

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Strawbear Entertainment Group**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Strawbear Entertainment Group
稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2125)

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 20 to 21 of this circular. A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 54 of this circular.

A notice convening the EGM of **Strawbear Entertainment Group** to be held at Room 2508, Building A, Wanda Plaza, No. 98 Jiangdong Zhong Road, Jianye District, Nanjing, Jiangsu Province, PRC on Friday, December 23, 2022 at 10 a.m. is set out on pages 63 to 65 of this circular.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.strawbearentertainment.com), respectively. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours (i.e. 10 a.m. on Wednesday, December 21, 2022) before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:

1. Compulsory body temperature checks and health declaration for all attendees, including Directors and Shareholders, at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius and/or exhibiting flu-like symptoms may be denied entry into the EGM venue and be requested to leave the EGM venue;
2. Every attendee is compulsory to wear a surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
3. The Company will not provide refreshments and will not distribute corporate gifts.

In light of the continuing risks posed by the COVID-19, the Company encourages the Shareholders to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

December 6, 2022

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“2022 Drama Series Copyrights Purchasing Framework Agreement”	the framework agreement to be entered into between the Company and iQIYI in relation to licensing copyrights of certain drama series from iQIYI to the Group
“2022 Made-to-order Drama Series Production Framework Agreement”	the framework agreement to be entered into between the Company and iQIYI in relation to (i) the provision of drama series made-to-order services (including but not limited to project planning, screenplays development, copyrights procurement and/or preparation and production services) for iQIYI; and (ii) sharing of other revenue generated by iQIYI from the broadcasting of such made-to-order drama series between iQIYI and the Group
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“broadcasting rights”	refers to (i) the right of broadcasting (廣播權), in terms of drama series broadcast via TV channels; and (ii) the right to network dissemination of information (信息網絡傳播權), in terms of drama series broadcast via online video platforms, for the purpose of this circular
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company”	Strawbear Entertainment Group (稻草熊娱乐集团), an exempted company incorporated in the Cayman Islands on January 3, 2018 with limited liability whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2125)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“consolidated affiliated entities”	the entities the Company controls through the Contractual Arrangements, namely Jiangsu Strawbear and its subsidiaries, further details of which are set out in “Contractual Arrangements” in the Prospectus

DEFINITIONS

“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), Jiangsu Strawbear and its registered shareholders, details of which are described in “Contractual Arrangements” in the Prospectus
“Director(s)”	the director(s) of the Company
“drama series”	refers to the content produced for broadcast via TV channels or the internet, which is usually released in episodes that follow a narrative, consisting of TV series and web series
“EGM”	the 2022 second extraordinary general meeting of the Company to be held at Room 2508, Building A, Wanda Plaza, No. 98 Jiangdong Zhong Road, Jianye District, Nanjing, Jiangsu Province, PRC on Friday, December 23, 2022 at 10 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the EGM set out on pages 63 to 65 of this circular or any adjournment thereof (as the case may be)
“Existing CCT Agreements”	the Existing Made-to-order Drama Series Production Framework Agreement and the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement entered into between the Company and iQIYI on December 18, 2020
“Existing Drama Series Broadcasting Rights Purchasing Framework Agreement”	the framework agreement entered into between the Company and iQIYI on December 18, 2020 in relation to licensing broadcasting rights of drama series from iQIYI to the Group
“Existing Made-to-order Drama Series Production Framework Agreement”	the framework agreement entered into between the Company and iQIYI on December 18, 2020 in relation to made-to-order drama series production by the Group for iQIYI
“first-run”	the first round broadcast of a drama series on the TV channel or online video platform
“Group”	the Company, its subsidiaries and consolidated affiliated entities from time to time

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun, to advise the Independent Shareholders in respect of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps)
“Independent Financial Adviser” or “Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps)
“Independent Shareholders”	the Shareholders (other than iQIYI and its associates) who are not required to abstain from voting on the resolutions proposed at the EGM in relation to the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps)
“iQIYI”	iQIYI, Inc. (Stock Code: IQ. NASDAQ) and its subsidiaries and consolidated affiliated entities, one of the largest Chinese online video platforms listed in the U.S.
“Jiangsu Strawbear”	Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), a limited liability company established in the PRC on June 13, 2014 and indirectly controlled by the Company through the Contractual Arrangements
“Latest Practicable Date”	November 30, 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on January 15, 2021

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“New Framework Agreements”	the 2022 Made-to-order Drama Series Production Framework Agreement and the 2022 Drama Series Copyrights Purchasing Framework Agreement
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, Taiwan and the Macao Special Administrative Region of the PRC
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by the Company on May 11, 2020, the principal terms of which are summarized in “Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme” in the Prospectus
“Pre-IPO Share Options”	the share options granted under the Pre-IPO Share Option Scheme
“Proposed Annual Caps”	the proposed annual caps for the transactions contemplated under the New Framework Agreements for the three years ending December 31, 2025
“Prospectus”	the prospectus of the Company published on December 31, 2020
“re-run”	the rebroadcast of a drama series that has previously been broadcast on the TV channel or online video platform, including second-run broadcast and all subsequent broadcasts on any channel
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance of Hong Kong, (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of US\$0.000025 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“TV series”	a series of scripted episodes that needs to obtain a distribution license from the National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局), which are broadcast on TV channels and/or new media channels such as online video platforms
“US\$”	United States dollars, the lawful currency for the time being of the United States
“Voting Arrangement Agreements”	the agreement and supplemental agreement thereof dated November 1, 2018 entered into by, among others, Mr. Liu Xiaofeng, Ms. Liu Shishi, Ms. Zhai Fang, Ms. Zhao Liying, Ms. Zhang Qiuchen and their respective wholly-owned holding companies (where applicable) regarding certain arrangements for the voting rights in the members of the Group, details of which are set out in “History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements” in the Prospectus
“web series”	a series of scripted episodes which can only be broadcast on new media channels such as online video platforms
“%”	per cent

LETTER FROM THE BOARD



Strawbear Entertainment Group 稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2125)

Executive Directors:

Mr. Liu Xiaofeng (*Chairman*)
Ms. Zhang Qiuchen
Mr. Chen Chen
Ms. Zhai Fang

Non-executive Directors:

Mr. Wang Xiaohui
Ms. Liu Fan

Independent Non-executive Directors:

Mr. Ma Zhongjun
Mr. Zhang Senquan
Mr. Chung Chong Sun

Registered office:

Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman, KY1-1002
Cayman Islands

Principal place of business in Hong Kong:

40/F, Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

December 6, 2022

To the Shareholders

Dear Sir or Madam,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the Prospectus in relation to, among other things, the Existing CCT Agreements entered into between the Company and iQIYI on December 18, 2020, namely the Existing Made-to-order Drama Series Production Framework Agreement and the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement. For details of the Existing CCT Agreements, please refer to the Prospectus.

Reference is also made to the announcement of the Company dated November 14, 2022 in relation to the proposed renewal of continuing connected transactions.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information in respect of the resolutions to be proposed at the EGM including, among other matters, (i) the proposed renewal of continuing connected transactions; and (ii) to give you notice of the EGM at which the relevant resolutions will be proposed for the Shareholders to consider and, if thought fit, approve the aforesaid matter.

A notice convening the EGM is set out on pages 63 to 65 of this circular.

2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Considering that (i) the term of each of the Existing CCT Agreements will expire on December 31, 2022; and (ii) the Group will maintain the cooperation with iQIYI regarding the provision of drama series made-to-order services for iQIYI and licensing copyrights of certain drama series from iQIYI to the Group, the Company proposed to (a) enter into the 2022 Made to-order Drama Series Production Framework Agreement with iQIYI upon approval by the Independent Shareholders at the EGM, pursuant to which, the Group shall, among others, provide drama series made-to-order services (including but not limited to project planning, screenplays development, copyrights procurement and/or preparation and production services) for iQIYI in exchange for service fees payable by iQIYI, and iQIYI may share with the Group other revenue generated from the broadcasting of made-to-order drama series produced by the Group for iQIYI (if applicable), for a term commencing from January 1, 2023 to December 31, 2025; and (b) enter into the 2022 Drama Series Copyrights Purchasing Framework Agreement with iQIYI upon approval by the Independent Shareholders at the EGM, pursuant to which, iQIYI shall license the copyrights (including but not limited to broadcasting rights and/or distribution rights) of certain drama series to the Group, which will be further licensed to other broadcasting platforms, TV channels or third-party agents by the Group, and the Group shall pay licensing fees to iQIYI for a term commencing from January 1, 2023 to December 31, 2025.

2022 Made-to-order Drama Series Production Framework Agreement

Principal terms of the 2022 Made-to-order Drama Series Production Framework Agreement are set out as follows:

- Parties:**
- (1) the Company (for itself and on behalf of the Group); and
 - (2) iQIYI (for itself and on behalf of its subsidiaries and consolidated affiliated entities)
- Term:** Subject to the approval by the Independent Shareholders at the EGM, the term of the 2022 Made-to-order Drama Series Production Framework Agreement will commence from January 1, 2023 and end on December 31, 2025.

LETTER FROM THE BOARD

Subject matter: Pursuant to the 2022 Made-to-order Drama Series Production Framework Agreement, the Group shall, among others, provide drama series made-to-order services (including but not limited to project planning, screenplays development, copyrights procurement and/or preparation and production services) for iQIYI in exchange for service fees payable by iQIYI. In addition, iQIYI may share other revenue generated from the broadcasting of such made-to-order drama series with the Group (if applicable).

Payment and settlement terms: Separate implementation agreements will be entered into between the parties in relation to the provision of made-to-order services or relevant specialized services in respect of each drama series. The implementation agreements in relation to the provision of drama series made-to-order services will set out the detailed terms, including service type, details of the drama series, service fee, milestone payment schedules and allocation of IP rights, based on the principles and within the parameters provided under the 2022 Made-to-order Drama Series Production Framework Agreement. The definitive terms of each of such implementation agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Pricing Policy

Service fees

The service fees payable by iQIYI to the Group under the 2022 Made-to-order Drama Series Production Framework Agreement will be determined based on the following formula:

Service fees payable by iQIYI = total investment amount¹ × (1 + target profit margin²)

Notes:

1. the total investment amount refers to the Group's production budget for providing project planning, screenplays development, copyrights procurement and/or preparation and production services of the target made-to-order drama series; and
2. the target profit margin will be determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the business value of related IPs, genre, production difficulty level, expected popularity, broadcasting model and commercial potential of the made-to-order drama series, which is expected to be not less than 10% subject to adjustment by the parties on a case-by-case basis after arm's length negotiation. The expected amount of target profit margin is estimated with reference to the average historical profit margin under the Existing Made-to-order Drama Series Production Framework Agreement and the management's judgement on the future business environment.

LETTER FROM THE BOARD

Sharing of other revenue

For the purpose of providing incentives and rewards to the Group, iQIYI may also share with the Group other revenue (including but not limited to distribution revenue) generated from the broadcasting of the made-to-order drama series produced by the Group for iQIYI (the “**Other Revenue**”) after deducting operating costs as confirmed by iQIYI (if any). The sharing ratio of the Group for Other Revenue will be determined after arm’s length negotiation between the parties with reference to genre, expected popularity, quality, commercial potential and broadcasting model of the made-to-order drama series, which is expected to range from 5% to 50% and is subject to adjustment by the parties on a case-by-case basis after arm’s length negotiation.

Before entering into any implementation agreement pursuant to the 2022 Made-to-order Drama Series Production Framework Agreement, the Company will assess its business needs and compare the service fees proposed by iQIYI with the fees offered by at least two other comparable independent platform operators in the drama series distribution industry. If no comparable independent third party is available, the business department is required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The Group will only enter into an implementation agreement with iQIYI when it is in the best interests of the Company and the Shareholders as a whole.

Historical Annual Caps and Historical Amounts

The historical annual caps for the production service fees paid and/or payable by iQIYI to the Group under the Existing Made-to-order Drama Series Production Framework Agreement for the years ended December 31, 2020 and 2021 and the year ending December 31, 2022 are RMB370.0 million, RMB790.0 million and RMB1,300.0 million, respectively.

For the years ended December 31, 2020 and 2021 and the nine months ended September 30, 2022, the production service fees paid and/or payable by iQIYI to the Group under the Existing Made-to-order Drama Series Production Framework Agreement were approximately RMB223.6 million, RMB540.2 million and RMB297.1 million, respectively.

