do not have any share of copyright of our drama series, our co-investors shall pay us their investment amount.

Share of Profits and Losses of Associates

Our share of profits and losses of associates mainly related to our investment in Beijing Ark Reading Technology Co., Ltd. (北京方舟閱讀科技有限公司) and Shanghai Senmeijie Culture Media Co., Ltd. (上海森美介文化傳媒有限公司). We recorded share of losses of RMB3.1 million and RMB0.9 million in 2019 and 2020 and share of profits of RMB2.2 million in 2021. We recorded share of profits of RMB0.2 million in the three months ended March 31, 2021 and share of losses of RMB0.7 million in the three months ended March 31, 2022.

Changes in fair value of convertible redeemable preferred shares

Our convertible redeemable preferred shares are in relation to our multiple rounds of Pre-[**REDACTED**] Investment. We recorded changes in fair value of convertible redeemable preferred shares of a loss of RMB93.9 million, RMB239.2 million, RMB225.9 million and RMB70.5 million in 2019, 2020 and 2021 and the three months ended March 31, 2022.

Income Tax Expense

Our income tax expense consists of current tax and deferred tax. Our deferred tax represents the movement of our deferred tax assets and liabilities during the Track Record Period, which was primarily attributable to the deferred tax effect of (i) changes in fair value on convertible redeemable preferred shares, (ii) impairment of our inventories, and (iii) our right of use assets. The following table sets forth a breakdown of our income tax expense 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* *(Unaudited)*	*RMB'000*
Current – Mainland China charge for the year/period	13,235	99,463	111,129	11,311	25,025
Deferred tax	14,064	(67,969)	(48,253)	(16,936)	3,068
Total tax charge for the year/period	**27,299**	**31,494**	**62,876**	**(5,625)**	**28,093**

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which our members are domiciled and operate.

Cayman Islands and the British Virgin Islands

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Hong Kong

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the Track Record Period.

The PRC

The provision for PRC corporate income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of us as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on January 1, 2008.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Xinjiang Kashgar and Horgos special economic areas during the period from 2010 to 2020 can enjoy EIT exemption for five years starting from the year under which the first revenue is generated. Horgos Linmon and Horgos Linmon Black tea enjoyed the benefit under the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》). According to the Preferential Filing Record of EIT (《企業所得稅優惠事項備案表》), Horgos Linmon has obtained the approval from the State Administration of Taxation for the entitlement of EIT exemption from July 26, 2016 to December 31, 2020, and an EIT exemption by local tax bureau for the next five years starting from January 1, 2021, Horgos Linmon Black Tea has registered with the State Administration of Taxation for entitlement of EIT exemption from October 16, 2017 to December 31, 2021 and local bureau's EIT exemption for the next five years from January 1, 2022.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Revenue

Our revenue increased by 878.8% from RMB48.1 million in the three months ended March 31, 2021 to RMB470.6 million in the three months ended March 31, 2022, primarily attributable to an increase of revenue generated from licensing of broadcasting rights of original drama series.

Original Drama Series

Revenue generated from licensing of broadcasting rights of original drama series produced by us increased from RMB9.6 million in the three months ended March 31, 2021 to RMB456.2 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 customers following the broadcasting of 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 in 2021.

Content Marketing

Revenue generated from content marketing was RMB14.1 million in the three months ended March 31, 2022, while we did not generate revenue from content marketing in the three months ended March 31, 2021, primarily because we recognized content marketing revenue from two original drama series of which we licensed the first-run broadcasting rights to our customers and which were broadcast in the three months ended March 31, 2022 while no such original drama series were broadcast in the same period in 2021.

Other Businesses

Revenue generated from other businesses decreased from RMB38.5 million in the three months ended March 31, 2021 to RMB0.3 million in the three months ended March 31, 2022 mainly mainly due to our investment of the capital contributions to "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer.

Cost of Sales

Our cost of sales increased by 4,661.8% from RMB6.0 million in the three months ended March 31, 2021 to RMB287.5 million in the three months ended March 31, 2022, primarily due to a significant increase in production cost of original drama series which was mainly 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 customers following the broadcasting of 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 in 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased from RMB42.0 million in the three months ended March 31, 2021 to RMB183.2 million in the three months ended March 31, 2022. Our gross profit margin decreased from 87.4% in the three months ended March 31, 2021 to

38.9% in the three months ended March 31, 2022, primarily because we invested in "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer and charged net licensing fees in proportion to our investment, which entailed a relatively higher gross profit margin in the three months ended March 31, 2021.

Other Income and Gains

Our other income and gains decreased by 43.8% from RMB25.5 million in the three months ended March 31, 2021 to RMB14.3 million in the three months ended March 31, 2022, primarily attributable to a decrease in our additional deduction for input VAT in the three months ended March 31, 2022.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 230.0% from RMB12.4 million in the three months ended March 31, 2021 to RMB40.8 million in the three months ended March 31, 2022, primarily due to the increase in marketing expenses for our two drama series which were under first-run broadcasting in the three months ended March 31, 2022 while no drama series were under first-run broadcasting in the same period in 2021.

Administrative Expenses

Our administrative expenses increased by 156.0% from RMB21.7 million in the three months ended March 31, 2021 to RMB55.6 million in the three months ended March 31, 2022, primarily due to (i) the increase in staff cost and welfare of our administrative staff, which was driven by an increase in the number and average salary level of our administrative staff, and (ii) the [**REDACTED**] expenses incurred in relation to the [**REDACTED**].

Other Expenses

Our other expenses increased by 506.5% from RMB0.6 million in the three months ended March 31, 2021 to RMB3.4 million in the three months ended March 31, 2022, primarily due to the exchange loss.

Finance Costs

Our finance costs remained relative stable at RMB1.0 million in the three months ended March 31, 2021 and RMB0.6 million in the three months ended March 31, 2022.

Share of Profits and Losses of Associates

We recorded share of profits of RMB0.2 million in the three months ended March 31, 2021 and share of losses of RMB0.7 million in the three months ended March 31, 2022, primarily in relation to our investment in Beijing Ark Reading Technology Co., Ltd. (北京方舟閱讀科技有限公司) and Shanghai Senmeijie Culture Media Co., Ltd. (上海森美介文化傳媒有限公司).

Income Tax Expense

We recorded income tax credit of RMB5.6 million in the three months ended March 31, 2021 and income tax expense of RMB28.1 million in the three months ended March 31, 2022, primarily due to an increase in our deferred tax and an increase of our taxable income in the three months ended March 31, 2022. Our effective income tax rate increased from 32.0% in the three months ended March 31, 2021 to 108.2% in the three months ended March 31, 2022, primarily due to deferred tax impact arising out of the Reorganisation.

Loss for the Period

As a result of the foregoing, our net loss decreased from RMB11.9 million in the three months ended March 31, 2021 to RMB2.1 million in the three months ended March 31, 2022.

Year 2021 Compared to Year 2020

Revenue

Our revenue decreased by 12.4% from RMB1,426.2 million in 2020 to RMB1,249.0 million in 2021, primarily attributable to a decrease of revenue generated from licensing of broadcasting rights of original drama series and other businesses.

Original Drama Series

Revenue generated from licensing of broadcasting rights of original drama series produced by us decreased from RMB1,207.4 million in 2020 to RMB1,051.4 million in 2021, primarily due to (i) a decrease in total number of episodes of first-run original drama series licensed to our customers from 127 episodes in 2020 to 115 episodes in 2021, and (ii) a comparatively lower licensing fee 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.

Content Marketing

Revenue generated from content marketing increased from RMB66.0 million in 2020 to RMB109.8 million in 2021, primarily due to the increase in the number of brands we promoted for in our drama series from 37 in 2020 to 61 in 2021.

Other Businesses

Revenue generated from other businesses was RMB152.8 million in 2020 which mainly related to a film we produced and distributed in 2020. Revenue generated from other businesses was RMB87.8 million in 2021 which mainly related to (i) the net licensing fee received from our investment of the capital contributions to "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer, and (ii) the revenue from the provision of production service for "Ancient Love Poetry" (千古玦塵), a made-to-order drama series produced in 2021.

Cost of Sales

Our cost of sales decreased by 21.6% from RMB880.4 million in 2020 to RMB689.9 million in 2021, primarily due to (i) a decrease in production cost of original drama series mainly attributable to a decrease in total number of episodes of first-run original drama series produced by us from 127 episodes in 2020 to 115 episodes in 2021, and (ii) a decrease in other costs, which was mainly because we incurred production cost of one film, "Monster Run" (怪物先生), in 2020, while no film was produced in 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit remained relatively stable at RMB545.8 million and RMB559.0 million in 2020 and 2021, respectively. Our gross profit margin increased from 38.3% in 2020 to 44.8% in 2021, primarily due to the increase of gross profit margin of other businesses in 2021, which was mainly because (i) we invested in "Hand in Hand" (陪你一起長大) in 2021 as a non-executive producer and charged net licensing fees in proportion to our investment, and (ii) we charged fixed production fees for production of "Ancient Love Poetry" (千古玦塵), a made-to-order drama series, and recognized revenue at a net basis, which entailed a relatively higher gross profit margin.

Other Income and Gains

Our other income and gains increased by 121.9% from RMB51.0 million in 2020 to RMB113.2 million in 2021, primarily attributable to the increase in government grants we received and additional deduction for input VAT in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 21.3% from RMB131.3 million in 2020 to RMB103.3 million in 2021, primarily due to the decrease in marketing expenses mainly because (i) one of the drama series broadcast in 2021, namely "To Fly with You" (陪你逐風飛翔), was in comparatively smaller scale, and (ii) we did not incur marketing expenses for our made-to-order drama series broadcast in 2021.