LETTER FROM THE BOARD

Annual Caps and Basis of Determination of Annual Caps

The proposed annual caps for the fees payable by iQIYI to the Group (including the service fees and the fees payable by iQIYI for the purpose of sharing Other Revenue) under the 2022 Made-to-order Drama Series Production Framework Agreement for the years ending December 31, 2023, 2024 and 2025 are set out below:

	For the years ending December 31,		
	2023	2024	2025
	<i>(RMB in thousands)</i>		
Aggregate amounts of fees payable by iQIYI to the Group (including the service fees and the fees payable by iQIYI for the purpose of sharing Other Revenue)	492,000	1,141,000	864,000

The proposed annual caps for the fees payable by iQIYI to the Group under the 2022 Made-to-order Drama Series Production Framework Agreement for the three years ending December 31, 2025 were determined with reference to:

- (a) the historical amounts of the production service fees paid and/or payable by iQIYI to the Group under the Existing Made-to-order Drama Series Production Framework Agreement;
- (b) the estimated amount of the service fees payable by iQIYI to the Group for provision of drama series made-to-order services by the Group for the three years ending December 31, 2025 is estimated based on: (1) the contractual amounts under the existing made-to-order drama series production service agreements the Group have entered into with iQIYI; (2) the estimated number of the made-to-order drama series to be produced by the Group for iQIYI in 2023, 2024 and 2025, including approximately two drama series in 2023, approximately five drama series in 2024 and approximately six drama series in 2025; and (3) the estimated service fees charged per made-to-order drama series ranging from RMB56.6 million to RMB339.6 million, which is estimated with reference to the expected number of episodes, rating of the made-to-order drama series and the expected average market price range for each episode;
- (c) the estimated amount of Other Revenue generated by iQIYI to be shared by the Group for the three years ending December 31, 2025 is estimated based on: (1) the estimated number of made-to-order drama series of which the Group is entitled to share Other Revenue at certain sharing ratio in 2023, 2024 and 2025, including approximately one drama series in 2023, approximately two drama series in 2024 and approximately two drama series in 2025; (2) the estimated Other Revenue ranging from RMB10.8 million to RMB28.9 million per made-to-order drama series, taking into account the expected number of episodes, genre, expected popularity, quality, commercial potential and broadcasting model of such made-to-order drama series; and (3) the expected sharing ratio of the Group ranging from 5% to 50%, and

LETTER FROM THE BOARD

- (d) the following factors were also taken into consideration when determining the annual caps:
 - (i) the limited number of platform operators in the drama series distribution industry; and
 - (ii) an additional buffer of 9% to prepare for potential industry changes, so as to avoid adverse restrictions on future business operations of the Group.

Reasons for and Benefits of Entering into the 2022 Made-to-order Drama Series Production Framework Agreement

The Group is an early mover in collaborating with online video platforms and provide diversified content developed by itself or licensed from its content partners to different online video platforms according to their preferences and specific demands. iQIYI is an innovative market-leading online entertainment service provider in China which distributes popular, trend-setting content, including drama series provided by other drama series production companies with made-to-order services. As such, the made-to-order drama series producing arrangements provided under the 2022 Made-to-order Drama Series Production Framework Agreement are in the ordinary and usual course of the business of the Group.

iQIYI has abundant capital capacity and massive user base. By entering into the 2022 Made-to-order Drama Series Production Framework Agreement, the Group can enhance the popularity of its content products, diversify its revenue sources and hedge the operational risks of a single business resulting from the evolving market and regulatory restrictions. The prices and terms offered by the Group to iQIYI are also no more favorable than those offered to other customers which are independent third parties. Therefore, the made-to-order drama series producing arrangements under the 2022 Made-to-order Drama Series Production Framework Agreement are profitable and are in the interests of the Group and the Shareholders as a whole.

2022 Drama Series Copyrights Purchasing Framework Agreement

Principal terms of the 2022 Drama Series Copyrights Purchasing Framework Agreement are set out as follows:

- Parties:**
- (1) the Company (for itself and on behalf of the Group); and
 - (2) iQIYI (for itself and on behalf of its subsidiaries and consolidated affiliated entities)

LETTER FROM THE BOARD

- Term:** Subject to the approval by the Independent Shareholders at the EGM, the term of the 2022 Drama Series Copyrights Purchasing Framework Agreement will commence from January 1, 2023 and end on December 31, 2025.
- Subject matter:** Pursuant to the 2022 Drama Series Copyrights Purchasing Framework Agreement, iQIYI shall license the copyrights (including but not limited to broadcasting rights and/or distribution rights) of certain drama series the Group, which will be further licensed to other broadcasting platforms, TV channels or third-party agents by the Group, and the Group shall pay licensing fees to iQIYI.
- Payment and settlement terms:** Separate implementation agreements will be entered into between the parties to set out the detailed terms, including details of the drama series, term of license, scope of license and exclusivity, distribution channels, licensing fee and milestone payment schedules, based on the principles and within the parameters provided under the 2022 Drama Series Copyrights Purchasing Framework Agreement. The definitive terms of each of such implementation agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Pricing Policy

The licensing fees payable by the Group to iQIYI under the 2022 Drama Series Copyrights Purchasing Framework Agreement will be determined after arm's length negotiation between the parties based on the following formula:

- (a) if the Group acts as a distribution agent of iQIYI's drama series (i.e. The Group provides agency services for distribution of iQIYI's drama series and generates revenue from further licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents. The agency distribution fee to be charged by the Group in this regard will be determined based on the copyrights distribution revenue generated by the Group.), the licensing fees payable by the Group to iQIYI will be determined based on the below formula:

$$\text{Licensing fees payable by the Group} = \text{copyrights distribution revenue}^3 \times (1 - \text{target agency distribution fee rate}^4)$$

LETTER FROM THE BOARD

Notes:

3. the copyrights distribution revenue refers to revenue generated by the Group from licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents; and
 4. the target agency distribution fee rate will be determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the broadcasting platforms, broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot) and the expected popularity of relevant drama series, which is expected to range from 10% to 17% and is subject to adjustment by the parties on a case-by-case basis after arm's length negotiation. As the Group has not acted as a distribution agent of iQIYI's drama series under the Existing Drama Series Broadcasting Rights Purchasing Agreement and has only entered into such transactions with independent third parties, and therefore the expected range of target agency distribution fee rate is determined upon arm's length negotiation with iQIYI with reference to the range of agency distribution fee rates charged by the Group in the course of drama series distribution for independent third parties where the Group acted as a distribution agent.
- (b) if the Group distributes the copyrights of iQIYI's drama series by way of outright purchasing (i.e. the Group purchases the copyrights of iQIYI's drama series outright and pays a fixed amount of copyrights licensing fees to iQIYI), the licensing fees payable by the Group to iQIYI will be determined based on the below formula:

Licensing fees payable by the Group = expected number of episodes × purchasing price for copyrights of each episode⁵

Note:

5. the purchasing price for copyrights of each episode will be determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), expected popularity and expected revenue generated by the Group from licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents.

Before entering into any implementation agreement pursuant to the 2022 Drama Series Copyrights Purchasing Framework Agreement, the Company will assess its business needs and compare the licensing fees proposed by iQIYI with the fees offered by at least two other comparable independent platform operators in the drama series distribution industry. If no comparable independent third party is available, the business department is required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The Group will only enter into an implementation agreement with iQIYI when it is in the best interests of the Company and the Shareholders as a whole.

Historical Annual Caps and Historical Amounts

The historical annual caps for the licensing fees paid and/or payable by the Group to iQIYI under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement for the years ended December 31, 2020 and 2021 and the year ending December 31, 2022 are RMB55.0 million, RMB100.0 million and RMB116.0 million, respectively.

For the years ended December 31, 2020 and 2021 and the nine months ended September 30, 2022, the aggregate licensing fees paid and/or payable by the Group to iQIYI under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement were RMB28.0 million, RMB91.5 million and nil, respectively.

LETTER FROM THE BOARD

Annual Caps and Basis of Determination of Annual Caps

The proposed annual caps for the licensing fees payable by the Group to iQIYI under the 2022 Drama Series Copyrights Purchasing Framework Agreement for the years ending December 31, 2023, 2024 and 2025 are set out below:

Aggregate amounts of the licensing fees payable by the Group to iQIYI	For the years ending December 31,		
	2023	2024	2025
	<i>(RMB in thousands)</i>		
	397,000	437,000	477,000

The proposed annual caps for the licensing fees payable by the Group to iQIYI under the 2022 Drama Series Copyrights Purchasing Framework Agreement for the three years ending December 31, 2025 were determined with reference to:

- (a) the historical amounts of the licensing fees paid and/or payable by the Group to iQIYI under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement for the years ended December 31, 2020 and 2021 and the nine months ended September 30, 2022;
- (b) the estimated amount of the licensing fees payable by the Group to iQIYI for the three years ending December 31, 2025, where the Group acts as a distribution agent of iQIYI's drama series, is estimated based on: (1) the contractual amounts under the existing drama series copyrights purchasing agreements the Group have entered into with iQIYI (where the Group acts as a distribution agent of iQIYI's drama series); (2) the estimated number of iQIYI's drama series to be distributed by the Group as a distribution agent in the next three years, being five drama series for each year; and (3) the estimated copyrights distribution revenue ranging from RMB17.0 million to RMB37.7 million per each of such drama series, taking into account the number of episodes of each drama series and the expected purchase price per episode to be paid by other broadcasting platforms, TV channels or third-party agents to the Group;
- (c) the estimated amount of the licensing fees payable by the Group to iQIYI for purchasing the copyrights of outright-purchased drama series from iQIYI for the three years ending December 31, 2025 is estimated based on: (1) the contractual amounts under the existing outright-purchased drama series copyrights purchasing agreements the Group have entered into with iQIYI; (2) the estimated number of outright-purchased drama series to be purchased by the Group from iQIYI in the next three years, including approximately eight drama series in 2023, approximately nine drama series in 2024 and approximately ten drama series in 2025; and (3) the estimated licensing fees ranging from RMB17.0 million to RMB34.0 million per outright-purchased drama series, taking into account the number of episodes of each drama series and the expected purchase price for copyrights of each episode payable by the Group to iQIYI; and

LETTER FROM THE BOARD

- (d) the following factors were also taken into consideration when determining the annual caps:
 - (i) the limited number of platform operators in the drama series distribution industry; and
 - (ii) an additional buffer of 15% to prepare for potential industry changes, so as to avoid adverse restrictions on future business operations of the Group.

Reasons for and Benefits of Entering into the 2022 Drama Series Copyrights Purchasing Framework Agreement

The Group commenced licensing broadcasting rights of outright-purchased drama series from online video platforms to TV channels or third-party agents in 2017. Such business model has diversified the revenue streams and further enhanced the Group's cooperation with top online video platforms by providing them with more monetization opportunities at the same time. As such, the purchasing of copyrights of outright-purchased drama series under the 2022 Drama Series Copyrights Purchasing Framework Agreement are in the ordinary and usual course of the business of the Group. In addition, the prices and terms offered by iQIYI to the Group are no less favorable than those offered by the Group's other suppliers which are independent third parties. Therefore, the copyrights purchasing arrangements under the 2022 Drama Series Copyrights Purchasing Framework Agreement are profitable and are in the interests of the Group and the Shareholders as a whole.

Internal Control

In order to ensure that the transactions contemplated under the New Framework Agreements and the relevant implementation agreements are conducted on normal commercial terms or no less favourable than terms applicable to independent third parties, and comply with the annual caps and pricing policies under the New Framework Agreements, the Company has adopted the following internal control procedures:

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the New Framework Agreements and the relevant implementation agreements are on normal commercial terms, fair and reasonable and in the interests of the Group and its Shareholders as a whole, in particular, the fairness of the pricing policies under each agreement. The management of the Company also reviews the pricing policies of the New Framework Agreements annually. In addition, various other internal departments of the Company monitor the implementation of the New Framework Agreements from time to time. In particular, the finance department will review the transaction amounts of the continuing connected transactions contemplated under the New Framework Agreements every two

LETTER FROM THE BOARD

weeks to ensure that the annual caps under the New Framework Agreements are complied with, and that any implementation agreement under the New Framework Agreements shall be entered into by the Company with the prior approval of the finance department;

- (b) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the New Framework Agreements and provide annual confirmation to ensure that the transactions are conducted in accordance with the terms of the New Framework Agreements (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the New Framework Agreements, the Company will then comply with the Listing Rules as applicable;
- (c) when considering the pricing and terms offered by/to iQIYI under the implementation agreements of the New Framework Agreements, the Group will research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and independent third parties for similar transactions before entering into any implementation agreement, to make sure that the pricing and terms offered by/to iQIYI after arm's length negotiations, are no less favorable than those offered by/to independent third parties; and
- (d) the growth in the aggregate amount of the continuing connected transactions between the Group and iQIYI is in line with the revenue growth of the Company since its Listing. The Company aims to keep the amount of connected transactions between the Group and iQIYI as a percentage of the Group's total revenue relatively stable. Meanwhile, the executive Directors will supervise the implementation of such internal procedures every half year.

General Information

Information on the Group

The Group is a major drama series producer and distributor in the PRC, and principally engages in the investment, development, production and distribution of TV series and web series.

Information on iQIYI

iQIYI is an innovative market-leading online entertainment service provider in China, the shares of which are listed on the Nasdaq Global Select Market with stock code IQ. iQIYI principally engages in producing and broadcasting highly popular, original content, as well as broadcasting a wide variety of professionally-produced content, professional user generated content and user-generated content.

LETTER FROM THE BOARD

Listing Rules Implications

iQIYI is the holding company of Taurus Holding Ltd., a substantial Shareholder of the Company, and hence an associate of Taurus Holding Ltd. Accordingly, iQIYI is a connected person of the Company under the Listing Rules, and the transactions contemplated under each of the New Framework Agreements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for the transactions contemplated under the 2022 Made-to-order Drama Series Production Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for the transactions contemplated under the 2022 Drama Series Copyrights Purchasing Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Opinions of the Board

The Directors (excluding the independent non-executive Directors whose view have been included in the section headed "Letter from the Independent Board Committee" of this circular) are of the view that the transactions contemplated under each of the New Framework Agreements will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the best interests of the Company and its Shareholders as a whole.

The Independent Board Committee, comprising Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun, all being the independent non-executive Directors, had been formed to advise the Independent Shareholders in respect of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) and whose views and recommendation have been included in the section headed "Letter from the Independent Board Committee" of this circular. Anglo Chinese has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The letter from the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 21 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 54 of this circular.

LETTER FROM THE BOARD

Since Mr. Wang Xiaohui and Ms. Liu Fan, each being a Director, also hold office in iQIYI, they have therefore abstained from voting on the relevant Board resolutions approving the New Framework Agreements. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the New Framework Agreements and is required to abstain from voting on the relevant Board resolutions.

3. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, December 20, 2022 to Friday, December 23, 2022. During such period, no transfer of Shares of the Company will be registered. The record date for determining the eligibility to attend and vote at the EGM will be Friday, December 23, 2022. In order to be eligible for attending the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, December 19, 2022.

4. EXTRAORDINARY GENERAL MEETING

Set out on pages 63 to 65 of this circular is a notice convening the EGM to consider and, if appropriate, to approve, among others, the ordinary resolutions relating to the New Framework Agreements and the transactions contemplated thereunder.

Enclosed with this circular is a proxy form for use at the EGM. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.strawbearentertainment.com), respectively. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours (i.e. 10 a.m. on Wednesday, December 21, 2022) before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

5. VOTES TAKEN BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to procedural or administrative matter to be voted by a show of hands. Accordingly, the resolutions put to vote at the EGM will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or in the case of a Shareholder being a corporation, by its duly authorised representative, shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote needs not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

LETTER FROM THE BOARD

Pursuant to the Listing Rules, Taurus Holding Ltd., being an associate of iQIYI, is required to abstain from voting on the resolutions to be proposed at the EGM in relation to the New Framework Agreements and the transactions contemplated thereunder. As of the Latest Practicable Date, Taurus Holding Ltd. and its associates are interested in 97,320,000 Shares, representing approximately 13.97% of the Shares in issue of the Company. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, save as disclosed above, no other Shareholder is required under the Listing Rules to abstain from voting on the aforementioned resolutions.

6. RECOMMENDATION

The Board considers that the ordinary resolutions in relation to the New Framework Agreements and the transactions contemplated thereunder to be proposed at the EGM are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of such resolutions at the EGM.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the New Framework Agreements and the transactions contemplated thereunder will be conducted in the ordinary and usual course of the business of the Group and on normal commercial terms, and the terms and conditions therein as well as the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully
By order of the Board
Strawbear Entertainment Group
Mr. Liu Xiaofeng
Chairman



Strawbear Entertainment Group
稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2125)

December 6, 2022

To the Independent Shareholders

Dear Sir/Madam,

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated December 6, 2022 (the “**Circular**”) to its Shareholders of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the New Framework Agreements and the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; and to advise the Independent Shareholders on how to vote on the relevant resolutions, after taking into account the recommendations from the Independent Financial Adviser.

Anglo Chinese has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the New Framework Agreements and the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; and to advise the Independent Board Committee and the Independent Shareholders on how to vote on the relevant resolutions.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to:

- (a) the letter from the Board set out on pages 6 to 19 of this circular which contains its recommendation to the Independent Shareholders and the additional information set out in the Appendix to this circular; and
- (b) the letter from the Independent Financial Adviser set out on pages 22 to 54 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons taken into consideration in arriving at such advice.

Having considered the advice from the Independent Financial Adviser, we are of the view that the New Framework Agreements and the transactions contemplated thereunder will be conducted in the ordinary and usual course of the business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant ordinary resolutions to be proposed at the EGM in relation to the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of the Board
**Mr. Zhang Senquan, Mr. Ma Zhongjun and
Mr. Chung Chong Sun**
Independent Non-executive Directors

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinese.com

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

財務顧問有限公司
英高

December 6, 2022

To: Independent Board Committee and the Independent Shareholders of
Strawbear Entertainment Group

Dear Sir or Madam,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps), details of which are set out in the letter from the Board contained in the circular dated December 6, 2022 issued by the Company (the “**Circular**”) of which this letter forms part, and to make a recommendation to the Independent Shareholders in respect thereof. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As at the Latest Practicable Date, iQIYI is the holding company of Taurus Holding Ltd., a substantial Shareholder, and hence an associate of Taurus Holding Ltd. Accordingly, iQIYI is a connected person of the Company under the Listing Rules, and the transactions contemplated under the New Framework Agreements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Annual Caps is more than 5%, the transactions contemplated thereunder (including the Proposed Annual Caps) are therefore subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, the Independent Board Committee comprising all the independent non-executive Directors, who have no interest in the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps), has been formed to advise to the Independent Shareholders on whether or not the terms of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned, in the interests of the Company and the Shareholders as a whole, and as to voting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst other things, (i) published information on the Group, including its audited annual financial statements for the two financial years ended on December 31, 2020 and 2021, the unaudited interim financial information for the six months ended on June 30, 2021 and 2022, and the information contained in the announcement dated November 14, 2022 (the “**Announcement**”) and the Circular; (ii) each of the New Framework Agreements; (iii) each of the Existing CCT Agreements; and (iv) the Prospectus. We consider the information we have reviewed is sufficient to reach the conclusions set out in this letter and have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company, and have been advised by the Directors that, to the best of their knowledge, no material information has been omitted or withheld from the information supplied to us or the information relating to the Company referred to in the Circular. We have relied on the accuracy of the information, facts and representations and the opinions expressed by the Company referred to in the Circular. We have relied on the information so provided to us and referred to in the Announcement and the Circular, and we have not verified it or conducted an independent investigation into the business and affairs of the Group, or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, directors, chief executive, substantial Shareholders or any associates of any of them. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. In the two years prior to the Latest Practicable Date, we were engaged as independent financial adviser in respect of continuing connected transactions of the Company as set out in the circular of the Company dated January 4, 2022. Save for the aforesaid engagement, there was no other service provided by us to the Company during the past two years prior to the Latest Practicable Date.

Having considered the above and that none of the circumstances would affect our independence as at the Latest Practicable Date, we consider that we are independent pursuant to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

Reference is made to (i) the Prospectus, in respect of, among other things, the Existing CCT Agreements, each of which dated December 18, 2020; and (ii) the Announcement and the Circular in respect of the New Framework Agreements.

(a) The Existing CCT Agreements

On December 18, 2020, the Company and iQIYI entered into the Existing Made-to-order Drama Series Production Framework Agreement pursuant to which the Group shall, among others, produce made-to-order drama series for iQIYI in exchange for production service fees payable by iQIYI and an advertising commission for bringing in advertisers, calculated as a percentage of the advertising revenue derived from the underlying drama series as specified in the relevant agreement.

On December 18, 2020, the Company and iQIYI entered into the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement, pursuant to which iQIYI shall license to the Group the broadcasting rights of certain drama series, which the Group will further license to TV channels or third-party agents, and the Group shall pay licensing fees to iQIYI.

The terms of both Existing CCT Agreements commenced on the date of Listing and would expire on December 31, 2022, and such terms would automatically renew for a term of three years unless the Company serves written notice to cease cooperation. The Existing CCT Agreements will be terminated once the New Framework Agreements take effect.

(b) The New Framework Agreements

As stated in the letter from the Board, and as discussed with the management of the Group, the Company has considered that (i) the terms of the Existing CCT Agreements will expire on December 31, 2022; and (ii) the Group will maintain its cooperation with iQIYI regarding the provision of drama series made-to-order services for iQIYI and the licensing copyrights of certain drama series from iQIYI. Please refer to the section headed “5. Principal terms of the New Framework Agreements” below, and the section headed “2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS” in the letter from the Board for further details of the terms of the New Framework Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information of the Company

The Company is an investment holding company and its Shares were listed on the Main Board of the Stock Exchange on January 15, 2021. The Group is a major drama series producer and distributor in the PRC, and principally engages in the investment, development, production and distribution of TV series and web series.

(a) Financial performance

Set out below is the breakdown of the Group's principal sources of revenue, expenses and profits for the two years ended December 31, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

Table 1 – Financial performance of the Group

	For the year ended		For the six months ended	
	December 31,		June 30,	
	2020	2021	2021	2022
	("FY2020")	("FY2021")	("1H2021")	("1H2022")
(RMB'000)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	952,362	1,703,064	974,983	463,599
– Licensing of the broadcasting rights of drama series	625,084	1,107,249	483,704	461,647
– Made-to-order drama series production	280,189	540,188	457,664	–
– Others	47,089	55,627	33,615	1,952
Gross profit	259,821	516,185	233,722	142,926
Profit and total comprehensive income attributable to the Shareholders	18,430	169,249	94,147	73,518

Sources: Annual report and interim report of the Company for the relevant year, or period

1H2022 versus 1H2021

The Group's revenue for 1H2022 amounted to approximately RMB463.6 million, representing a decrease of approximately 52.5% as compared with that for 1H2021. Such decrease was primarily attributable to the decrease in revenue generated from provision of drama series made-to-order services as the Group's made-to-order drama series had not been broadcasted during 1H2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's gross profit for 1H2022 amounted to approximately RMB142.9 million, representing a decrease of approximately 38.8% as compared with that for 1H2021. The decrease in gross profit was primarily due to the decrease in revenue driven by the aforementioned factor.

As a result of the above, the Group's profit and total comprehensive income attributable to the Shareholders for 1H2022 amounted to approximately RMB73.5 million, representing a decrease of approximately 21.9% as compared to that for 1H2021.

FY2021 versus FY2020

The Group's revenue for FY2021 amounted to approximately RMB1.7 billion, representing an increase of approximately 78.8% as compared with that for FY2020. Such increase was primarily attributable to the significant increase in revenue generated from (i) licensing of the broadcasting rights of drama series driven by the increase in number of drama series broadcasted in 2021 as compared to 2020; and (ii) provision of drama series made-to-order services driven by the substantial increase in the investment scale for the delivered made-to-order drama series in 2021 as compared to 2020.

The Group's gross profit for FY2021 amounted to approximately RMB516.2 million, representing an increase of approximately 98.7% as compared with that for FY2020. The increase in gross profit was primarily due to (i) a decrease in the production cost of drama series; and (ii) an increase of gross profit margin of licensing of broadcasting right of drama series. Such increase was slightly offset by a relatively lower gross profit margin of a fantasy drama series attributable to the higher post-production cost of such fantasy genre.

As a result of the above, the Group's profit and total comprehensive income attributable to the Shareholders for FY2021 amounted to approximately RMB169.2 million, representing an increase of approximately 818.3% as compared to that for FY2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Financial position*

Set out below is a summary of selected financial position of the Group as at December 31, 2020 and 2021, and as at June 30, 2022.

Table 2 – Financial position of the Group

(RMB'000)	As at December 31, 2020 (Audited)	2021 (Audited)	As at June 30, 2022 (Unaudited)
Total assets	1,859,920	2,840,567	2,895,950
Non-current assets	196,094	150,866	151,361
Current assets	1,663,826	2,689,701	2,744,589
– Inventories	856,338	1,100,009	1,312,887
– Trade and notes receivables	440,731	802,959	722,883
Total liabilities	1,635,283	1,067,335	1,062,129
Non-current liabilities	489,369	10,402	9,045
Current liabilities	1,145,914	1,056,933	1,053,084
– Other payables and accruals	587,759	454,569	442,149
– Interest-bearing bank and other borrowings	159,000	278,341	380,536
Net assets	224,637	1,773,232	1,833,821

Sources: Annual report and interim report of the Company for the relevant year, or period

The Group's total assets amounted to approximately RMB2.9 billion as at June 30, 2022, mainly comprising (i) inventories amounted to approximately RMB1.3 billion (December 31, 2021: approximately RMB1.1 billion); and (ii) trade and notes receivables amounted to approximately RMB722.9 million (December 31, 2021: approximately RMB803.0 million). The Group's inventories increased by approximately 19.4%, primarily due to the increase in work in progress as regards to the drama series under preparation of approximately RMB331.5 million. Such increase was partially offset by the decrease in finished goods of approximately RMB147.2 million as the several drama series of the Group have been broadcasted.