Administrative Expenses

Our administrative expenses increased by 72.9% from RMB93.8 million in 2020 to RMB162.1 million in 2021, primarily due to (i) the increase in staff cost and welfare of our administrative staff, which was driven by an increase in the number of our administrative staff, and (ii) the [**REDACTED**] expenses incurred in relation to the [**REDACTED**].

Other Expenses

Our other expenses increased by 116.3% from RMB25.2 million in 2020 to RMB54.5 million in 2021, primarily due to the increase in a loss of fair value changes on financial liabilities of co-investment arrangements mainly attributable to drama series including "A Little Dilemma" (小舍得) and "Xiaomin's House" (小敏家).

Finance Costs

Our finance costs decreased by 61.0% from RMB12.4 million in 2020 to RMB4.8 million in 2021, primarily due to the decrease in interest expenses on financial liabilities under co-investment arrangements and interest on bank loans.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB0.9 million in 2020 and share of profits of associates of RMB2.2 million in 2021, primarily in relation to our investment in Beijing Ark Reading Technology Co., Ltd. (北京方舟閱讀科技有限公司) and Shanghai Senmeijie Culture Media Co., Ltd. (上海森美介文化傳媒有限公司).

Income Tax Expense

Our income tax expense increased by 99.6% from RMB31.5 million in 2020 to RMB62.9 million in 2021, primarily due to the decrease in deferred tax. Our effective income tax rate increased from 33.5% in 2020 to 50.8% in 2021, primarily due to the increase in a non-deductible expenses.

Profit for the Year

As a result of the foregoing, our net profit remained relatively stable at RMB62.5 million and RMB60.9 million in 2020 and 2021, respectively.

Year 2020 Compared to Year 2019

Revenue

Our revenue decreased by 20.5% from RMB1,794.2 million in 2019 to RMB1,426.2 million in 2020, primarily due to a decrease of revenue in original drama series.

Original Drama Series

Revenue generated from licensing of broadcasting rights of original drama series produced by us decreased by 26.0% from RMB1,632.7 million in 2019 to RMB1,207.4 million in 2020, primarily due to the higher average licensing fees of one costume drama series in 2019, driven by the relatively high production cost of such drama series.

Content Marketing

Revenue generated from content marketing increased by 12.2% from RMB58.8 million in 2019 to RMB66.0 million in 2020, primarily due to the increase in the number of brands we promoted for in our drama series from 29 in 2019 to 37 in 2020, which is in line with the increase in the number of original drama series we produced from two in 2019 to three in 2020.

Other Businesses

Revenue generated from other businesses was RMB102.7 million in 2019 which mainly related to a made-to-order drama series and RMB152.8 million in 2020 which mainly related to a film we produced and distributed in 2020.

Cost of Sales

Our cost of sales decreased by 36.8% from RMB1,393.3 million in 2019 to RMB880.4 million in 2020 because (i) we produced "Novoland: Eagle Flag episodes" (九州縹緲錄) in 2019 with relatively high production cost which was mainly due to the large scale of the project and the genre of this drama series as a costume and fantasy drama series, which generally incur higher costs for make-up, costumes, production sets and post-production, especially the special effects; and (ii) we lowered the production cost of original drama series as we further tightened the budget control of our drama series. For example, we reduced the numbers of travels among different filming and shooting sites and set more compact filming schedules for our drama series. This measure is effective because the on-site costs such as compensation of crew members, rent cost of filming and shooting sites and transportation and accommodation costs of crew members are incurred on a daily basis. Specifically, the filming of three drama series broadcast in 2020, namely "Hunting" (獵狐), "Twenty Your Life On" (二十不惑) and "Nothing but Thirty" (三十而已), took a total of approximately 12 months, decreasing from approximately 13 months for two drama series broadcast in 2019, namely and "Novoland: Eagle Flag episodes" (九州縹緲錄) and "A Little Reunion" (小歡喜). Moreover, we reduced the use of large-scale production services providers that provide multiple types of services, and directly engaged more small-scale production services providers which directly provide specific types of services to enhance our bargaining power and cost-effectiveness.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 36.2% from RMB400.8 million in 2019 to RMB545.8 million in 2020. Our gross profit margin increased from 22.3% in 2019 to 38.3% in 2020, primarily because (i) we produced "Novoland: Eagle Flag episodes" (九州縹緲錄) in 2019 with relatively high production cost which was mainly due to the large scale of the project and the genre of this drama series as a costume and fantasy drama series, which generally incur higher costs for make-up, costumes, production sets and post-production, especially the special effects; and (ii) we further tightened the budget control of our drama series in 2020 through adopting various measures including reducing the numbers of travels among different filming and shooting sites, setting more compact filming schedules for our drama series and strategically reducing the use of large-scale production services providers that provide multiple types of services, and directly engaging more small-scale production services providers which directly provide specific types of services to enhance our bargaining power and cost-effectiveness.

Other Income and Gains

Our other income and gains remained relatively stable at RMB49.3 million in 2019 and RMB51.0 million in 2020.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 13.1% from RMB116.1 million in 2019 to RMB131.3 million in 2020, primarily due to the increase in marketing expense for promotion of our drama series from RMB96.6 million in 2019 to RMB118.4 million in 2020. This is mainly because we incurred less marketing expenses in 2019 for promotion activities for drama series including "Novoland: Eagle Flag episodes" (九州縹緲錄) than we originally expected. The decreased promotion activities for "Novoland: Eagle Flag episodes" (九州縹緲錄) was primarily due to a change in its broadcasting schedule. The marketing expenses for promotion activities returned to normality in 2020.

Administrative Expenses

Our administrative expenses remained relatively stable at RMB97.8 million in 2019 and RMB93.8 million in 2020.

Other Expenses

Our other expenses increased by 149.5% from RMB10.1 million in 2019 to RMB25.2 million in 2020, primarily due to an increase in loss of fair value changes on financial liabilities of co-investment arrangements.

Finance Costs

Our finance costs decreased from RMB21.4 million in 2019 to RMB12.4 million in 2020, primarily due to the decrease of interest on bank loans, which was mainly due to the decrease in the balance of our bank loans.

Share of Losses of Associates

Our share of losses of associates amounted to RMB3.1 million in 2019 and RMB0.9 million in 2020, primarily in relation to our investment in Beijing Ark Reading Technology Co., Ltd. (北京方舟閱讀科技有限公司).

Income Tax Expense

Our income tax expense increased by 15.4% from RMB27.3 million in 2019 to RMB31.5 million in 2020, primarily due to the reduction of preferential tax treatment enjoyed by certain of our subsidiaries. Our effective income tax rate increased from 25.3% in 2019 to 33.5% in 2020, primarily due to the reduction of preferential tax treatment enjoyed by certain of our subsidiaries.

Profit for the Year

As a result of the foregoing, our net profit decreased by 22.3% from RMB80.4 million in 2019 to RMB62.5 million in 2020.

DISCUSSION OF CERTAIN BALANCE SHEET ITEMS

Net Current Assets/(Liabilities)

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of May 31,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Current assets					
Inventories	825,294	336,922	554,213	353,118	422,692
Trade and notes receivables	462,118	255,759	385,582	501,886	428,052
Prepayments, other receivables and other assets	188,439	175,047	203,990	208,765	161,113
Financial assets at fair value through profit or loss	591,164	670,245	325,124	216,715	462,154
Restricted cash	119,760	–	–	–	–
Time deposits	–	–	–	–	250,000
Cash and cash equivalents	202,737	125,254	824,952	1,116,597	957,765
Total current assets	**2,389,512**	**1,563,227**	**2,293,861**	**2,397,081**	**2,681,776**
Current liabilities					
Trade payables	57,596	12,216	76,246	46,953	11,721
Other payables and accruals	784,705	311,835	466,669	462,023	529,616
Interest-bearing bank and other borrowings	281,519	17,230	–	–	–
Convertible redeemable Preferred Shares	–	3,055,412	3,276,406	3,346,945	3,109,812
Lease liabilities	15,489	13,090	16,941	14,381	13,415
Tax payable	7,250	63,918	74,835	31,932	1,571
Total current liabilities	**1,146,559**	**3,473,701**	**3,911,097**	**3,902,234**	**3,666,135**
Net current assets/(liabilities)	**1,242,953**	**(1,910,474)**	**(1,617,236)**	**(1,505,153)**	**(984,359)**

We recorded net current assets of RMB1,243.0 million as of December 31, 2019 and net current liabilities of RMB1,910.5 million as of December 31, 2020, primarily as a result of (i) the increased convertible redeemable preferred shares of RMB3,055.4 million due to the reclassification of the convertible redeemable preferred shares from non-current liabilities to current liabilities, (ii) the decreased inventories, primarily due to the completion of the production of our drama series in 2020, and (iii) the decreased trade and notes receivables, primarily due to our settlement of trade receivables with our customers, as partially offset by the decreased other payables and accruals.

Our net current liabilities decreased by 15.4% from RMB1,910.5 million as of December 31, 2020 to RMB1,617.2 million as of December 31, 2021, primarily as a result of (i) the increased cash and cash equivalents, and (ii) the increased inventories, as partially offset by (i) the decreased financial assets at fair value through profit or loss, and (ii) the increased convertible redeemable preferred shares.