The Group's total liabilities amounted to approximately RMB1.1 billion as at June 30, 2022, mainly comprising (i) other payables and accruals amounted to approximately RMB442.1 million (December 31, 2021: approximately RMB454.6 million); and (ii) interest-bearing bank and other borrowings amounted to approximately RMB380.5 million (December 31, 2021: approximately RMB278.3 million). The Group's current portion of interest-bearing bank and other borrowing increased by approximately 36.7% that was primarily due to the increase in bank loan repayable within one year

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

by approximately 40.5% from approximately RMB249.5 million as at December 31, 2021 to RMB350.6 million as at June 30, 2022. The range of bank loan's effective interest rate was between 4.40% and 5.22%.

3. Information on iQIYI

iQIYI is an innovative market-leading online entertainment service provider in China, the shares of which are listed on the Nasdaq Global Select Market (stock code: IQ). iQIYI principally engages in producing and broadcasting highly popular, original content, as well as broadcasting a wide variety of professionally-produced content, professional user generated content and user-generated content.

4. Reasons for and benefits of entering into the New Framework Agreements

As stated in the letter from the Board, the Group is an early mover in collaborating with online video platforms and provide diversified content developed by itself or licensed from its content partners to different online video platforms according to their preferences and specific demands. iQIYI is an innovative market-leading online entertainment service provider in China which distributes popular, trend-setting content, including drama series provided by other drama series production companies with made-to-order services. iQIYI has abundant capital capacity and massive user base. By entering into the 2022 Made-to-order Drama Series Production Framework Agreement, the Group should be able to enhance the popularity of its content products, diversify its revenue sources and hedge the operational risks of a single business resulting from the evolving market and regulatory restrictions.

The Group has also commenced licensing broadcasting rights of outright-purchased drama series from online video platforms to TV channels or third-party agents since 2017. Such business model has diversified the revenue streams and further enhanced the Group's cooperation with top online video platforms by providing them with more opportunities to monetise copyrights at the same time. According to the Prospectus, the cooperation with iQIYI in relation to the services under the New Framework Agreements has been established since the Listing and therefore, is in the ordinary and usual course of business of the Group.

As such, the made-to-order drama series producing arrangements provided under the 2022 Made-to-order Drama Series Production Framework Agreement and the purchasing of copyrights of outright-purchased drama series under the 2022 Drama Series Copyrights Purchasing Framework Agreement are in the ordinary and usual course of the business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

– *The entertainment and media industry in the PRC*

Along with the global technological advancement, the development of the internet and mobile internet has greatly contributed to the growth of the PRC's entertainment and media industry. According to the "2021 National Radio and Television Industry Statistical Bulletin" (2021年全國廣播電視行業統計公報) published by the National Radio and Television Administration (國家廣播電視總局) in April, 2022, the total revenue generated from the national radio and television industry for 2021 reached approximately RMB1,149 billion, representing an increase of approximately 24.7% as compared to the previous year and a compound annual growth rate ("CAGR") of 17.3% from 2017 to 2021.

In particular, the outbreak of COVID-19 has dramatically changed consumer behaviour and accelerated the development of the stay-at-home economy which saw digital entertainment becoming ever more popular. According to the National Radio and Television Industry Statistical Bulletin for the past three years, the revenue generated by over-the-top video services grew at a CAGR of approximately 11.7% from 2019 to 2021.

Under this favourable environment, the Group could therefore take advantage of the prevailing market sentiments and continue to expand its business through cooperation with iQIYI, which is one of the major platform operators in PRC.

– *iQIYI as the major platform operators in the PRC*

According to the market report conducted by Frost & Sullivan as disclosed in the Prospectus, three main online video platform operators, namely iQIYI, Tencent Video and Youku in aggregate accounted for approximately 83.6% of the drama series market in the PRC. Since its inception, the Group has entered into implementation agreements with and distributed drama series to all the three major online platform operators.

iQIYI has a leading position in the industry. According to the "2022 China TV/Web Drama Series Trend Report" (2022中國電視／網路劇趨勢報告) published by Tsinghua University Research Center for Film and Television Studies (清華大學影視傳播研究中心) and others, between September, 2021 and September, 2022, among the new drama series listed in the top 50 drama series ranked according to effective views, iQIYI had the largest portion of approximately 36% in the said drama series list. Moreover, iQIYI also led in the number of newly broadcasted online drama series in which iQIYI had broadcasted 108 drama series for the first nine months of 2022, as compared to Tencent Video and Youku which broadcasted 105 and 73 drama series, respectively.

Moreover, the Ministry of Commerce of the PRC issued the “Notice of Publication of the List of National Cultural Export Key Enterprises and Key Projects in 2021-2022” (關於公示2021–2022年度國家文化出口重點企業和重點項目名單的通知) in July, 2021, which included a list of key enterprises and key projects reviewed and approved by relevant competent authorities, third-party professional institutions, experts, and relevant departments of the government of the PRC. We noted that iQIYI was included in the aforesaid list which further solidified its position as a major online broadcasting platform operator, and thus the cooperation with iQIYI will contribute to the enhancement of the popularity of the Group’s content products. Please also refer to the section headed “3. Information on iQIYI” in this letter for information on iQIYI.

– *The PRC copyright licensing industry*

According to the “China Online Copyright Development Report (2020)” (中國網絡版權產業報告(2020)) published by the National Copyright Administration of the PRC (國家版權局) in May, 2021, under the 13th Five-Year Plan, the online copyright industry of the PRC reached RMB1,185 billion in 2020, representing a growth of approximately 23.6% compared to the previous year, and a CAGR of approximately 25% from 2015 to 2020. In December 2021, the National Copyright Administration of the PRC (國家版權局) published the “Work Plan for Copyright under the 14th Five-Year Plan” (版權工作“十四五”規劃), in which we noted that key goals to be accomplished include (i) the number of registered works nationwide to exceed 5 million; (ii) the proportion of the added value from copyright industry in the gross domestic product (“GDP”) to be increased to approximately 7.5%; and (iii) the proportion of the added value from core copyright industry in the GDP to be increased to approximately 4.75%. The development of the copyright licensing industry in the PRC is therefore favourable to the Group in diversifying and enhancing its revenue stream.

In view of the above, we concur with the view of the management of the Group that the entering into each of the New Framework Agreements is in the interests of the Group and the Shareholders as a whole.

5. Principal terms of the New Framework Agreements

The principal terms and conditions of the New Framework Agreements are summarised below. Please refer to the section headed “2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION” set out in the letter from the Board for further details.

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(a) *The 2022 Made-to-order Drama Series Production Framework Agreement*

Subject matter

Pursuant to the 2022 Made-to-order Drama Series Production Framework Agreement, the Group shall, among others, provide drama series made-to-order services (including but not limited to project planning, screenplays development, copyrights procurement and, or preparation and production services) to iQIYI at the request of iQIYI in exchange for service fees payable by iQIYI. In addition, iQIYI may share Other Revenue (if applicable).

Payment and settlement terms

Separate implementation agreements will be entered into between the parties in relation to the provision of made-to-order services or the provision of relevant specialised services in respect of each drama series. The implementation agreements in relation to the provision of drama series made-to-order services will set out the detailed terms, including service type, details of the drama series, service fee and sharing of Other Revenue (if applicable), milestone payment schedules and allocation of IP rights, based on the principles and within the parameters provided under the 2022 Made-to-order Drama Series Production Framework Agreement. The definitive terms of each of such implementation agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Pricing basis

As stated in the sub-section headed "2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS – 2022 Made-to-order Drama Series Production Framework Agreement – Pricing Policy" of the letter from the Board, the service fees and sharing of Other Revenue payable by iQIYI to the Group under the 2022 Made-to-order Drama Series Production Framework Agreement will be determined based on one or more of the manners in the following sub-sections, after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the related IPs, genre, production difficulty level, expected popularity, broadcasting model and commercial potential of the made-to-order drama series, and subject to adjustment by the parties on a case-by-case basis after arm's length negotiation. The expected amount of target profit margin is estimated with reference to the average historical profit margin under the Existing Made-to-order Drama Series Production Framework Agreement and the management's judgement on the future business environment.

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(i) Service fees

Service fees charged by the Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market prices and various commercial factors as discussed in details below.

As discussed with the management of the Group, and having reviewed the walkthrough documents in respect of the Company's estimation of service fees for the provision of drama series made-to-order services according to the abovementioned generic pricing policy, set out below is the general formula, as stated in the letter from the Board, that determines the service fees:

Service fees payable by iQIYI = total investment amount \times (1 + target profit margin)

Whereby:

1. target profit margin will be determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including:
 - business value of related IPs, which refers to the popularity of the underlying IPs to be adopted into made-to-order drama series, requested by iQIYI;
 - the genre, such as romance, war, spy, patriotic, or fantasy, which will have impact on the consumer responses and the expected popularity during the anticipated broadcasting periods;
 - production difficulty level, which relates to, *inter alia*, the management and monetisation of IPs, casting, shooting and post-production;
 - broadcasting model, which refers to how made-to-order drama series would be broadcasted (on iQIYI's platform and, or other broadcasting platforms); and
 - subject to arm's length negotiation, commercial judgement and experience, the expected popularity and commercial potential, which can only be ascertained after the release of drama series and therefore, will affect the decision but does not directly correlate with the exact amount of the service fees to be received;

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2. in relation to the target profit margin, as advised by the management of the Group, for the two years ended December 31, 2021 and the nine months ended September 30, 2022, the average historical mark-up on the investment costs as regards to the service fees was approximately 12%. The variance on historical mark-up ratios on investment amount of made-to-order drama series, as advised by management of the Group, was affected by unexpectedly large post production costs for certain drama series which resulted in those drama series having lower profit margins. In this regard, as stated in letter from the Board, the target profit margin on the investment amount is expected to be not less than 10% with reference made to the average historical mark-up on the investment costs and the management's judgement on the future business environment; and
3. the total investment amount includes production budget for providing project planning, screenplays development, copyrights procurement and, or preparation and production services of the target made-to-order drama series.

As some of the above factors are not generic in nature relating to the versatility and uniqueness of each drama series, it is noted that the above analysis is set out for illustrative purpose to provide a general idea on determining the service fees only and there is no actual quantitative formula for the determination of the service fees.

(ii) Sharing of Other Revenue

For the purpose of providing incentives and rewards to the Group, iQIYI may also share with the Group Other Revenue after deducting operating costs as confirmed by iQIYI (if any). The revenue sharing ratio of the Group is determined after arm's length negotiation between the parties on a case-by-case basis with reference to the aforementioned commercial factors (genre, expected popularity, commercial potential and broadcasting model), and quality of the production of the made-to-order drama series. The sharing ratio is expected to be within the range of 5% to 50% and is subject to adjustment by the parties on a case-by-case basis after arm's length negotiation.

The management of the Group has confirmed that they have provided an exhaustive list of agreements for the transactions under the Existing Made-to-order Drama Series Production Framework Agreement during the period from January 1, 2020 up to September 30, 2022. We have discussed with the management of the Group about the terms under the 2022 Made-to-order Drama Series Production

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Framework Agreement, and we have also reviewed all previous implementation agreements executed between the Group and iQIYI in the exhaustive list stated above. We are of the view that such review is fair and representative.

Based on the Existing Made-to-order Drama Series Production Framework Agreement and the implementation agreements reviewed, we noted that the service fees for all of the transactions were calculated on the same basis in accordance with general formula of pricing policies described in the above subsection headed “– (i) Service fees”. Regarding the sharing of Other Revenue as provided for in the above subsection headed “– (ii) Sharing of Other Revenue”, while the Existing Made-to-order Drama Series Production Framework Agreement provides for advertising commission for bringing in advertisers, calculated as a percentage of the advertising revenue derived from the underlying drama series as specified in the relevant agreement, the sharing of Other Revenue as an incentive and rewards under the 2022 Made-to-order Drama Series Production Framework Agreement represents a new fee arrangement for the Group with iQIYI in relation to the provision of drama series made-to-order services.