Our net current liabilities decreased by 6.9% from RMB1,617.2 million as of December 31, 2021 to RMB1,505.2 million as of March 31, 2022, primarily as a result of (i) the increased cash and cash equivalents, and (ii) the increased trade and notes receivables, as partially offset by (i) the decreased inventories, and (ii) the increased convertible redeemable preferred shares.

Our net current liabilities decreased by 35.1% from RMB1,505.2 million as of March 31, 2022 to RMB975.3 million as of May 31, 2022, primarily as a result of (i) the increased financial assets at fair value through profit or loss; and (ii) the decreased convertible redeemable Preferred Shares, as partially offset by (i) the decreased cash and cash equivalents; and (ii) the increased other payables and accruals.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. The following table sets forth the breakdown and movement of provision for impairment of our inventories as of the dates indicated:

	As of/Year ended December 31,			As of/Three months ended March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials[(1)]				
Raw materials – gross	104,472	126,863	161,920	174,271
Less: Provision of write-down of inventories – gross				
Opening balance	(7,948)	(18,823)	(31,072)	(43,256)

	As of/Year ended December 31,			As of/Three months ended March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Add: Provision made for the year/period	(11,441)	(17,053)	(12,546)	(1,011)
Add: Write-off for the year/period	566	4,804	362	–
Closing balance	(18,823)	(31,072)	(43,256)	(44,267)
Raw materials – net	**85,649**	**95,791**	**118,664**	**130,004**
Work in progress[(2)]				
Work in progress – gross	806,204	351,193	440,441	333,022
Less: Provision of write-down of inventories – gross				
Opening balance	(66,559)	(66,559)	(110,062)	(110,062)
Add: Provision made for the year/period	–	(43,503)	–	–
Closing balance	(66,559)	(110,062)	(110,062)	(110,062)
Work in progress – net	**739,645**	**241,131**	**330,379**	**222,960**
Finished goods[(3)]				
Finished goods – gross	39,400	39,400	128,579	23,563
Less: Provision of write-down of inventories – gross				
Opening balance	(37,005)	(39,400)	(39,400)	(23,409)
Add: Provision made for the year/period	(2,395)	–	(86)	–
Add: Write-off for the year/period	–	–	16,077	–
Closing balance	(39,400)	(39,400)	(23,409)	(23,409)
Finished goods – net	**–**	**–**	**105,170**	**154**

Notes:

(1) Raw materials mainly represent the cost of scripts and IP rights for production of our drama series which are yet to be broadcast.

(2) Work in progress mainly represent the drama series of which we are in the process of production.

(3) Finished goods mainly represent drama series that obtained the relevant distribution licenses or approvals but has not been broadcast.

Our inventories decreased from RMB825.3 million as of December 31, 2019 to RMB336.9 million as of December 31, 2020, primarily due to a decrease in work in progress in 2020 as a result of the completion of production of our drama series in 2020. Our inventories increased from RMB336.9 million as of December 31, 2020 to RMB554.2 million as of December 31, 2021, primarily due to the increase of finished goods and work in progress as a result of the continuous production of our drama series. Our inventories decreased from RMB554.2 million as of December 31, 2021 to RMB353.1 million as of March 31, 2022, primarily due to a decrease in work in progress and a decrease of finished goods as the completed drama series were broadcast in the three months ended March 31, 2022. The fluctuation of our inventories during the Track Record Period was primarily because the ending balance of inventories of each period was greatly swayed by the timing of filming, production and delivery of drama series.

During the Track Record Period, we made provision of RMB11.4 million, RMB17.1 million, RMB12.5 million and RMB1.0 million for our raw materials mainly consisting of scripts and IP rights in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively, based on our review of the term of copyrights we procured from external resources, script development process and preliminary production schedules of such scripts and IP rights. Write-offs of raw materials of RMB0.6 million, RMB4.8 million, RMB0.4 million and nil in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively, were mainly because we ceased the further development of certain scripts and IP rights as a result of the expiry of copyrights and our review of market condition in relation to such scripts and IP rights. Our provision for work in progress of RMB43.5 million in 2020 was mainly made for a film that completed filming while did not complete post-production, "Counterfeit Secret Service" (冒牌特工隊), based on our estimation of its profitability considering the overall market conditions and trends in 2020. Our provision for finished goods of RMB2.4 million in 2019 was mainly made for a film licensed from an overseas film producer based on our estimation of its possibility to be domestically distributed and its profitability since it had been released overseas. Write-off of our finished goods of RMB16.1 million in 2021 was mainly made for several films licensed from overseas film producers which we ceased to pursue distribution based on our review of distribution condition and estimation of their profitability.

The following table sets forth our average inventories turnover days for the periods indicated:

	Year ended December 31,			Three months ended March 31,
	2019	**2020**	**2021**	**2022**
		(days)		
Inventories turnover days[1]	295	241	236	142

Note:

(1) Inventories turnover days is derived by dividing the average of opening and closing balance of inventories (net of provision) by the cost of sales for the same year and multiplied by 365 days or 90 days for the three months ended March 31, 2022.

Our inventories turnover days decreased from 295 days in 2019 to 241 days in 2020, primarily due to a decrease in our inventories balance attributable to the completion of production of our drama series in 2020. Our inventories turnover days remained relatively stable at 241 days and 236 days in 2020 and 2021, respectively. Our inventories turnover days decreased from 236 days in 2021 to 142 days in the three months ended March 31, 2022, primarily due to a decrease in our inventories balance attributable to the first-run broadcasting of two of our original drama series in the three months ended March 31, 2022.

The tables below set forth an aging analysis of our inventories as of the dates indicated:

	As of December 31, 2019				
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	33,031	13,400	31,486	26,555	**104,472**
Work in progress	626,579	113,066	–	66,559	**806,204**
Finished goods	2,395	23,409	3,440	10,156	**39,400**
Provision for impairment	(2,803)	(24,141)	(4,942)	(92,896)	**(124,782)**
Total	**659,202**	**125,734**	**29,984**	**10,374**	**825,294**

	As of December 31, 2020				
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	40,043	29,618	13,120	44,082	**126,863**
Work in progress	241,131	–	43,503	66,559	**351,193**
Finished goods	–	2,395	23,409	13,596	**39,400**
Provision for impairment	(481)	(4,580)	(67,960)	(107,513)	**(180,534)**
Total	**280,693**	**27,433**	**12,072**	**16,724**	**336,922**

	As of December 31, 2021				
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	55,541	27,278	26,357	52,744	**161,920**
Work in progress	330,379	–	–	110,062	**440,441**
Finished goods	105,170	–	–	23,409	**128,579**
Provision for impairment	(1,464)	(1,260)	(4,565)	(169,438)	**(176,727)**
Total	**489,626**	**26,018**	**21,792**	**16,777**	**554,213**

	As of March 31, 2022				
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	58,917	37,295	25,168	52,891	**174,271**
Work in progress	222,960	–	–	110,062	**333,022**
Finished goods	154	–	–	23,409	**23,563**
Provision for impairment	(1,081)	(3,386)	(3,686)	(169,585)	(177,738)
Total	**280,950**	**33,909**	**21,482**	**16,777**	**353,118**

As of December 31, 2019, 2020 and 2021 and March 31, 2022, approximately 79.9%, 83.3%, 88.3% and 79.6% of our inventories were aged less than one year. The gross balances of our inventories aged less than one year decreased from 2019 to 2020 primarily due to a decrease in work in progress mainly attributable to our drama series of "Hunting" (獵狐), "Twenty Your Life On" (二十不惑) and "Nothing but Thirty" (三十而已) which completed production and were broadcast in 2020. The gross balances of our inventories aged less than one year increased from 2020 to 2021, primarily due to an increase in work in progress and finished goods due to the production of our drama series including "Beyond" (超越), "Under the Skin" (獵罪圖鑑) and "Nobody Knows" (膽小鬼). The gross balances of our inventories aged over two years as of December 31, 2019, 2020 and 2021 and March 31, 2022 were mainly work in progress and finished goods of our drama series and films for which we have made full provision.

As of May 31, 2022, none of our inventories as of March 31, 2022 were subsequently utilized or sold. We believe there is no material recoverability issue. The inventories as of March 31, 2022 were mainly in relation for our inventories not utilized or sold as of March 31, 2022, primarily because our drama series including "Nobody Knows" (膽小鬼) are expected to be broadcast and "Twenty Your Life on II" (二十不惑 II) and "Nothing But You" (愛情而已) are in filming or post-production stage and are expected to be utilized or sold in accordance with our distribution plan. The rest of the inventories that had not been utilized or sold are mainly scripts and IP rights that were at the script development or pre-production stages within normal development and production cycles as of the same date and expected to be utilized in due course.

We review the conditions of our inventories on a project-by-project basis at the end of each period within the Track Record Period and makes provision for obsolete and slow-moving inventory items. Impairment of inventories is made based on the comparison of the net realizable value and the carrying amount thereof. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. Our management also reassesses the estimation at the end of each period within the Track Record Period. With respect to raw materials representing the scripts and IP rights, we made provision for impairment of inventories in accordance with the relevant accounting policies based on our review of the term of copyrights we procured from external resources, script development process and preliminary production schedules of the scripts and IP rights. With respect to our work in progress mainly representing the drama series in the process of production, we review the conditions of inventories including the budget and schedule of filming and production, the estimated costs and selling price of the relevant projects, taxes and the current market condition, and made provision for impairment of inventories accordingly. With respect to the finished goods mainly representing drama series that obtained the relevant distribution licenses or approvals but have not been broadcast, we made provision for impairment of inventories based on our review of the investment, distribution condition, the estimated licensing revenue and the relevant costs and taxes of the drama series. As of December 31, 2019, 2020 and 2021 and March 31, 2022, we made provisions for impairment of inventories of RMB124.8 million, RMB180.5 million, RMB176.7 million and RMB177.7 million, respectively. With regard to the gross balances of inventories related to our drama series of RMB765.2 million, RMB424.8 million, RMB651.7 million and RMB446.9 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, we made provisions for impairment of RMB83.9 million, RMB90.5 million, RMB35.0 million and RMB35.8 million, respectively, in 2019, 2020 and 2021 and the three months ended March 31, 2022. Through the above-mentioned implementation of stringent inventory review procedures and provision policy, we are able to effectively monitor the balance of our aged inventories and our Directors believe, and the Joint Sponsors concur, that the provisions made on inventories was sufficient.

Trade and Notes Receivables

The following table sets forth the breakdown of our trade and notes receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	466,683	279,627	395,050	549,208
Notes receivable	21,433	2,620	28,000	38,900
Impairment	(25,998)	(26,488)	(37,468)	(38,013)
Total	**462,118**	**255,759**	**385,582**	**550,095**

Trade Receivables

Trade receivables mainly represent the balances due from our customers, such as online video platforms, TV channels and third party distributors.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, our trade receivables were RMB466.7 million, RMB279.6 million, RMB395.1 million and RMB549.2 million, respectively. Our trade receivables decreased from RMB466.7 million as of December 31, 2019 to RMB279.6 million as of December 31, 2020, primarily due to our settlement of trade receivables with our customers. Our trade receivables increased from RMB279.6 million as of December 31, 2020 to RMB395.1 million as of December 31, 2021, primarily attributable to "To Fly with You" (陪你逐風飛翔) and "Xiaomin's House" (小敏家) broadcast in November and December 2021, respectively, for which the relevant payments were not fully received as of December 31, 2021. Our trade receivables increased from RMB395.1 million as of December 31, 2021 to RMB549.2 million as of March 31, 2022, primarily attributable to the first-run broadcasting of "Beyond" (超越), "Under the Skin" (獵罪圖鑑) in the first quarter of 2022, for which the relevant payments were not fully received as of March 31, 2022.

Our trading terms with its customers are mainly on credit. The credit period is generally 30 days to two years, depending on the specific payment terms in each contract. We seek to maintain strict control over our outstanding trade receivables to minimize credit risk. Our finance team is responsible for monitoring and collecting outstanding trade receivables on an ongoing basis and hold regular meetings to review collection progress. Overdue balances are reviewed regularly by senior management. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our trade receivables with an aggregate net carrying value of approximately RMB409.8 million, nil, nil and nil were pledged to secure the bank loans granted to us.

The following table sets forth an ageing analysis of the trade receivables as of the dates indicated, based on the transaction dates and net of loss allowance:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	7,423	–	284,370	298,352
3 to 6 months	423,663	104,327	–	143,257
6 to 12 months	561	69,529	37,496	33,755
1 to 2 years	8,824	79,283	5,325	5,440
2 to 3 years	214	–	30,391	30,391
Total	**440,685**	**253,139**	**357,582**	**511,195**

Our trade receivables aged over six months, net of loss allowance, were RMB9.6 million, RMB148.8 million, RMB73.2 million and RMB69.6 million as of December 31, 2019, 2020 and 2021 and March 31, 2022. The increase in net balance of trade receivables aged over six months in 2020 was primarily due to (i) the increase in trade receivables aged six months to one year mainly attributable to "Hunting" (獵狐) broadcast in 2020 for which the relevant payments were not received in the same year, and (ii) the increase in trade receivables aged one to two years mainly attributable to "Novoland: Eagle Flag episodes" (九州縹緲錄) and "A Little Reunion" (小歡喜) as a result of the relatively long settlement by the TV channel. Most of the trade receivables aged six months to one year as of December 31, 2020 were subsequently settled by the relevant customers in 2021 without the involvement of any third parties. With respect to the outstanding balance of trade receivables aged one to two year as of December 31, 2020, approximately RMB36.7 million were subsequently settled by the relevant customers in 2021 without the involvement of any third parties. For the remaining trade receivables aged one to two year as of December 31, 2020 not settled as of March 31, 2022, we have made sufficient provision based on our bad debt level and impairment analysis and the rest of which are expected to collected from the relevant customer in the next two years.

As of May 31, 2022, approximately RMB59.0 million, or 11.5% of our trade receivables as of March 31, 2022 were subsequently settled, among which approximately RMB42.2 million of trade receivables aged within three months were subsequently settled, approximately RMB16.8 million of trade receivables aged three months to six months were subsequently settled, and none of trade receivables aged six months to one year were subsequently settled.

The following table sets forth our average trade receivable turnover days for the periods indicated:

	Year ended December 31,			**Three months ended March 31,**
	2019	**2020**	**2021**	**2022**
		(days)		
Trade receivable turnover days[1]	50	89	89	83

Note:

(1) Trade receivable turnover days equal the average of the opening and closing balances of trade receivables divided by total revenue for the same year and multiplied by 365 days or 90 days for the three months ended March 31, 2022.

Our trade receivable turnover days increased from 50 days in 2019 to 89 days in 2020, primarily due to the large balance of trade receivables of "Novoland: Eagle Flag episodes" (九州縹緲錄) as a result of the relatively long settlement by the TV channel and the large balance of "Twenty Your Life On" (二十不惑) and "Hunting" (獵狐) broadcast in 2020 while the relevant payments were not received in the same year. According to Frost & Sullivan, TV channels typically have a relatively long settlement cycle due to their internal administrative procedures. However, we believe the risk of not being able to recover the relevant trade receivables is relatively low due to the credibility and payment capabilities of TV channels. Our trade receivable turnover days remained relatively stable at 89 days, 89 days and 83 days in 2020, 2021 and the three months ended March 31, 2022.

To strengthen the recovery of outstanding receivables, we have established effective customer credit policies, implemented strengthened credit term review and approval procedures and strengthened the receivables management performance review with respect to the relevant sales and marketing personnel. In addition, we perform an impairment analysis at the end of each of the period within the Track Record Period using a provision matrix to measure expected credit losses ("**ECLs**"). The provision rates are based on ageing and the days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the Track Record Period about past events, current conditions and forecasts of future economic conditions. For details, see note 19 to the Accountant's Report set out in Appendix I to this document. As of December 31, 2019, 2020 and 2021 and March 31, 2022, we made provisions for impairment of trade receivables of RMB26.0 million, RMB26.5 million, RMB37.5 million and RMB38.0 million, respectively, which we believe were sufficient as of the end of each period during the Track Record Period.

We have assessed the recoverability of the relevant outstanding trade receivables. In order to improve our trade receivables turnover days and minimize potential credit risk, we increased our pre-sale of original drama series during the Track Record Period and plan to continue to pre-sell our original drama series to our customers prior to or shortly after the commencement of filming going forward. Approximately 94.1% of the outstanding trade receivables as of March 31, 2022 were aged less than two years, most of which were aged less than one year and within the credit period granted. Therefore, we believe the risk of not being able to recover the relevant trade receivables aged less than two years is relatively low based on our evaluation of the historical credit standing, ongoing monitoring and the credit records of these customers. Based on the above, our Directors are of the view, and the Joint Sponsors concur, that there is no material recoverability issue of outstanding trade receivables aged less than two years.

In addition, we monitor long-aging trade receivables closely, update the collection status of trade receivables on a regular basis, and take appropriate follow-up actions such as active communications with our customers to collect the outstanding trade receivables. With regard to the balance of trade receivables aged over two years, we performed an impairment analysis at the end of each of the period within the Track Record Period. For our trade receivables aged two to three years of RMB46.0 million as of March 31, 2022, we made a provision of RMB15.6 million as of March 31, 2022 based on our bad debt level and impairment analysis. We believe sufficient provisions have been made for the trade receivables aged two to three years as of March 31, 2022 and there is no material recoverability issue with respect to the remaining trade receivables aged two to three years not settled as of March 31, 2022, primarily because (i) we closely monitor the outstanding trade receivables, review on a regular basis the credit records of and maintain active communications with the relevant customer, (ii) continuous payments from our customer of the outstanding trade receivables aged two to three years are expected to be received in 2022, and (iii) the remaining outstanding trade receivables (net of loss allowance) aged two to three years is expected to be collected in the next two years based on our communications with the relevant customer and our previous experience of collection of trade receivables with such customer. For our defaulted receivables aged over three years from an online video platform as of March 31, 2022, we have made a full provision of RMB20.7 million based on our assessment of its recoverability and impairment analysis using a provision matrix to measure its ECLs.

Notes Receivables

Note receivables represent balances due from TV channels and advertiser customers. Our notes receivable were all aged within one year and were neither past due nor impaired.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, notes receivable of RMB21.4 million, RMB2.6 million, RMB28.0 million and RMB38.9 million, respectively, whose fair values approximate to their carrying values were classified as financial assets through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant during the Track Record Period.