We noted that the Group has entered into certain implementation agreements under the Existing Made-to-order Drama Series Production Framework Agreement with terms entitling the Group to receive sharing of Other Revenue from iQIYI. After discussions with the management of the Group, we understand that (i) the Group did not expect to receive such sharing of Other Revenue as an incentive and rewards at the time of the entering into of the Existing Made-to-order Drama Series Production Framework Agreement; (ii) although terms under certain implementation agreements under the Existing Made-to-order Drama Series Production Framework Agreement provided for the Group to receive such sharing of Other Revenue from iQIYI as incentives and rewards to the Group, the occurrence of the sharing of Other Revenue depends on whether iQIYI has actually generated other revenue from the broadcasting of made-to-order drama series produced by the Group for iQIYI; (iii) the management of the Group has confirmed that they have not recognised any sharing of Other Revenue from iQIYI under the Existing Made-to-order Drama Series Production Framework Agreement during the period from January 1, 2020 to September 30, 2022; and (iv) the Group has accepted terms in the previous implementation agreements which entitled them to receive sharing of Other Revenue by iQIYI in the view that the basis of determination for service fees charged by the Group to iQIYI for the provision of drama series made-to-order services have been fair and reasonable and thus, the sharing of Other Revenue paid by iQIYI to the Group represents an additional source of revenue for the same services provided by the Group to iQIYI, hence, the acceptance of such terms is in the best interests of the Group and its Shareholders.

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In order to assess the range of sharing ratio, we have reviewed all previous implementation agreements under the Existing Made-to-order Drama Series Production Framework Agreement during the period from January 1, 2020 up to September 30, 2022 to assess the range of sharing ratios with iQIYI. We noted that the lower end of the range of sharing ratios in previous implementation agreements is higher than the lower end of the range under the 2022 Made-to-order Drama Series Production Framework Agreement. The expected range of revenue sharing ratio of 5% to 50% under the 2022 Made-to-order Drama Series Production Framework Agreement is determined upon arm's length negotiation with iQIYI with reference to the range of sharing ratios of Other Revenue entitled by the Group (if any) in previous implementation agreements executed between the Group and iQIYI under the Existing Made-to-order Drama Series Production Framework Agreement during the period from January 1, 2020 up to September 30, 2022. The management of the Group has confirmed that they have provided an exhaustive list of agreements for the transactions regarding the provision of drama series made-to-order services by the Group for independent third parties which involved the terms of Other Revenue during the period from January 1, 2020 up to September 30, 2022. We have reviewed all the said agreements and noted the terms of historical Other Revenue entered between the Group and iQIYI were not less favourable than those with independent third parties during the period from January 1, 2020 up to September 30, 2022. As stated above, we are of the view that the basis of determination of service fees payable by iQIYI is reasonable, and therefore the sharing of Other Revenue which is payable by iQIYI for the purpose of providing incentives and rewards to the Group and represents an additional source of revenue for the same services provided, is also reasonable and in the interests of the Group.

While details of the sharing of Other Revenue were largely determined with reference to previous implementation agreements executed between the Group and iQIYI, in relation to the provision of drama series made-to-order services, we further understand from the management of the Group that the 2022 Made-to-order Drama Series Production Framework Agreement was entered into upon arm's length negotiation with iQIYI in accordance with the Group's business plan and strategy. We further acknowledged from the management of the Group which relied on their expertise in the drama series industry regarding, among others, the incorporation of and the exact sharing ratio of the sharing of Other Revenue from iQIYI in the course of the provision of certain drama series made-to-order services during the period of January 1, 2023 to December 31, 2025.

We have also reviewed all historical transactions of provision of drama series made-to-order services by the Group for independent third parties, from January 1, 2020 up to September 30, 2022, which we consider as a fair and representative review. We noted that the historical

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profit margin and the target profit margin under the 2022 Made-to-order Drama Series Production Framework Agreement charged by the Group to iQIYI are not lower than the historical profit margin charged by the Group to independent third parties. As such, it is considered that the service fees paid and, or, payable, by iQIYI to the Group were no less favourable than those paid by other customer which are independent third parties to the Group.

As discussed in the letter from the Board, before entering into any implementation agreement pursuant to the 2022 Made-to-order Drama Series Production Framework Agreement, the Company will assess its business needs and compare the service fees proposed by iQIYI with the service fees offered by at least two other comparable independent platform operators in the drama series distribution industry. If no comparable independent third party is available, the business department of the Company will be required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing.

As a result, we concur with the view of the management of the Group that the newly adopted pricing terms under the 2022 Made-to-order Drama Series Production Framework Agreement as discussed above are fair and reasonable, as such pricing terms being adopted between the Group and iQIYI are no less favourable than the terms being adopted between the Group and other clients which are independent third parties, and the Group will only enter into an implementation agreement with iQIYI when it is in the best interests of the Company and the Shareholders as a whole.

(b) *The 2022 Drama Series Copyrights Purchasing Framework Agreement*

Subject matter

Pursuant to the 2022 Drama Series Copyrights Purchasing Framework Agreement, iQIYI shall license the copyrights (including but not limited to broadcasting rights and, or distribution rights) of certain drama series to the Group, which will be further licensed to other broadcasting platforms, TV channels or third-party agents by the Group, and the Group shall pay licensing fees to iQIYI.

Payment and settlement terms

Separate implementation agreements will be entered into between the parties to set out the detailed terms, including details of the drama

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series, term of license, scope of license and exclusivity, distribution channels, licensing fee and milestone payment schedules, based on the principles and within the parameters provided under the 2022 Drama Series Copyrights Purchasing Framework Agreement. The definitive terms of each of such implementation agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Pricing basis

As stated in the sub-section headed “– 2022 Drama Series Copyrights Purchasing Framework Agreement - Pricing Policy” of the letter from the Board, the Group may (i) act as a distribution agent of iQIYI's drama series and charge an agency distribution fee; or (ii) distribute the copyrights of iQIYI's drama series by way of outright purchasing and pay a fixed amount of copyrights licensing fees to iQIYI.

(i) Agency distribution fees

The Group may act as a distribution agent of iQIYI's drama series where the Group provides agency services for the distribution of iQIYI's drama series, further licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents to generate distribution revenue. The agency distribution fee rate to be charged by the Group is determined based on the copyrights distribution revenue generated by the Group. Set out below is the general formula that determines the license fees as stated in the letter from the Board:

Licensing fees payable by the Group = copyrights distribution revenue \times (1 – target agency distribution fee rate)

Whereby:

1. the copyrights distribution revenue refers to revenue generated by the Group from licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents;
2. the target agency distribution fee rate is determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including:
 - the broadcasting platform (the Group may further license to other broadcasting platforms, TV channels or third-party agents);

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- the broadcasting schedules (first-run or re-run broadcast) and the broadcasting time slot, if applicable;
 - subject to arm's length negotiation and commercial judgement and experience, the expected popularity, which can only be ascertained after the release or broadcasting of drama series and therefore, will affect the decision but does not directly correlate with the exact amount of the licensing fees to be received;
3. the target agency distribution fee rate is expected to be within the range of 10% to 17% and is subject to adjustment by the parties on a case-by-case basis after arm's length negotiation;
 4. the Group has not acted as a distribution agent of iQIYI's drama series under the Existing Drama Series Broadcasting Rights Purchasing Agreement and has only entered into such transactions with independent third parties, and therefore the expected range of target agency distribution fee rate is determined upon arm's length negotiation with iQIYI with reference to the range of agency distribution fee rates charged by the Group in the course of drama series distribution for independent third parties where the Group acted as a distribution agent; and
 5. the copyrights distribution revenue refers to revenue generated by the Group from licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents.

(ii) Fixed licensing fee

The Group may also distribute the copyrights of iQIYI's drama series by way of outright purchasing where the Group purchases the copyrights of iQIYI's drama series outright and pays a fixed amount of copyrights licensing fees to iQIYI. Set out below is the general formula that determines the license fees as stated in the letter from the Board:

Licensing fees payable by the Group = expected number of episodes × purchasing price for copyrights of each episode

Whereby:

the purchasing price for copyrights of each episode will be determined after arm's length negotiation between the parties

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with reference to the prevailing market price and the various related commercial factors, same as the factors considered in the determination of the agency distribution fees, as well as expected revenue to be generated by the Group from licensing the copyrights of such drama series to other broadcasting platforms, TV channels or third-party agents.

The management of the Group has confirmed that they have provided an exhaustive list of agreements for the above transactions and time period. We have discussed with the management of the Group about the terms under the 2022 Drama Series Copyrights Purchasing Framework Agreement, and we have also reviewed all previous implementation agreements executed between the Group and iQIYI under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement during the period from January 1, 2020 up to September 30, 2022. We are of the view that such review is fair and representative.

Based on the implementation agreements reviewed, we noted that the fixed licensing fees for all of the transactions were calculated on the same basis in accordance with abovementioned general formula of pricing policies.

We have also reviewed the exhaustive list of historical transactions of the Group's distribution of drama series copyrights for independent third parties from January 1, 2020 up to September 30, 2022, and have particularly selected and reviewed the implementation agreements of the largest two transactions in terms of transaction values of each year. The aggregate transaction value of the selected implementation agreements represents over 80% of the total value of historical transaction with independent third parties. Therefore, we are of the view that the samples we have reviewed are fair and representative. We noted that the amount paid and, or, payable, by the Group to iQIYI were no less favourable than those paid by the Group to other suppliers which are independent third parties to the Group.

The arrangement where the Group act as a distribution agent and charge agency distribution fee under the 2022 Drama Series Copyrights Purchasing Framework Agreement represents a new fee arrangement for the Company with iQIYI in relation to distribution of iQIYI's drama series copyrights during the period from January 1, 2020 up to September 30, 2022. The management of the Group has confirmed that, while the Group has not acted as a distribution agent of iQIYI's drama series to generate distribution revenue and charge agency distribution fee under the Existing Drama Series Broadcasting Rights Purchasing Agreement, the Group has only entered into transactions that involved distribution of drama series copyrights with independent third parties. The expected range of target agency distribution fee rate is determined

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upon arm's length negotiation between the Group and iQIYI with reference to the range of agency distribution fee rates charged by the Group, in the course of drama series distribution for independent third parties in those transactions.

In order to assess the new fee arrangement in relation to the agency distribution, we have reviewed all implementation agreements which involved distribution agency fee with the independent third parties charged by the Group during the period from January 1, 2020 up to September 30, 2022. We noted that (i) the low end of the agency distribution fee rates charged by the Group to independent third parties is the same as the low end of the range as stated under 2022 Drama Series Copyrights Purchasing Framework Agreement (i.e. 10%); and (ii) the high end of the range as stated under the 2022 Drama Series Copyrights Purchasing Framework Agreement (i.e. 17%) is not lower than that with independent third parties. As a result, the distribution agency fee charged by the Group to iQIYI is considered no less favourable than those charged by the Group to independent third parties.

While details of the agency distribution fee rate were largely determined with reference to previous transactions entered into by the Group with independent third parties, we understand from the management of the Group that the 2022 Drama Series Copyrights Purchasing Framework Agreement was entered into upon arm's length negotiation with iQIYI in accordance with the Group's own business plan and strategy. We further acknowledged from the management of the Group which relied on their expertise in the drama series industry where incorporation of such agency distribution fee (i) is part of the Group's own business plan and strategy; (ii) is in the ordinary course of business of the Group; and (iii) provides flexibility for the Group to adopt suitable pricing basis for each of the drama series copyright purchases.

As discussed in the letter from the Board, before entering into any implementation agreement pursuant to the 2022 Drama Series Copyrights Purchasing Framework Agreement, the Company will assess its business needs and compare the service fees proposed by iQIYI with the license fees offered by at least two other comparable independent platform operators in the drama series distribution industry. If no comparable independent third party is available, the business department of the Company will be required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. As a result, we concur with the view of the management of the Group that the newly adopted pricing terms under the 2022 Drama Series Copyrights Purchasing Framework Agreement as

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discussed above are fair and reasonable and on normal commercial terms, as such pricing terms being adopted between the Group and iQIYI are no less favourable than the terms being adopted between the Group and other suppliers which are independent third parties; and the Group will only enter into an implementation agreement with iQIYI when it is in the best interests of the Company and the Shareholders as a whole.