As of May 31, 2022, approximately RMB28.9 million, or 74.0% of our notes receivables as of March 31, 2022 were subsequently settled.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, certain notes receivable accepted by banks in Mainland China (the "**Discounted Notes**") were discounted to the banks in Mainland China with a carrying amount in aggregate of nil, RMB10.0 million, RMB49.4 million and RMB18.0 million, respectively. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Discounted Notes have a right of recourse against us if the PRC banks default (the "**Continuing Involvement**"). Our Directors are of the view that we have transferred substantially all risks and rewards relating to the Discounted Notes accepted by large and reputable banks with an amount of RMB10.0 million, RMB49.4 million and RMB18.0 million. The maximum exposure to loss from our Continuing Involvement in the Discounted Notes and the undiscounted cash flows to repurchase these Discounted Notes is equal to their carrying amounts. Our Directors are of the view that the fair values of our Continuing Involvement in the Discounted Notes are not significant. During the years ended December 31, 2020 and 2021 and three months ended March 31, 2021 and 2022, our recognized the interest expense on the discounted notes receivable amounting to nil, RMB0.1 million, RMB1.0 million, RMB0.7 million and RMB0.4 million, respectively.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets consist of (i) prepayments to production-related service providers and actors for drama series production, (ii) tax recoverable, (iii) deductible input value-added tax, (iv) deposits and other receivables which represent deposits for leased properties, and the payment we made in advance on behalf of an online video platform for the production of made-to-order drama series, (v) receivables under co-financing arrangement which represent share of revenue from co-investors in relation to a drama series, (vi) deferred [**REDACTED**] expense, (vii) interest receivable, and (viii) prepaid expense. The following table sets forth the breakdown of our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	113,848	100,120	124,632	118,970
Tax recoverable	–	–	–	644
Deductible input value-added tax	100,796	84,737	70,046	57,495
Deposits and other receivables	30,248	50,667	7,363	10,719

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receivables under co-financing arrangement	–	–	58,497	58,497
Deferred [**REDACTED**] expense	–	–	6,886	9,184
Interest receivable	–	8,442	21,775	25,057
Prepaid expenses	13,875	13,258	28,456	4,873
Total	**258,767**	**257,224**	**317,655**	**285,439**
– Current	188,439	175,047	203,990	208,765
– Non-current	70,328	82,177	113,665	76,674

As of December 31, 2019, 2020 and 2021 and March 31, 2022, our prepayments, other receivables and other assets were RMB258.8 million, RMB257.2 million, RMB317.7 million and RMB285.4 million, respectively. Our prepayments, other receivables and other assets remained relative stable at RMB258.8 million as of December 31, 2019 and RMB257.2 million as of December 31, 2020. Our prepayments, other receivables and other assets increased from RMB257.2 million as of December 31, 2020 to RMB317.7 million as of December 31, 2021, primarily due to the increase of receivables under co-financing arrangement, which was mainly attributable to the share of revenue from co-investors in relation to "Hand in Hand" (陪你一起長大) in 2021. Our prepayments, other receivables and other assets decreased from RMB317.7 million as of December 31, 2021 to RMB285.4 million as of March 31, 2022, primarily due to the prepaid general expenses incurred during the ordinary course of our business and deductible input value-added tax.

As of May 31, 2022, approximately RMB27.3 million, or 22.9% of our prepayments as of March 31, 2022 were subsequently settled, and approximately RMB15.8 million, or 27.0% of our receivables under co-financing arrangement as of March 31, 2022 were subsequently settled. We believe there is no material recoverability issue for our prepayments not settled as of May 31, 2022, primarily because our prepayments that had not been settled as of March 31, 2022 were mainly for production-related services of our drama series including "Twenty Your Life on II" (二十不惑 II) and "Nothing But You" (愛情而已), all of which were under filming or production stage, and such outstanding prepayments are expected to be settled in due course, in line with our production and distribution schedule. We closely monitor and conduct periodic assessments on the recoverability of the outstanding receivables under co-financing arrangements. We believe there is no material recoverability issue for the receivables under co-financing arrangements not settled as of March 31, 2022, primarily because the outstanding receivables under co-financing arrangements which were in relation to a drama series "Hand in Hand" (陪你一起長大) were collected continuously from relevant counterparties and the remaining of such receivables under co-financing arrangements are expected to be settled in due course based on the historical settlement records and our communications with such counterparties.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss are in relation to our (i) unlisted equity investments which represent our investments in unlisted securities; (ii) unlisted debt investments which represent our investment in a private equity fund; (iii) investments at fair value through profit or loss in relation to our investments in Xiamen Renma Culture Media Co., Ltd. (廈門人馬文化傳媒有限公司), Shanghai Dongmo Industrial Co., Ltd. (上海東磨實業有限公司); and (iv) other unlisted investments in connection with the wealth management products we purchased. The following table sets forth the breakdown of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments, at fair value	48,733	60,511	33,683	35,735
Unlisted debt investments, at fair value	11,600	9,609	7,661	7,492
Investments at fair value through profit or loss	–	–	51,029	50,228
Other unlisted investments, at fair value	542,431	609,734	291,441	180,980
Total	**602,764**	**679,854**	**383,814**	**274,435**
– Current	591,164	670,245	325,124	216,715
– Non-current	11,600	9,609	58,690	57,720

Our financial assets at fair value through profit or loss amounted to RMB602.8 million, RMB679.9 million, RMB383.8 million and RMB274.4 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. Our financial assets at fair value through profit or loss increased from RMB602.8 million as of December 31, 2019 to RMB679.9 million as of December 31, 2020, primarily due to the increases in other unlisted investments measured at fair value mainly because we purchased additional wealth management products in 2020. Our financial assets at fair value through profit or loss decreased from RMB679.9 million as of December 31, 2020 to RMB383.8 million as of December 31, 2021 and further decreased to RMB274.4 million as of March 31, 2022, primarily because we reduced our investment in wealth management products.

We have adopted investment and treasury policies and internal control measures to review and monitor our investment risks. Our investment decisions are made after due and careful consideration of a number of factors, including market and investment conditions, economic developments, investment cost, duration of investment and the risks expected to be involved and the expected returns. Our capital and strategy department and finance department are responsible for proposing, analysing and evaluating potential short-term and long-term investments. Prior to making any material investments, we shall consult with respective technical, financial and legal advisors and the proposal shall be approved by Ms. Chen Fei, our chief executive officer, Ms. Cai Di, our chief financial officer, Ms. Li Zhen, the director of capital and strategy department, and the other designated members of our management. We have formed a stringent system of internal control on seeking to obtain a reasonable level of investment return while ensuring that we maintain the overall level of risks related to investment under control. In line with our investment strategies and internal control measures, we principally engaged in the purchase of wealth management products using surplus cash on hand to improve the return on our cash position without significantly increasing our exposure to the financial risks. The wealth management products we purchased during the Track Record Period mainly consisted of structured deposits and other corporate wealth management products. The underlying financial assets of the wealth management products in which we invested during the Track Record Period were issued by large, reputable commercial banks in China and were primarily low-risk fixed-income instruments or principal-guaranteed financial instruments, and such products have no fixed maturity and can be redeemed at our preference. Based on the above, we believe that our relevant internal control and risk management measures are sufficient in terms of comprehensiveness, practicability and effectiveness.

During the Track Record Period, our unlisted equity investments mainly represent our investments in unlisted securities. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our unlisted equity investments at fair value were RMB48.7 million, RMB60.5 million, RMB33.7 million and RMB35.7 million, respectively. Our unlisted equity investments at fair value increased from RMB48.7 million in 2019 to RMB60.5 million in 2020, primarily related to our investments in Beijing Wuyuan and WAJIJIWA Entertainment (Tianjin) Co., Ltd. (哇唧唧哇娛樂(天津)有限公司). Our unlisted equity investments at fair value decreased from RMB60.5 million in 2020 to RMB33.7 million in 2021, primarily due to our disposal of WAJIJIWA Entertainment (Tianjin) Co., Ltd. (哇唧唧哇娛樂(天津)有限公司) in 2021. Our gain arising from the disposal of WAJIJIWA Entertainment (Tianjin) Co., Ltd. (哇唧唧哇娛樂(天津)有限公司) was recognized as other income with an amount of RMB7.7 million. Our unlisted equity investments remained relatively stable at RMB33.7 million as of December 31, 2021 and RMB35.7 million as of March 31, 2022.

Our unlisted debt investments during the Track Record Period mainly represent our investment in a private equity fund. We entered into fund management contracts with a qualified asset management company, according to which the asset management company is obliged to manage our fund according to pre-determined terms including risk analysis, investment period and underlying assets. The fair values of unlisted debt investments designated at fair value through profit or loss have been estimated using an asset-based valuation technique. For details, see note 36 to the Accountant's Report set out in Appendix I to this document. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our unlisted debt investments at fair value were RMB11.6 million, RMB9.6 million, RMB7.7 million and RMB7.5 million, respectively.

During the Track Record Period, our investments at fair value through profit or loss were investments in some convertible redeemable preferred shares or ordinary shares with preferential rights issued by private investee companies. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our investments at fair value through profit or loss were nil, nil, RMB51.0 million and RMB50.2 million, respectively. The investments at fair value through profit or loss of RMB51.0 million and RMB50.2 million as of December 31, 2021 and March 31, 2022 were mainly in relation to our investments in Xiamen Renma Culture Media Co., Ltd. (廈門人馬文化傳媒有限公司) and Shanghai Dongmo Industrial Co., Ltd. (上海東磨實業有限公司).

Our investments in financial assets at fair value through profit or loss will be subject to the compliance with Chapter 14 of the Listing Rules after the [**REDACTED**].

Trade Payables

Trade payables primarily represent liabilities for goods and services provided to us that remain unpaid. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our trade payables were RMB57.6 million, RMB12.2 million, RMB76.2 million and RMB47.0 million, respectively. Our trade payables decreased from RMB57.6 million as of December 31, 2019 to RMB12.2 million as of December 31, 2020, primarily due to our settlement of trade payables. Our trade payables increased from RMB12.2 million as of December 31, 2020 to RMB76.2 million as of December 31, 2021, primarily attributable to "To Fly with You" (陪你逐風飛翔) and "Xiaomin's House" (小敏家) we produced in 2021. Our trade payables decreased from RMB76.2 million as of December 31, 2021 to RMB47.0 million as of March 31, 2022, primarily due to our settlement of trade payables.

The following table sets forth an ageing analysis of our trade payables as of the dates indicated, based on the invoice date:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	56,153	12,155	74,156	16,925
3 to 6 months	–	–	586	29,389
6 to 12 months	–	13	1,504	639
1 to 2 years	1,443	48	–	–
Total	**57,596**	**12,216**	**76,246**	**46,953**

As of May 31, 2022, approximately RMB35.2 million, or 75.0% of our trade payables as of March 31, 2022 were subsequently settled.

The following table sets forth our average trade payables turnover days for the periods indicated:

	Year ended December 31,			Three months ended March 31,
	2019	**2020**	**2021**	**2022**
		(days)		
Trade payables turnover days[(1)]	25	14	23	19

Note:

(1) Trade payables turnover days is derived by dividing the average of opening and closing balance of trade payables by the cost of sales for the same year and multiplied by 365 days or 90 days for the three months ended March 31, 2022.

Other Payables and Accruals

Our other payables and accruals mainly represent (i) contract liabilities, (ii) financial liabilities under co-investment arrangements, (iii) other payables, (iv) other tax payables, (v) deferred revenue, (vi) interest payable, (vii) payroll and welfare payable, and (viii) provision made for a lawsuit. The following table sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of March 31,
	2019	2020	2021	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	406,638	170,368	654,600	820,132
Financial liabilities under co-investment arrangements	250,599	65,194	88,904	49,573
Other payables	100,612	33,471	18,952	24,503
Other tax payables	1,807	18,683	37,864	21,396
Deferred revenue	16,667	5,387	9,447	1,947
Interest payable	1,299	4,475	–	–
Payroll and welfare payable	7,083	6,377	11,096	8,201
Provision	–	7,880	8,575	8,748
Total	**784,705**	**311,835**	**829,438**	**934,500**
– Current	784,705	311,835	466,669	462,023
– Non-current	–	–	362,769	472,477

As of December 31, 2019, 2020 and 2021 and March 31, 2022, our other payables and accruals were RMB784.7 million, RMB311.8 million, RMB829.4 million and RMB934.5 million, respectively. Our other payables and accruals fluctuated during the Track Record Period primarily due to the fluctuations in our contract liabilities. Our financial liabilities under co-investment arrangements decreased from RMB250.6 million as of December 31, 2019 to RMB65.2 million as of December 31, 2020, primarily because the share of the licensing revenue to our co-investors of a drama series incurred in 2019 had been substantially settled in 2020.

Our financial liabilities under co-investment arrangements was RMB250.6 million as of December 31, 2019, mainly attributable to drama series including "Novoland: Eagle Flag episodes" (九州縹緲錄), "Legend of Fuyao" (扶搖) and "Twenty Your Life on" (二十不惑). Our financial liabilities under co-investment arrangements was RMB65.2 million as of December 31, 2020, mainly attributable to drama series including "A Little Dilemma" (小舍得), "Twenty Your Life on" (二十不惑) and "Novoland: Eagle Flag episodes" (九州縹緲錄). Our financial liabilities under co-investment arrangements was RMB88.9 million as of December 31, 2021, mainly attributable to drama series including "A Little Dilemma" (小舍得) and "Xiaomin's House" (小敏家). Our financial liabilities under co-investment arrangements was RMB49.6 million as of March 31, 2022, mainly attributable to drama series including "Novoland: Eagle Flag episodes" (九州縹緲錄), "A Little Dilemma" (小舍得) and "Xiaomin' House" (小敏家).

The provisions of RMB7.9 million, RMB8.6 million and RMB8.7 million as of December 31, 2020 and 2021 and March 31, 2022, respectively, were made for a lawsuit during the ordinary course of business after taking into account of the maximum exposure in relation to this proceeding, mainly reflecting the outstanding principal amount and the relevant interests requested in this proceeding. See "Business – Legal Proceedings and Compliance – Legal Proceedings" for details.

Contract Liabilities

During the Track Record Period, our contract liabilities represent advances received from customers for purchasing broadcasting rights of relevant drama series or procuring our production services and advances from advertiser customers for content marketing services. As of December 31, 2021, our contract liabilities primarily include the prepayments we received in advance from our customers for licensing of the broadcasting rights of original drama series. The following table sets forth the breakdown and movement of our contract liabilities as of the dates indicated:

	As of/Year ended December 31,			As of/ Three months ended March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Licensing of the broadcasting rights of original drama series	381,509	152,661	634,868	802,452
Others	25,129	17,707	19,732	17,680
	406,638	**170,368**	**654,600**	**820,132**

	As of/Year ended December 31,			As of/ Three months ended March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Current	406,638	170,368	292,500	347,655
– Non-current	–	–	362,100	472,477
Opening balance	591,217	406,638	170,368	654,600
Advanced received from customers	399,711	166,767	654,600	241,874
Revenue recognized from contract liabilities	(584,290)	(403,037)	(170,368)	(76,342)
Closing balance	406,638	170,368	654,600	820,132

As of December 31, 2019, 2020 and 2021 and March 31, 2022, our contract liabilities were RMB406.6 million, RMB170.4 million, RMB654.6 million and RMB820.1 million, respectively. Our contract liabilities decreased from RMB406.6 million as of December 31, 2019 to RMB170.4 million as of December 31, 2020, primarily due to the decreases in licensing of the broadcasting rights of original drama series as "Twenty Your Life On" (二十不惑), "Nothing but Thirty" (三十而已) and "Hunting" (獵狐) for which we received prepayments were broadcast in 2020. Our contract liabilities increased from RMB170.4 million as of December 31, 2020 to RMB654.6 million as of December 31, 2021 primarily because we received prepayments from customers for purchasing the broadcasting rights of our original drama series including "Nobody Knows" (膽小鬼) and another two modern drama series under script development or pre-production. Our contract liabilities increased from RMB654.6 million as of December 31, 2021 to RMB820.1 million as of March 31, 2022, primarily because we received prepayments from customers for purchasing the broadcasting rights of our three original drama series under script development and pre-production and another drama series under post-production.

The table below sets forth the breakdown of our current contract liabilities by drama series as of the dates indicated:

Nature of the contract liabilities	Name of drama series	As of December 31, 2019	2020	2021	As of March 31, 2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances for purchasing broadcasting rights of drama series	"Nothing but Thirty" (三十而已)	212,264	–	–	–
	"Hunting" (獵狐)	169,245	–	–	–
	"A Little Dilemma" (小舍得)	–	60,208	–	–
	"Xiaomin's House" (小敏家)	–	92,453	–	–
	"To Fly with You" (陪你逐風飛翔)	–	–	–	–
	"Under the Skin" (獵罪圖鑑)	–	–	58,868	–
	"Beyond" (超越)	–	–	13,736	–
	"Nobody knows" (膽小鬼)	–	–	83,396	83,396
	"Twenty Your Life On II" (二十不惑II)	–	–	28,302	44,906
	Drama series A	–	–	96,792	96,792
	Drama series B	–	–	–	113,207
Advances for content marketing and other services		25,129	17,707	11,406	9,354
Total		**406,638**	**170,368**	**292,500**	**347,655**

Our non-current contract liabilities were RMB362.1 million and RMB472.5 million as of December 31, 2021 and March 31, 2022, primarily representing advances received from customers such as online video platforms for purchasing broadcasting rights of relevant drama series. The table below sets forth the breakdown of our non-current contract liabilities by drama series as of the dates indicated:

Nature of the contract liabilities	Name of drama series	As of December 31,			As of March 31,
		2019	2020	2021	2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances for purchasing broadcasting rights of drama series	Drama series C	–	–	84,906	84,906
	Drama series D	–	–	113,208	113,208
	Drama series E	–	–	36,226	36,226
	Drama series F	–	–	83,208	83,208
	Drama series G	–	–	36,226	36,226
	Drama series H	–	–	–	19,811
	Drama series I	–	–	–	90,566
Advances for content marketing and other services		–	–	8,326	8,326
Total		**–**	**–**	**362,100**	**472,477**

As of May 31, 2022, none of our contract liabilities as of March 31, 2022 were subsequently settled. The contract liabilities that had not been settled as of May 31, 2022 were mainly advances from customers for purchasing broadcasting rights of drama series, all of which were within the normal production and distribution cycle and are expected to be settled in due course, in line with our distribution plan of drama series.