6. Annual caps

(a) *Review of historical transactions*

The following table sets forth (i) the historical amounts in respect of (a) the aggregate production services fees paid and, or, payable, by iQIYI to the Group under the Existing Made-to-order Drama Series Production Framework Agreement; and (b) the aggregate licensing fees paid and, or payable by the Group to iQIYI under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement; and (ii) the original annual caps for the three years ending December 31, 2022 under the each of the Existing CCT Agreements:

Table 3 – Historical transactions and corresponding annual caps under each of the Existing CCT Agreements

<i>(RMB thousand)</i>	For the year ended December 31,		For the year ending December 31,
	2020	2021	2022
<i>Existing Made-to-order Drama Series Production Framework Agreement</i>			
Existing annual cap	370,000	790,000	1,300,000
Aggregate production services fees paid and, or, payable, by iQIYI to the Group	223,585	540,188	297,109 ^(note 1)
Utilisation rate	60.4%	68.4%	22.9% ^(note 2)
<i>Existing Drama Series Broadcasting Rights Purchasing Framework Agreement</i>			
Existing annual cap	55,000	100,000	116,000
Aggregate licensing fees paid and, or payable by the Group to iQIYI	27,970	91,483	30,000 ^(note 1)
Utilisation rate	50.9%	91.5%	25.9% ^(note 2)

Sources: *the management of the Group and the Circular*

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Notes:

1. The aggregate production services fee and aggregate licensing fee for the year ending December 31, 2022 were based on the estimated amounts provided by the Company as at the Latest Practicable Date. The actual amount for the nine months ended September 30, 2022 in respect of (i) the Existing Made-to-order Drama Series Production Framework Agreement was the same as the estimated amount for the year ending December 31, 2022; and (ii) the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement was nil.
2. The utilisation rates for the year ending December 31, 2022 were computed based on the estimated production service fee and licensing fee for the year ending December 31, 2022 as provided by the Company as at the Latest Practicable Date. The actual utilisation rate for the nine months ended September 30, 2022 in respect of (i) the Existing Made-to-order Drama Series Production Framework Agreement was approximately 22.9%; and (ii) the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement was 0%.

As stated in the letter from the Board, when estimating the Proposed Annual Caps, the Company has taken into consideration, among others, (i) the historical production services fees paid and, or, payable, by iQIYI to the Group under the Existing Made-to-order Drama Series Production Framework Agreement; and (ii) the historical licensing fees paid and, or payable by the Group to iQIYI under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement for the two years ended December 31, 2021 and the nine months ended September 30, 2022. Therefore, we have reviewed the historical transaction amounts and the corresponding annual caps.

– *The transactions under the Existing Made-to-order Drama Series Production Framework Agreement*

As shown in the table above, the historical utilisation rates of the Group for production services were approximately 60.4% and 68.4% for the years ended December 31, 2020 and 2021, respectively and the expected utilisation rate would drop to approximately 22.9% for the year ending December 31, 2022. The lower-than-expected utilisation rates, for the year ending December 31, 2022 in particular, was mainly because of adjustments made to the Group's business development strategy, which was attributable to changes in the Group's market positions and the Group's own operational requirements. Prior to and around the time of Listing, made-to-order production services tended to provide a more stable rate of return and a higher capital turnover rate compared to self-produced drama series, and thus the Group focused to generate more revenue from the made-to-order production services with iQIYI between 2020 and 2022, which was the basis to determine the annual caps under Existing Made-to-order Drama Series Production Framework Agreement.

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After Listing, the Group has accumulated capital advantages, brand awareness and high-quality resources, allowing it to focus the business development in self-produced drama series with high quality, which is generally more profitable. Under the adjusted business development strategy to self-produced drama series, the revenue generated from made-to-order dramas series between iQIYI and the Group did not grow as planned prior the Listing, resulting in a particularly lower utilisation ratio in 2022.

– *The transactions under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement*

As shown in the table above, the historical utilisation rates of the Group for licensing fees were approximately 50.9% and 91.5% for the two years ended December 31, 2020 and 2021, respectively, and the expected utilisation rate would drop to approximately 25.9% for the year ending December 31, 2022. As advised by the management of the Group, the licensing business mainly depends on the status quo market conditions, *inter alia*, the demand of broadcasting platforms, TV channels and thirty-party agents, as well as the profitability of the content products available in the market. Since such market conditions can be unpredictable and the licensing business is flexible in which it does not require relatively long preparation time as production of a drama series, the management of the Group could leverage such flexibility to modify the business plan based on the status quo market conditions in order to achieve the highest profitability. As such, the actual business development may deviate from the original projections of the Company.

On top of the fluctuations regarding the market conditions as stated above, the change in Group's business strategy to focus on the self-produced drama series has had an effect on the licensing business as due to resources re-allocation, particularly in the year ending December 31, 2022. Please refer to the details stated in the subsection headed “– The transactions under the Existing Made-to-order Drama Series Production Framework Agreement” above.

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(b) Review of the proposed annual caps under 2022 Made-to-order Drama Series Production Framework Agreement for the three years ending December 31, 2025 (the “Production Caps”) and the corresponding basis of determination

The following table sets forth each of the Production Caps and the respective year-on-year changes:

Table 4 – Production Caps and year-on-year changes

(RMB thousand)	For the year ending December 31,		
	2023	2024	2025
<i>The fees payable by iQIYI and the Group under 2022 Made-to-order Drama Series Production Framework Agreement</i>			
Proposed annual caps	492,000	1,141,000	864,000
Increase/(decrease) in the annual cap year-on-year	-62.2%	131.9%	-24.3%

Sources: the management of the Group and the Circular

As stated in the letter from the Board, when estimating the Production Caps, the Directors have taken into consideration of the following factors, among others, (i) the historical amounts and contractual amounts of the made-to-drama production service fees under the Existing Made-to-order Drama Series Production Framework Agreement; (ii) the estimated number of the made-to-order drama series to be produced by the Group for iQIYI in 2023, 2024 and 2025; (iii) the estimated service fees ranging from RMB56.6 million to RMB339.6 million per made-to-order drama series and the estimated Other Revenue ranging from RMB10.8 million to RMB28.9 million per made-to-order drama series; and (iv) other factors, including the limited number of platform operators in the drama series distribution industry and additional buffer for potential industry changes.

To assess the fairness and reasonableness of the Production Caps, we have further reviewed and discussed with the management of the Group regarding, *inter alia*, (i) the basis and underlying assumptions of each of the estimated fees payable by iQIYI to the Group under 2022 Made-to-order Drama Series Production Framework Agreement; (ii) the historical transaction amounts and the corresponding annual caps; and (iii) the calculations of each of the Production Caps.

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– For the year ending December 31, 2023

The Production Cap for the year ending December 31, 2023 (the “**2023 Production Cap**”) represents a decrease of approximately 62.2% as compared to the existing annual cap for the year ending 31 December, 2022. Based on the information provided by the Group, we understand that the 2023 Production Cap is arrived from the following basis:

- (i) approximately two made-to-order drama series in the pipeline scheduled in 2023, which is same as the number of drama series scheduled in 2022;
- (ii) the total number of episodes (for approximately two drama series) in the pipeline scheduled in 2023 is expected to be more than that of 2022 by approximately 33.3%;
- (iii) the average production service fee per drama series is expected to increase by approximately 46.6%;
- (iv) in addition to the production service fee, approximately one drama series is expected to receive Other Revenue, where the sharing ratio is within the range of the relevant pricing policy; and
- (v) the Company adopts a buffer of approximately 9% for potential industry changes.

As stated in the subsection headed “(a) Review of historical transactions - The transactions under the Existing Made-to-order Drama Series Production Framework Agreement” in this letter, the Group has changed the business strategy to focus more on self-produced drama series in order to leverage the accumulated brand awareness and resources achieved after Listing. As such, it is in line with the said strategy to maintain the same number of drama series for the two years ending December 31, 2022 and 2023.

Moreover, we noted that the increase in the average production service fee per drama series is mainly due to the higher grading of the drama series scheduled in 2023. As advised by the management of the Group, the pricing of episode is determined with reference to, among others, the grade of the drama series, and we noted that such pricing of the grade-scale for the three years between 2023 and 2025 is overall in line with three years between 2020 and 2022.

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– For the year ending December 31, 2024

The Production Cap for the year ending December 31, 2024 (the “**2024 Production Cap**”) represents a substantial increase of approximately 131.9% as compared to the 2023 Production Cap. Based on the information provided by the Group, we understand that the 2024 Production Cap is arrived from the following basis:

- (i) approximately five made-to-order drama series in the pipeline scheduled in 2024 compared to approximately two made-to-order drama series scheduled in 2023;
- (ii) the total number of episodes in the pipeline scheduled in 2024 is expected to be more than that of 2023 by approximately 122.5%;
- (iii) the average production service fee per drama series is expected to decrease by approximately 8.4%;
- (iv) in addition to the production service fee, approximately two of the drama series are expected to receive Other Revenue, where the sharing ratio is within the range stated in the pricing policy with iQIYI; and
- (v) the Company adopts a buffer of approximately 9% for potential industry changes.

We have further enquired the management of the Group regarding the increased number of made-to-order drama series in scheduled in 2024. We are given to understand that the Company targets to further change its business focus and aims to develop both self-produced drama series and made-to-order drama series for the year ending December 31, 2024, as the resources of the Group are expected to further accumulate which provides more flexibility for the Company. The management of the Group advised that it is in the best interests of the Group and its Shareholders to seize every profitable business opportunity when the resources are sufficient to do so, otherwise only undertake projects with higher profitability under limited resources.

In order to assess the appropriateness of the said business plan, we have crosschecked the Group’s working capital since its listing on January 15, 2021, it is noted that the amount of net current assets was approximately RMB517.9 million as at December 31, 2020 and significantly increased by approximately 226.6% to approximately RMB1,691.5 million as at June 30, 2022. As such, the business strategy illustrated by the Company is in line with its financial position that the Group is expected to have more resources to develop made-to-order drama series in parallel with the Group’s self-production content products.

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– For the year ending December 31, 2025

The Production Cap for the year ending December 31, 2025 (the “2025 Production Cap”) represents a decrease of approximately 24.3% as compared to the 2024 Production Cap. Based on the information provided by the Group, we understand that the 2025 Production Cap is arrived from the following basis:

- (i) approximately six made-to-order drama series in the pipeline scheduled in 2025 compared to approximately five made-to-order drama series scheduled in 2024;
- (ii) the total number of episodes in the pipeline scheduled in 2025 is expected to be fewer than that of 2024 by approximately 14.6%;
- (iii) the average production fee per drama series is expected to decrease by approximately 36.3%;
- (iv) in addition to the production service fee, approximately two of the drama series are expected to receive Other Revenue, where the sharing ratio is within the range stated in the pricing policy with iQIYI; and
- (v) the Company adopts a buffer of approximately 9% for potential industry changes.

As advised by the management of the Group, the business strategy for the year ending December 31, 2025 is the same as that of 2024 that the Group’s business focus would be on both self-produced drama series and made-to-order drama series. The year-on-year decreases in both number of total episodes and the average production fee per drama series in 2025 are mainly due to a large-scale ancient costume drama series scheduled in 2024, which is expected to represent approximately 34.1% of the estimated transaction amount of that year. Also, the number of episodes and production service fees of the said large-scale ancient costume drama series are greater than the overall average of 2024 by 34.8% and 70.3% respectively. Save for the said large scale ancient costume drama series, the 2025 Production Cap and the underlying estimated transaction amount are generally in line with that of 2024.

We have further enquired the Company about the potential industry changes considered in the level of buffer adopted for each of the Production Caps and noted that refers to, *inter alia*, unexpected operational costs in the production process and the possible increase in number of episodes and grading, that are beyond the Group’s projections. For our assessment, we

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notice that the buffer of 9% is comparable to the CAGR of approximately 11.7% for the growth of revenue from over-the-top video services in the PRC from 2019 to 2021, as such the level of buffer is considered to be reasonable. Please refer to the subsection headed “– The entertainment and media industry in the PRC” in this letter for more details of the industry overview.

Based on the above, we are of the view that the basis of determining each of the Production Caps is generally fair and reasonable.

(c) Review of the proposed annual caps under 2022 Drama Series Copyrights Purchasing Framework Agreement for the three years ending December 31, 2025 (the “Copyrights Caps”) and the corresponding basis of determination

The following table sets forth each of the Copyrights Caps and the respective year-on-year changes:

Table 5 – Copyrights Caps and year-on-year changes

<i>(RMB thousand)</i>	For the year ending December 31,		
	2023	2024	2025
<i>The licensing fees payable by the Group to iQIYI under 2022 Drama Series Copyrights Purchasing Framework Agreement</i>			
Proposed annual caps	397,000	437,000	477,000
Increase in the annual cap year-on-year	242.2%	10.1%	9.2%

Sources: the management of the Group and the Circular

As stated in the letter from the Board, when estimating the Copyrights Caps, the Directors have taken into consideration of the following factors, among others, (i) the historical amounts and contractual amounts of the licensing fees under Existing Drama Series Broadcasting Rights Purchasing Framework Agreement; (ii) the estimated number of the drama series to be distributed by the Group as a distribution agent for iQIYI and the estimated number of outright-purchased drama series in 2023, 2024 and 2025; (iii) the estimated copyrights distribution revenue ranging from RMB17.0 million to RMB37.7 million per each of such drama series and estimated licensing fees ranging from RMB17.0 million to RMB34.0 million per outright-purchased drama series; and (iv) other factors, including the limited number of platform operators in the drama series distribution industry and additional buffer for potential industry changes.

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To assess the fairness and reasonableness of the Copyrights Caps, we have further reviewed and; discussed with the management of the Group regarding, *inter alia*, (i) the basis and underlying assumptions of each of the estimated licensing fees payable by the Group to iQIYI under 2022 Drama Series Copyrights Purchasing Framework Agreement; (ii) the historical transaction amounts and corresponding annual caps; and (iii) the calculations of each of the Copyrights Caps.