Tax Payable

Our tax payable represents our enterprise income tax payable. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our tax payable was RMB7.3 million, RMB63.9 million, RMB74.8 million and RMB31.9 million respectively. In 2019, the Filming and Television Committee of the State Taxation Administration ("國家稅務總局影視專項工作組") issued the tax counseling notice requiring TV series production institutions to standardize tax compliance. Under the guidance of the Filming and Television Committee of the State Taxation Administration, we conducted a tax compliance self-check on our business for the period from 2016 to 2018. We paid up all the outstanding tax payments without being subject to any legal or administrative investigations or penalties from the relevant government authorities. See "Business – Legal Proceedings and Compliance – Past Tax Compliance Self-checks – 2019 Tax Compliance Self-check" for details.

Goodwill

Our goodwill was RMB30.4 million as of December 31, 2019, while we did not recognize goodwill as of December 31, 2020 and 2021 and March 31, 2022 due to our disposal of Shanghai Mengyang in 2020.

We performed our annual impairment test of goodwill as of December 31, 2019. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Our goodwill acquired through business combinations is allocated to cash-generating unit, namely Shanghai Mengyang, for impairment testing. The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The pre-tax discount rate applied to the cash flow projections and the terminal growth rate and gross profit margin used to extrapolate the cash flows of the cash-generating unit beyond the five-year period are as follows:

	As of December 31, 2019
Gross profit margin	45%
Terminal growth rate	3%
Pre-tax discount rate	19.81%

As of December 31, 2019, the recoverable amount of Shanghai Mengyang cash-generating unit to which goodwill is allocated exceeded its carrying amount by RMB14,120,000.

Decreases in the gross profit margin or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Shanghai Mengyang cash-generating unit's recoverable amount equal to its carrying amount:

	As of December 31, 2019 *Increase/(decrease)*
Gross profit margin	(3.77%)
Pre-tax discount rate	4.69%

In the opinion of the Directors, except for the above, any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause any of the cash-generating unit's carrying amount to exceed its recoverable amount as of December 31, 2019.

For more details of the impairment test for goodwill, see note 15 to the Accountant's Report in Appendix I to this Document.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations, capital contributions from Shareholders and to a lesser extent, equity and debt financing. We expect to use a portion of the [**REDACTED**] from the [**REDACTED**] to fund our working capital requirements. We currently do not have any plans for material additional external financing.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, we had cash and cash equivalents of RMB202.7 million, RMB125.3 million, RMB825.0 million and RMB1,116.6 million, respectively.

Cash Flows

The following table sets forth a summary of our cash flows 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* *(Unaudited)*	*RMB'000*
Operating cash flows before movements in working capital	256,670	401,817	407,966	31,719	106,926
Movements in working capital	26,914	161,134	125,638	211,548	150,162
Income tax paid	(91,784)	(41,666)	(100,212)	(63,554)	(67,928)
Interest received	1,598	1,883	2,711	596	801
Net cash flows from operating activities	193,398	523,168	436,103	180,309	189,961
Net cash flows from/(used in) investing activities	(100,081)	(407,054)	328,896	(158,012)	112,559

	Year ended December 31,			Three months ended March 31,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Net cash flows used in financing activities	(162,567)	(193,597)	(54,017)	(19,610)	(7,784)
Effect of foreign exchange rate changes, net	–	–	(11,284)	150	(3,091)
Net increase/(decrease) in cash and cash equivalents	(69,250)	(77,483)	710,982	2,687	294,736
Cash and cash equivalents at beginning of year/period	271,987	202,737	125,254	125,254	824,952
Cash and cash equivalents at end of year/period	202,737	125,254	824,952	128,091	1,116,597

Net Cash Flows from Operating Activities

In 2019, our net cash flows generated from operating activities was RMB193.4 million. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB107.7 million by non-cash and other items to arrive at an operating profit before working capital changes of RMB256.7 million. Our movements in working capital primarily reflected (i) a decrease in inventories of RMB586.4 million and (ii) a decrease in prepayments, other receivables and other assets of RMB35.3 million, partially offset by (i) an increase in trade and notes receivables of RMB399.2 million and (ii) a decrease in other payables and accruals of RMB120.2 million.

In 2020, our net cash flows generated from operating activities was RMB523.2 million. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB94.0 million by non-cash and other items to arrive at an operating profit before working capital changes of RMB401.8 million. Our movements in working capital primarily reflected (i) a decrease in inventories of RMB426.5 million, and (ii) a decrease in trade and notes receivables of RMB193.6 million, partially offset by a decrease in other payables and accruals of RMB489.5 million.

In 2021, our net cash flows generated from operating activities was RMB436.1 million. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB123.8 million by non-cash and other items to arrive at an operating profit before working capital changes of RMB408.0 million. Our movements in working capital primarily reflected (i) an increase in other payables and accruals of RMB469.5 million, and (ii) a decrease in trade payables of RMB64.0 million, partially offset by (i) an increase in inventories of RMB227.7 million, and (ii) an increase in trade and notes receivables of RMB139.1 million.

In the three months ended March 31, 2022, our net cash flows generated from operating activities was RMB190.0 million. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB26.0 million by non-cash and other items to arrive at an operating profit before working capital changes of RMB106.9 million. Our movements in working capital primarily reflected (i) a decrease in inventories of RMB201.8 million, and (ii) an increase in other payables and accruals of RMB105.1 million, partially offset by (i) an increase in trade and notes receivables of RMB164.7 million, and (ii) a decrease in trade payables of RMB29.3 million.

Net Cash Flows from/(Used in) Investing Activities

In 2019, we had net cash flows used in investing activities of RMB100.1 million, which was primarily due to our purchases of financial assets at fair value through profit or loss of RMB2,107.0 million, as partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of RMB2,007.9 million.

In 2020, we had net cash flows used in investing activities of RMB407.1 million, which was primarily due to our purchases of financial assets at fair value through profit or loss of RMB2,017.3 million, as partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of RMB1,965.9 million.

In 2021, we had net cash flows from investing activities of RMB328.9 million, which was primarily attributable to the proceeds from disposal of financial assets at fair value through profit or loss of RMB4,186.5 million, as partially offset by our purchases of financial assets at fair value through profit or loss of RMB3,850.2 million.

In the three months ended March 31, 2022, we had net cash flows from investing activities of RMB112.6 million, which was primarily attributable to the proceeds from disposal of financial assets at fair value through profit or loss of RMB682.9 million, as partially offset by our purchases of financial assets at fair value through profit or loss of RMB570.0 million.

Net Cash Flows Used in Financing Activities

In 2019, we had net cash flows used in financing activities of RMB162.6 million, which was primarily due to our repayment of bank loans and other borrowings of RMB375.3 million, as partially offset by proceeds from bank loans and other borrowings of RMB294.9 million.

In 2020, we had net cash flows used in financing activities of RMB193.6 million, which was primarily due to repayment of bank loans and other borrowings of RMB267.1 million, as partially offset by other payment related to financing activities of RMB119.8 million.

In 2021, we had net cash flows used in financing activities of RMB54.0 million, which was primarily due to (i) the repurchase of preferred shares of RMB1,289.9 million, and (ii) the repayment of bank loans and other borrowings of RMB513.6 million, as partially offset by the proceeds from issue of preferred shares of RMB1,285.0 million.

In the three months ended March 31, 2022, we had net cash flows used in financing activities of RMB7.8 million, which was primarily due to (i) repayment of principal portion of lease liabilities of RMB5.4 million, and (ii) payment for deferred [**REDACTED**] expenses of RMB1.8 million.

Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations, capital contributions from Shareholders and bank and other borrowings.

Our anticipated cash needs include costs associated with the expansion of our program pipeline and business operations. Other than the bank borrowings that we may obtain, we do not have any plans for material external debt financing in the foreseeable future. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of interest-bearing bank borrowings, financial liabilities under co-investment arrangements for fixed return and other borrowings, lease liabilities and convertible redeemable preferred shares. As of December 31, 2019, 2020 and 2021 and March 31, 2022 and May 31, 2022, we had total indebtedness of RMB3,056.2 million, RMB3,095.6 million, RMB3,305.1 million, RMB3,370.7 million and RMB3,132.0 million, respectively.

The following table sets forth some details of our indebtedness as of the dates indicated:

	As of December 31,			As of March 31,	As of May 31,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Current					
Interest-bearing bank borrowings, financial liabilities under co-investment arrangements for fix return and other borrowings	281,519	17,230	–	–	–
Lease liabilities	15,489	13,090	16,941	14,381	13,415
Convertible redeemable preferred shares	–	3,055,412	3,276,406	3,346,945	3,109,812
Non-current					
Lease liabilities	30,419	9,855	11,761	9,388	8,785
Convertible redeemable preferred shares	2,728,796	–	–	–	–
Total	**3,056,223**	**3,095,587**	**3,305,108**	**3,370,714**	**3,132,012**

Interest-bearing Bank Borrowings, Financial Liabilities under Co-investment Arrangements for Fix Return and Other Borrowings

Our interest-bearing bank borrowings, financial liabilities under co-investment arrangements for fix return and other borrowings amounted to RMB281.5 million, RMB17.2 million, nil and nil as of December 31, 2019, 2020 and 2021 and March 31, 2022. Our interest-bearing bank borrowings, financial liabilities under co-investment arrangements and other borrowings during the Track Record Period were denominated in Renminbi and were used to finance our capital expenditure. The decrease of our interest-bearing bank borrowings, financial liabilities under co-investment arrangements for fix return and other borrowings from December 31, 2019 to December 31, 2021 was primarily due to the repayment of our bank and other borrowings. Certain of our borrowings during the Track Record Period were guaranteed by our Controlling Shareholders. As of December 31, 2019, our Controlling Shareholder, Mr. Su Xiao and his spouse Mrs Gu Jiamin, had guaranteed certain of our bank loans up to

RMB450.0 million and RMB300.0 million. The guarantee has been fully released in 2020. As of March 31, 2022, we had no bank loans guaranteed by our Controlling Shareholders. See note 25 to the Accountant's Report set out in Appendix I to this document for details.