– For the year ending December 31, 2023

The Copyrights Cap for the year ending December 31, 2023 (the “**2023 Copyrights Cap**”) represents a substantial increase of approximately 242.2% as compared to the existing annual cap for the year ending December 31, 2022.

As stated in the subsection headed “(a) Review of historical transactions - The transactions under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement” above, the estimated licensing fee for the year ending December 31, 2022 is particularly lower than expected due to the fluctuations in the licensing market and the shift of business strategy regarding self-produced drama series. As further advised by the Company, it has also reallocated resources from licensing business to self-produced drama series in 2022 where it has invested in several large-scale self-produced drama series.

As a result, we are of the view that the comparison should be made between 2023 Copyrights Cap and the relevant transactions in 2021 as follows:

- (i) approximately 13 drama series are expected to be licensed in 2023, which is approximately 116.7% more than approximately 6 drama series that are expected to be licensed in 2021 from iQIYI. Among those which would be licensed in 2023, approximately five drama series are expected to be licensed through agency distribution and the remaining approximately eight drama series are expected to be licensed through outright purchasing;
- (ii) the total number of episodes to be licensed in 2023 is expected to be more than that of 2021 by approximately 106.7%. Among those which would be licensed in 2023, approximately 62.1% of the total episodes is attributable to outright purchases and the remaining approximately 37.9% of the total episodes is attributable to agency distribution;
- (iii) the average licensing fee per drama series is expected to increase by approximately 155.6%; and
- (iv) the Company adopts a buffer of approximately 15% for potential industry changes.

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We have reviewed the exhaustive list of the historical and estimated transactions under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement for each of the three years ending December 31, 2022, and noted that majority of the copyrights purchased by the Group has been re-run drama series. Based on the information provided by the Group, the purchase price per drama series for first-run drama series are much higher than the re-run drama series, which is one of the key reasons for the significant increase in average licensing fee per drama series for 2023 compared to that of 2021 as stated above. As advised by the management of the Group, the Group mainly targets to purchase copyrights of first-run and higher grading drama series in the coming three years as such drama series have more broadcasting opportunities, which in turn may be more profitable.

As stated in the letter from the Board, we noted that the ranges of agency distribution and outright purchase per drama series are closely in line with each other. Please refer to the subsection headed “(b) The 2022 Drama Series Copyrights Purchasing Framework Agreement – Pricing basis” in this letter for further details of the pricing basis.

– *For the years ending 31 December, 2024 and 2025*

The Proposed Copyrights Annual Caps for the two years ending December 31, 2024 (the “**2024 Copyrights Cap**”) and 2025 (the “**2025 Copyrights Cap**”) represent steady year-on-year increases of approximately 10.1% and 9.2%. Based on the information provided by the Group, we understand that both caps are arrived from the following basis:

- (i) approximately 14 and approximately 15 drama series are expected to be purchased in 2024 and 2025, which are approximately 7.7% and 7.1% year-on-year increments in the number of copyrights of drama series to be purchased with iQIYI respectively. Among which, approximately five drama series will be licensed through agency distribution in each of 2024 and 2025, and the remaining approximately 9 and approximately 10 drama series will be licensed through outright purchasing, respectively;
- (ii) the total numbers of episodes to be licensed in 2024 and 2025 are expected to be more than that of 2023 and 2024 by approximately 8.1% and 7.5%, respectively.

Among which to be licensed in 2024, approximately 64.9% of the total episodes is attributable to outright purchases and the remaining approximately 35.1% of the total episodes is attributable to agency distribution.

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Besides, among which to be licensed in 2025, approximately 67.4% of the total episodes is attributable to outright purchases and the remaining approximately 32.6% of the total episodes is attributable to agency distribution;

- (iii) the average licensing fees per drama series are expected to increase by approximately 2.2% and 1.9%, respectively; and
- (iv) the Company adopts a buffer of approximately 15% for potential industry changes.

We noted that the business plan for the two years ending December 31, 2024 and 2025 under the 2022 Drama Series Copyrights Purchasing Framework Agreement are similar to that of the year ending December 31, 2023 in terms of, *inter alia*, (i) the broadcasting schedules of the copyright purchases, which mainly target first-run drama series; and (ii) the estimated pricing level for each drama series to be licensed would remain stable. As a result, the 2024 Copyrights Cap and the 2025 Copyrights Cap mainly increase with the number of drama series, which is considered to be a reasonable business development.

In respect of the buffer of 15% for each of the Copyrights Caps, we are given to understand the level of buffer is applied to each of the Copyrights Caps with the similar rationale as the Production Caps. On top of that, the buffer also covers the possible deviation resulting from the flexibility of licensing business. Relevant assessment has been made in the subsections headed “– The transactions under the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement” and “(b) Review of the proposed annual caps under 2022 Made-to-order Drama Series Production Framework Agreement for the three years ending December 31, 2025 (the “**Production Caps**”) and the corresponding basis of determination” in this letter.

Based on the above, we are of the view that the basis of determining the each of the Copyrights Cap is generally fair and reasonable.

(d) Summary

In our opinion, it is in the interests of the Company and the Shareholders as a whole to determine the Production Caps and Copyrights Caps which can best accommodate the potential growth of the Group’s business and the entire business strategy. As stated in the subsections headed “(a) The 2022 Made-to-order Drama Series Production Framework Agreement – Pricing basis” and “(b) The 2022 Drama Series Copyrights Purchasing Framework Agreement – Pricing basis” in this letter, the pricing policies for both production service fees payable by iQIYI to the Group and the licensing fees payable by the Group to iQIYI under the New Framework Agreements are conducted on normal commercial terms or no less favourable than terms applicable to independent third parties. Furthermore, the basis of

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determining the Proposed Annual Caps takes into consideration, *inter alia*, of the overall market prospects and business plans of the Group. As a result, we consider the Proposed Annual Caps to be generally fair and reasonable.

IV. INTERNAL CONTROL PROCEDURES FOR THE GROUP'S CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the transactions contemplated under the New Framework Agreements and the relevant implementation agreements are conducted on normal commercial terms or no less favourable than terms applicable to independent third parties, and comply with the annual caps and pricing policies under the New Framework Agreements. We have reviewed the corporate governance manual of the Company and noted that the Company has adopted the following internal control procedures:

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the New Framework Agreements and relevant implementation agreements in particular, the fairness of the pricing policies under each agreement, the management of the Company also reviews the pricing policies of the New Framework Agreements annually. In addition, various other internal departments of the Company monitor the implementation of the New Framework Agreements from time to time. In particular, the finance department will review the transaction amounts of the continuing connected transactions contemplated under the New Framework Agreements every two weeks to ensure that the annual caps under the New Framework Agreements are complied with, and that any implementation agreement under the New Framework Agreements shall be entered into by the Company with the prior approval of the finance department;
- (b) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the New Framework Agreements, and provide annual confirmation to ensure that the transactions are conducted in accordance with the terms of the New Framework Agreements and the transactions contemplated thereunder (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the New Framework Agreements, the Company will then comply with the Listing Rules as applicable;

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- (c) when considering the licensing fees to be provided to the Group by, or to iQIYI under the implementation agreements of the New Framework Agreements, the Group will research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and independent third parties for similar transactions, before entering into any implementation agreement to make sure that the pricing and terms offered by, or to iQIYI after arm's length negotiations, are no less favorable than those offered by, or to independent third parties; and
- (d) the growth in the aggregate amount of the continuing connected transactions between the Group and iQIYI is in line with the revenue growth of the Company since its Listing. The Company aims to keep the amount of connected transactions between the Group and iQIYI as a percentage of the Group's total revenue relatively stable. Meanwhile, the executive Directors will supervise the implementation of such internal procedures every half year.

We have reviewed the Company's 2021 annual report, and noted that the independent non-executive Directors and the auditor of the Company have reviewed the continuing connected transactions, including transactions under the Existing Made-to-order Drama Series Production Framework Agreement and the Existing Drama Series Broadcasting Rights Purchasing Framework Agreement during such period, and provided the relevant confirmations. Based on such compliance record, we are of the view that there are appropriate and effective measures to govern the future execution of such continuing connected transactions and to safeguard the interests of the Independent Shareholders.

Based on the above, we consider that the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the transactions contemplated under the New Framework Agreements.

V. CONCLUSIONS AND RECOMMENDATIONS

In assessing the New Framework Agreements, based on the below factors and reasons which have been laid out earlier in this letter:

- (a) the entering into of the New Framework Agreements falls within the ordinary and usual course of business of the Group, and it is in the interests of the Company and the Shareholders as a whole;
- (b) the terms and pricing basis of the New Framework Agreements are on normal commercial terms;
- (c) the Proposed Annual Caps under the New Framework Agreements are generally acceptable so far as the Independent Shareholders are concerned;

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- (d) the New Framework Agreements provide the Group the right but not the obligation to enter the implementation agreements separately with iQIYI under such New Framework Agreements; and
- (e) the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the Proposed Annual Caps.

Having taken into consideration the above factors, we consider that (i) the terms of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) are generally fair and reasonable, so far as the Independent Shareholders are concerned; and (ii) the entering into of the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) is conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the resolutions in relation to the New Framework Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited

Raymond Cheung
Director

Karl Chan
Assistant Director

1. *Mr. Raymond Cheung is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in corporate finance.*
2. *Mr. Karl Chan is a licensed person registered with the Securities and Futures Commission and as a licensed representative of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has over 7 years of experience in corporate finance.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable inquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of the Latest Practicable Date, the interest or short position of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange are as follows:

Interests in the Shares of the Company

Name of Director/ chief executive	Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
Mr. Liu Xiaofeng	Founder of a discretionary trust ⁽²⁾	292,362,400	41.97%
	Interest held through voting powers entrusted by other persons ⁽³⁾	109,520,000	15.72%
Ms. Zhai Fang	Founder of a discretionary trust ⁽⁴⁾	32,000,000	4.59%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the Latest Practicable Date, being 696,629,400 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the outstanding Pre-IPO Share Options).
- (2) LEADING GLORY INVESTMENTS LIMITED is owned as to (i) 99% by MASTER GENIUS GLOBAL LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary; and (ii) 1% by Master Sagittarius Holding Limited which is

wholly owned by Mr. Liu Xiaofeng. Accordingly, each of Master Sagittarius Holding Limited, MASTER GENIUS GLOBAL LIMITED and Mr. Liu Xiaofeng is deemed to be interested in all the Shares held by LEADING GLORY INVESTMENTS LIMITED.

GORGEOUS HORIZON LIMITED, being the beneficial owner of the outstanding Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary. On May 12, 2022, 1,882,400 Shares were issued to GORGEOUS HORIZON LIMITED upon the exercise of the Pre-IPO Share Options by Mr. Liu Xiaofeng under the Pre-IPO Share Option Scheme.

- (3) Pursuant to the Voting Arrangement Agreements, Mr. Liu Xiaofeng, Master Sagittarius Holding Limited and LEADING GLORY INVESTMENTS LIMITED are able to exercise voting rights entrusted from the other signing parties and are therefore deemed to be interested in the shareholding interest in the Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganisation and Corporate Development — Voting Arrangement and Lock-up Arrangements" in the Prospectus.
- (4) GOLDEN BASIN GLOBAL LIMITED is owned as to (i) 99% by SMART CENTURY VENTURES LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai Fang as the settlor and protector and Ms. Zhai Fang's wholly-owned holding company Gold Fish Management Holding Limited as the beneficiary; and (ii) 1% by Gold Fish Management Holding Limited which is wholly owned by Ms. Zhai Fang. Accordingly, each of Gold Fish Management Holding Limited, SMART CENTURY VENTURES LIMITED and Ms. Zhai Fang is deemed to be interested in all the Shares held by GOLDEN BASIN GLOBAL LIMITED.

Interests in underlying Shares of the Company

Name of Director	Nature of interest	Number of underlying Shares subject to the Pre-IPO Share Options	Approximate percentage of shareholding ⁽¹⁾
Mr. Liu Xiaofeng	Founder of a discretionary trust ⁽²⁾	35,765,600	5.13%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of Latest Practicable Date, being 696,629,400 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the outstanding Pre-IPO Share Options).
- (2) GORGEOUS HORIZON LIMITED, being the beneficial owner of the outstanding Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary. As of Latest Practicable Date, the number of Shares underlying the outstanding Pre-IPO Share Options held by GORGEOUS HORIZON LIMITED is 35,765,600 Shares.