Lease Liabilities

We recognize lease liabilities to make lease payments for the right-of-use assets representing the right to use the underlying assets for all leases except for short-term leases. As of May 31, 2022, we, as a lessee, had outstanding current lease liabilities of RMB12.9 million and outstanding non-current lease liabilities of RMB9.7 million.

Convertible Redeemable Preferred Shares

As of December 31, 2019, 2020, 2021 and March 31, 2022 and May 31, 2022, we had liabilities in relation to convertible redeemable preference shares amounted to RMB2,728.8 million, RMB3,055.4 million, RMB3,276.4 million, RMB3,346.9 million and RMB3,109.8 million, respectively, resulting from our multiple rounds of Pre-[**REDACTED**] Investments and the fair value changes of the convertible redeemable preferred shares. We recorded fair value gain of RMB38.5 million arising from Series C Preferred Shares in 2021, primarily due to an increase in the [**REDACTED**] possibility. Under the [**REDACTED**] scenario of equity allocation model, rights of our Company's preferred shares will be canceled and the preferred shares will be automatically converted into ordinary shares. Therefore, an increase in the [**REDACTED**] probability will lead to a decrease in the value of preferred shares. Since the preferred rights of Series C Preferred Shares were the most preferred, the increase of [**REDACTED**] probability led to the decline of the value of Series C Preferred Shares, which in turn led to the fair value gain arising from Series C Preferred Shares in 2021. All of our convertible redeemable preferred shares will be reclassified from liabilities to equity as a result of the automatic conversion into our ordinary shares upon the [**REDACTED**].

As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any material breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of May 31, 2022, our unutilized credit facilities amounted to RMB1,992.5 million. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

Statement of Indebtedness

Except as disclosed above, as of May 31, 2022 we did not have any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees on a consolidated basis. Our Directors confirm that, as of the Latest Practicable Date, there had no material change in our indebtedness since May 31, 2022.

CONTINGENT LIABILITIES

As of December 31, 2019, 2020, 2021 and March 31, 2022 and May 31, 2022, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures mainly for the purchase of property, plant and equipment and intangible assets. The following table sets forth a breakdown of our capital expenditures 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*
				(Unaudited)	
Property, plant and equipment	1,014	350	5,650	135	233
Intangible assets	–	828	1,752	249	77
Total	**1,014**	**1,178**	**7,402**	**384**	**310**

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions, pursuant to which (i) sold goods to certain related parties; (ii) provided services to certain related parties and (iii) procured goods from certain related parties. All of our outstanding balances with related parties as of March 31, 2022 were trade in nature.

Our Directors believe that the related party transactions described above were carried out on an arm's length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance. For more details about our material related party transactions, see note 34 to the Accountant's Report set out in Appendix I to this document.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated:

	Year ended/as of December 31,			Three months ended/as of March 31,
	2019	2020	2021	2022
Profitability ratios				
Gross profit margin	22.3%	38.3%	44.8%	38.9%
Net profit/(loss) margin	4.5%	4.4%	4.9%	(0.5)%
Adjusted net profit margin[(1)]	8.4%	17.0%	22.4%	17.1%
Return on equity[(2)]	N/A[(3)]	N/A[(3)]	N/A[(3)]	N/A[(3)(4)]
Return on assets[(5)]	2.6%	2.3%	2.2%	N/A[(4)]
Liquidity ratios				
Current ratio[(6)]	2.1	0.5	0.6	0.6
Quick ratio[(7)]	1.4	0.4	0.4	0.5
Capital adequacy ratios				
Gearing ratio[(8)]	N/A[(3)]	N/A[(3)]	N/A[(3)]	N/A[(3)]

Notes:

(1) A non-HKFRS measure.

(2) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity of the same period and multiplied by 100%.

(3) Denotes "not applicable" as we recorded total deficit as of December 31, 2019, 2020 and 2021 and March 31, 2022, primarily due to the fair value losses in convertible redeemable preferred shares.

(4) Denotes "not applicable" as the ratios are not meaningful given the recorded profit/(loss) only represented the amount for the three months ended March 31, 2022.

(5) Return on assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets of the same period and multiplied by 100%.

(6) Current ratio is calculated based on total current assets divided by total current liabilities as of the dates indicated.

(7) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as of the dates indicated.

(8) Gearing ratio is calculated by total debt divided by total equity as of the dates indicated.

See "– Period-to-Period Comparison of Results of Operations – Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021", "– Period-to-Period Comparison of Results of Operations – Year 2021 Compared to Year 2020", and "– Period-to-Period Comparison of Results of Operations – Year 2020 Compared to Year 2019" in this section for a discussion of the factors affecting our results of operations during the respective periods.

Return on Assets

Our return on assets remained relatively stable at 2.6%, 2.3% and 2.2% for the years ended December 31, 2019, 2020 and 2021.

Current Ratio

Our current ratio decreased from 2.1 as of December 31, 2019 to 0.5 as of December 31, 2020, primarily attributable to (i) the increase in our current liabilities which was primarily due to a significant amount of fair value loss on convertible redeemable preferred shares in 2020, and (ii) the decrease in our current assets. Our current ratio remained relatively stable at 0.5, 0.6 and 0.6 as of December 31, 2020 and 2021 and March 31, 2022.

Quick Ratio

Our quick ratio decreased from 1.4 as of December 31, 2019 to 0.4 as of December 31, 2020, primarily because the increase in our total current liabilities was faster than the increase in our total current assets from December 31, 2019 to December 31, 2020. The increase in our total current liabilities was primarily due to a significant amount of fair value loss on convertible redeemable preferred shares in 2020. Our quick ratio remained relatively stable at 0.4, 0.4 and 0.5 as of December 31, 2020 and 2021 and March 31, 2022.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, see note 37 to the Accountant's Report set out in Appendix I to this document.

Credit Risk

Our credit risk is primarily attributable to trade and notes receivables, financial assets included in prepayments, other receivables and other assets, time deposits, restricted cash and cash and cash equivalents. The maximum exposure to credit risk is represented by the carrying amounts of these financial assets in our consolidated statements of financial position.

To manage our credit risk, we trade only with recognized and creditworthy third parties, and there is no requirement for collateral. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

We measure loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. We do not provide any guarantees which would expose us to credit risk. As our historical credit loss experiences do not indicate significantly different loss patterns for different businesses, the loss allowance based on past due status is not further distinguished between our different customer bases.

For further information relating to our credit risk, see note 37 to the Accountant's Report set out in Appendix I to this document.

Liquidity Risk

In the management of liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, lease liabilities and other interest-bearing loans.

See note 37 to the Accountant's Report set out in Appendix I to this document for more details about the maturity profile of our financial liabilities.

DIVIDENDS

In 2020, our subsidiaries, Shanghai Linmon Yuexin and Shanghai Linmon Kaixin, declared and approved a dividend of RMB13.0 million and RMB10.8 million to its non-controlling shareholder, respectively. The dividends were paid and settled in cash through bank transfers in 2020. No dividend has been paid or declared by the Company during the Track Record Period.

Our Company is a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account. Even if there is net liabilities, a dividend may be paid out of the share premium account, provided that the memorandum and articles of association do not prohibit such payment. In no circumstances may a dividend be declared or paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

DISTRIBUTABLE RESERVES

As of March 31, 2022, our Company did not have any distributable reserves available for distribution to our shareholders.

[REDACTED] EXPENSES

Our [**REDACTED**] expenses mainly include professional fees, [**REDACTED**] commissions and other fees incurred in connection with the [**REDACTED**]. The estimated total [**REDACTED**] expenses (based on the mid-point of our indicative [**REDACTED**] for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, excluding any discretionary incentive fee which may be payable by us), including [**REDACTED**] commission for the [**REDACTED**], are approximately RMB[**REDACTED**] (including (i) [**REDACTED**] commission of approximately RMB[**REDACTED**], and (ii) non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**], which consist of fees and expenses of legal advisors and the Reporting Accountant of approximately RMB[**REDACTED**] and other fees and expenses of approximately RMB[**REDACTED**]), representing approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**], of which (i) approximately RMB[**REDACTED**] is directly attributable to the issue of our [**REDACTED**] to the public and will be deducted from equity upon the [**REDACTED**]; (ii) approximately [**REDACTED**], [**REDACTED**], [**REDACTED**] and [**REDACTED**] have been recognized in our consolidated statements of profit or loss and other comprehensive income in each of the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31 2022, respectively; and (iii) approximately RMB[**REDACTED**] will be further expensed in our consolidated statements of profit or loss and other comprehensive income. Our Directors do not expect such expenses to materially impact our results of operations in 2022.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

See Appendix II to this document for details.

NO MATERIAL ADVERSE CHANGE CONFIRMATION

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, (i) there has been no material adverse change in our financial, operational, and/or trading position since March 31, 2022, being the date of our latest audited consolidated financial position as set out in the Accountants' Report in Appendix I to this document and (ii) there has been no material adverse change in our business, the industry in which we operate and/or market or regulatory environment to which we are subject.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the [**REDACTED**] on the Stock Exchange.