Interests in the associated corporation

Name of Director	Nature of interest	Name of associated corporation ⁽¹⁾	Approximate percentage of shareholding
Mr. Liu Xiaofeng	Beneficial owner	Jiangsu Strawbear	77.9%
	Interest held through voting powers entrusted by other persons ⁽²⁾	Jiangsu Strawbear	22.1%
Ms. Zhang Qiuchen	Beneficial owner	Jiangsu Strawbear	1.0%
Ms. Zhai Fang	Beneficial owner	Jiangsu Strawbear	0.1%

Notes:

- (1) Jiangsu Strawbear is deemed as a subsidiary of the Company under the Contractual Arrangements, and therefore is an associated corporation of the Company by virtue of the SFO.
- (2) Pursuant to the Voting Arrangement Agreements, Mr. Liu Xiaofeng is able to exercise voting rights entrusted from the other signing parties and is therefore deemed to be interested in the shareholding interest in Jiangsu Strawbear held by the other signing parties by virtue of the SFO. For further details, see “History, Reorganisation and Corporate Development — Voting Arrangement and Lock-up Arrangements” in the Prospectus.

Save as disclosed above, as of the Latest Practicable Date, so far as it was known to the Directors or chief executive of the Company, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS’ SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or may not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

As of the Latest Practicable Date, Mr. Wang Xiaohui held directorship in certain companies engaging in producing and/or distributing drama series, including Horgos Eternity Pictures Co., Ltd. (霍爾果斯萬年影業有限公司), Beijing Huaxi Taihe Film Co., Ltd. (北京華熙泰和影視有限公司), Beijing Haidong Mingri Film Culture Communication Co., Ltd. (北京海東明日影視文化傳播有限公司), Beijing Chinese Miracle Culture Technology Co., Ltd. (北京中文奇蹟文化科技有限公司), Dongyang Liubai Film Culture Co., Ltd. (東陽留白影視文化有限公司), Hainan Huoyubai Film Culture Media Co., Ltd. (海南火羽白影視文化傳媒有限公司), Xiamen Taiyang Mingshan Film Culture Co., Ltd. (廈門泰洋明山影視文化有限公司) and Beijing Xinliliang Film Culture Co., Ltd. (北京新力量影視文化有限公司). Mr. Wang Xiaohui was not involved in the daily management and operation of the Company and the aforementioned companies. As such, the directorship held by Mr. Wang Xiaohui would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS

As of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since December 31, 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Save for the contractual arrangements and continuing connected transactions as disclosed in the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus and the section headed "Connected Transactions" in the 2021 Annual Report of the Company published on April 27, 2022, as of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group.

6. INTERESTS AND SHORT POSITIONS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As of Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of

Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
Master Sagittarius Holding Limited	Beneficiary of trust ⁽²⁾	328,128,000	47.10%
MASTER GENIUS GLOBAL LIMITED	Interest in a controlled corporation ⁽²⁾	290,480,000	41.70%
LEADING GLORY INVESTMENTS LIMITED	Beneficial interest ⁽²⁾⁽³⁾	290,480,000	41.70%
GORGEOUS HORIZON LIMITED	Beneficial interest ⁽²⁾	37,648,000	5.40%
SUCCESS TALE ENTERPRISES LIMITED	Interest in a controlled corporation ⁽²⁾	37,648,000	5.40%
Vistra Trust (Hong Kong) Limited	Trustee ⁽²⁾	37,648,000	5.40%
Ms. Liu Shishi	Founder of a discretionary trust ⁽⁴⁾	73,600,000	10.57%
Gold Pisces Holding Limited	Beneficiary of trust ⁽⁴⁾	73,600,000	10.57%
BEYOND VAST LIMITED	Interest in a controlled corporation ⁽⁴⁾	73,600,000	10.57%
GLESASON GLOBAL LIMITED	Beneficial interest ⁽⁴⁾	73,600,000	10.57%
Taurus Holding Ltd.	Beneficial interest ⁽⁵⁾	97,320,000	13.97%
iQIYI	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.97%
Baidu Holdings Limited	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.97%
Baidu, Inc.	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.97%
Li Yanhong	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.97%
Vistra Trust (Singapore) Pte. Limited	Trustee ⁽²⁾	290,480,000	41.70%
	Trustee ⁽⁴⁾	73,600,000	10.57%
	Trustee ⁽⁶⁾	32,000,000	4.59%
Ma Sean	Interest in a controlled corporation ⁽⁷⁾	50,000,000	7.18%
Snow Lake Management LLC	Interest in a controlled corporation ⁽⁷⁾	50,000,000	7.18%
Snow Lake Management LP	Investment manager ⁽⁷⁾	50,000,000	7.18%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the Latest Practicable Date, being 696,629,400 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the outstanding Pre-IPO Share Options).
- (2) LEADING GLORY INVESTMENTS LIMITED is owned as to (i) 99% by MASTER GENIUS GLOBAL LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary; and (ii) 1% by Master Sagittarius Holding Limited which is wholly owned by Mr. Liu Xiaofeng. Accordingly, each of Master Sagittarius Holding Limited, MASTER GENIUS GLOBAL LIMITED and Mr. Liu Xiaofeng is deemed to be interested in all the Shares held by LEADING GLORY INVESTMENTS LIMITED.

GORGEOUS HORIZON LIMITED, being the beneficial owner of the outstanding Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary. On May 12, 2022, 1,882,400 Shares were issued to GORGEOUS HORIZON LIMITED upon the exercise of the Pre-IPO Share Options by Mr. Liu Xiaofeng under the Pre-IPO Share Option Scheme. As of Latest Practicable Date, the number of Shares underlying the outstanding Pre-IPO Share Options held by GORGEOUS HORIZON LIMITED is 35,765,600 Shares.
- (3) Pursuant to the Voting Arrangement Agreements, LEADING GLORY INVESTMENTS LIMITED is able to exercise voting rights entrusted from the other signing parties and is therefore deemed to be interested in the shareholding interest in the Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganisation and Corporate Development — Voting Arrangement and Lock-up Arrangements" in the Prospectus.
- (4) GLESASON GLOBAL LIMITED is owned as to (i) 99% by BEYOND VAST LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LSS Family Trust which is a discretionary trust established by Ms. Liu Shishi as the settlor and protector and Ms. Liu Shishi's wholly-owned holding company Gold Pisces Holding Limited as the beneficiary; and (ii) 1% by Gold Pisces Holding Limited which is wholly owned by Ms. Liu Shishi. Accordingly, each of Gold Pisces Holding Limited, BEYOND VAST LIMITED and Ms. Liu Shishi is deemed to be interested in all the Shares held by GLESASON GLOBAL LIMITED.
- (5) Taurus Holding Ltd. is wholly owned by iQIYI, whose voting power is owned as to 91.80% by Baidu Holdings Limited, a wholly-owned subsidiary of Baidu, Inc. Baidu, Inc. is owned as to 56.50% by Li Yanhong. Therefore, each of iQIYI, Baidu Holdings Limited, Baidu, Inc. and Li Yanhong is deemed to be interested in the Shares directly held by Taurus Holding Ltd. by virtue of the SFO.
- (6) GOLDEN BASIN GLOBAL LIMITED is owned as to (i) 99% by SMART CENTURY VENTURES LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai Fang as the settlor and protector and Ms. Zhai Fang's wholly-owned holding company Gold Fish Management Holding Limited as the beneficiary; and (ii) 1% by Gold Fish Management Holding Limited which is wholly owned by Ms. Zhai Fang. Accordingly, each of SMART CENTURY VENTURES LIMITED, Gold Fish Management Holding Limited and Ms. Zhai Fang is deemed to be interested in all the Shares held by GOLDEN BASIN GLOBAL LIMITED.
- (7) Snow Lake Management LP is the investment manager of Snow Lake China Master Fund, Ltd. and Snow Lake China Master Long Fund, Ltd.. Ma Sean is the managing member of Snow Lake Management LLC, which is the general partner of Snow Lake Management LP. Therefore, by virtue of the SFO, each of Snow Lake Management LP, Snow Lake Management LLC and Ma Sean is deemed to be interested in the 20,000,000 Shares and 30,000,000 Shares directly held by Snow Lake China Master Fund, Ltd. and Snow Lake China Master Long Fund, Ltd., respectively. 23,677,000 of 50,000,000 Shares are underlying Shares held through derivative interests.

Save as disclosed above, as of the Latest Practicable Date, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

As of the Latest Practicable Date, the following Directors were directors or employees of companies which had, or was deemed to have, an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company having an interest or a short position in the Shares or underlying Shares	Position held within such company
Mr. Liu Xiaofeng	Master Sagittarius Holding Limited	Director
	LEADING GLORY INVESTMENTS LIMITED	Director
	GORGEOUS HORIZON LIMITED	Director
Mr. Wang Xiaohui	iQIYI	Chief content officer
Ms. Liu Fan	iQIYI	Head of development strategy and investment department

Save as disclosed above, as of the Latest Practicable Date, the Directors were not aware of any other Director who was a director or employee of a company which had, or was deemed to have, an interest in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

7. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of Anglo Chinese, who has given its opinions or advices, which are contained or referred to in this circular:

Name	Qualifications
Anglo Chinese Corporate Finance, Limited	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As of the Latest Practicable Date, Anglo Chinese has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name in the form and context in which it appears.

As of the Latest Practicable Date, Anglo Chinese did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) any direct or indirect interest in any assets which had, since December 31, 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group.

9. DOCUMENTS ON DISPLAY

Electronic copy of (i) the 2022 Made-to-order Drama Series Production Framework Agreement and (ii) the 2022 Drama Series Copyrights Purchasing Framework Agreement proposed to be entered into between the Company and iQIYI will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.strawbearentertainment.com) for a period of 14 days from the date of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Strawbear Entertainment Group 稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2125)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2022 second extraordinary general meeting (the “EGM”) of Strawbear Entertainment Group (the “Company”) will be held at Room 2508, Building A, Wanda Plaza, No. 98 Jiangdong Zhong Road, Jianye District, Nanjing, Jiangsu Province, PRC on Friday, December 23, 2022 at 10 a.m. for the purposes of considering and if thought fit, passing the following resolutions (with or without modification) as ordinary resolutions of the Company. Unless otherwise specified, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated December 6, 2022 (the “Circular”).

ORDINARY RESOLUTIONS

1. To consider and if thought fit, pass the following resolution (with or without modification) as an ordinary resolution of the Company:

“That:

- (a) the 2022 Made-to-order Drama Series Production Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed;
- (b) the proposed annual caps for the continuing connected transactions contemplated under the 2022 Made-to-order Drama Series Production Framework Agreement for the three years ending December 31, 2025 as set out in the Circular be and are hereby approved, ratified and confirmed; and
- (c) any one or more of the Directors is hereby authorized to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the transactions contemplated under the 2022 Made-to-order Drama Series Production Framework Agreement (including the proposed annual caps thereunder for the three years ending December 31, 2025).

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. To consider and if thought fit, pass the following resolution (with or without modification) as an ordinary resolution of the Company:

“That:

- (a) the 2022 Drama Series Copyrights Purchasing Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed;
- (b) the proposed annual caps for the continuing connected transactions contemplated under the 2022 Drama Series Copyrights Purchasing Framework Agreement for the three years ending December 31, 2025 as set out in the Circular be and are hereby approved, ratified and confirmed; and
- (c) any one or more of the Directors is hereby authorized to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the transactions contemplated under the 2022 Drama Series Copyrights Purchasing Framework Agreement (including the proposed annual caps thereunder for the three years ending December 31, 2025).

Yours faithfully,
By order of the Board
Strawbear Entertainment Group
Mr. Liu Xiaofeng
Chairman

Nanjing, PRC, December 6, 2022

Notes:

- (1) For the purpose of determining the identity of the shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, December 20, 2022 to Friday, December 23, 2022, during which no transfer of shares will be effected. The record date for determining the eligibility to attend and vote at the EGM will be Friday, December 23, 2022. All transfers accompanied by the relevant certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, December 19, 2022.
- (2) A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he/she/it is the holder of two or more shares, more proxies to attend and vote instead of him/her/it. A proxy need not be a member of the Company.
- (3) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such Share shall alone be entitled to vote in respect thereof.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (4) In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours (i.e. 10 a.m. on Wednesday, December 21, 2022) before the time fixed for holding of the EGM. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the EGM (or any adjourned meeting thereof) if they so wish.
- (5) To safeguard the health and safety of the shareholders of the Company, the Company will implement the following precautionary measures at the EGM of the Company to prevent the spreading of the COVID-19:
- (i) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;
 - (ii) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
 - (iii) The Company will not provide refreshments and will not distribute corporate gifts.

In light of the continuing risks posed by the COVID-19, the Company encourages the shareholders of the Company to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

As at the date of this notice, the Board comprises Mr. Liu Xiaofeng, Ms. Zhang Qiuchen, Mr. Chen Chen and Ms. Zhai Fang as executive Directors; Mr. Wang Xiaohui and Ms. Liu Fan as non-executive Directors; and Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun as independent non-executive Directors.