You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in the Accountants' Report in Appendix I to this document. The consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors" in this document.

OVERVIEW

We are the largest variety program IP creator and operator in China in terms of revenue in 2021, with a market share of 1.6%. We also own and operate a large library of Chinese film IPs and are a music IP creator and operator in China. Having built an ecosystem underpinned by abundant IP resources, we attract and inspire people, bringing them happiness and enjoyment in their everyday life. Our audience base serves as the basis of our diversified IP-related business.

We have built a business model consisting of four business segments: (i) variety program IP production, operation, and licensing, (ii) music IP operation and licensing, (iii) film and drama series IP operation and licensing, and (iv) other IP-related business. We produce and operate variety program IPs and generate revenue from advertising sales, commission for program production, and licensing fees in association with our broadcasting rights and the right to host offline entertainment events in association with our variety programs. We also produce and license songs and albums to music service providers in exchange for licensing fees. In addition, we generate revenue from licensing our film IPs to media platforms, and have made our debut in drama series production and distribution. To further diversify our monetization channels, we offer a series of IP-related services and products such as artist management, concert organization and production, arts education and training, mobile applications, consumer products and themed attractions.

We had revenue of RMB1,806.6 million, RMB1,559.9 million and RMB1,126.7 million in 2019, 2020 and 2021, respectively, and RMB154.6 million and RMB182.6 million for the six months ended June 30, 2021 and 2022, respectively. We had net profit/(loss) of RMB380.2 million, RMB(37.9) million and RMB(351.7) million in 2019, 2020 and 2021, respectively, and RMB(25.4) million and RMB(13.4) million for the six months ended June 30, 2021 and 2022, respectively. We recorded adjusted net profit/(loss) (non-IFRS measures) of RMB406.2 million, RMB(10.4) million and RMB(304.3) million in 2019, 2020 and 2021, respectively and

RMB11.2 million and RMB(6.3) million for the six months ended June 30, 2021 and 2022, respectively. See "— Description of Key Statement of Profit or Loss Items — Non-IFRS Measures" for a reconciliation of our net profit/(loss) to the adjusted net profit/(loss) (non-IFRS measures).

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with IFRS and accounting principles generally accepted in Hong Kong. All IFRS effective for the accounting period commencing from January 1, 2021, together with the relevant transitional provisions, have been early adopted on a consistent basis by our Group in the preparation of the historical financial information throughout the Track Record Period and in the period covered by the interim comparative financial information.

The historical financial information has been prepared under the historical cost convention except for financial assets at fair value through profit or loss which have been measured at fair value.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to continue to be, affected by the following significant factors.

Industry trends and regulatory environment

Our results of operations are affected by the overall growth of the pan-entertainment industry in China. China's pan-entertainment market is expected to further increase to reach RMB1,345.6 billion in 2026, representing a CAGR of 14.0% between 2021 and 2026. The future development of our business is affected by many factors, including the overall economic, political and social conditions in China and globally, as well as economic conditions specific to our industry, such as (i) rising disposable income levels and living standards and the resulting demand of Chinese consumers for high-quality and creative spirit-oriented consumptions, (ii) willingness of young generations to pay for premium entertainment content and derivative products, and (iii) development of digital technologies which expands distribution channels and enriches the forms of the pan-entertainment products. Changes in any of these general industry conditions and our ability to adapt to such changes could affect our business and results of operation.

Our business and results of operations are affected by government policies and regulations applicable to the industry where we operate. Pursuant to the laws and regulations in the PRC, each TV program need to be approve by and registered with the NRTA before broadcasting, and NRTA can, at their own discretion, require video program producer to re-edit programs. Our variety programs are subject to review by the NRTA prior to broadcasting. If the above-mentioned situation were to occur, the original broadcast schedule might be affected, and we might need to incur additional cost to reproduce our programs, which could have a material adverse effect on our business operations. For more details, see "Risk Factors — Risks Relating to Our Business and Industries — The production and distribution of video content programs are extensively regulated in the PRC."

Business lines and product mix

We offer a full spectrum of entertainment IPs, including variety programs, music, film and drama series, as well as other IP-related products and services. We have four principal business lines, including (i) variety program IP production, operation, and licensing, (ii) music IP operation and licensing, (iii) film and drama series IP operation and licensing, and (iv) other IP-related business. Our operating margins vary across different business lines as well as different programs, products and services in each business line. Our product mix and changes in such mix, which reflect our business strategies, the trend of China's entertainment industry, audience preferences, advertising client demands and other factors, may affect our revenue and profitability from time to time.

Revenue from variety program IP production, operation, and licensing business was the largest component of our total revenues during the Track Record Period, which amounted to RMB1,340.5 million, RMB1,090.1 million, RMB879.5 million and RMB136.5 million in 2019, 2020, 2021 and for the six months ended June 30, 2022, respectively, representing 74.2%, 69.9%, 78.0% and 74.7% of our total revenues in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our gross margins vary across different business lines. During the Track Record Period, music IP operations and licensing business, film and drama series IP operation and licensing business, as well as other IP-related business had higher gross margins than that of variety program IP production, operation, and licensing business. With a view to increasing our revenues and profitability, we intend to closely monitor and adjust our product mix across our principal business lines and to further expand our other IP-related product and service offerings. Our financial condition and performance will be also affected by our ability to offer new products and services, to expand our client base and to engage in new markets.

Portfolio of variety programs

We generated a majority of our revenues from variety program IP production, operation, and licensing business. During the Track Record Period, we developed variety programs for satellite TV networks and online video platforms. Going forward, as our variety program portfolio continues to expand and diversify, certain aspects of our operating results may be affected by the following factors:

- *Revenue Sharing vs. Commissioned Production.* We have two revenue models for producing and distributing variety programs. Under the revenue sharing model, we produce and jointly invest in variety programs with media platforms and our revenue primarily comprises advertising sales based on certain percentage agreed with the co-investors. Under the commissioned production model, we are engaged by media platforms to produce variety programs and our revenue usually comprises a fixed commission. On the one hand, we usually generate higher revenue under the revenue sharing model than that under the commissioned production model as the commission fee we are entitled to receive under such arrangement is relatively fixed. On the other hand, revenue generated under the commissioned production model is relatively stable, whereas revenue generated under the revenue sharing model may be subject to greater uncertainty depending on the advertising sales of the variety programs released.

Our programs jointly produced with TV networks are produced typically under the revenue sharing model. After we entered the made-for-internet market in 2018, we entered into commissioned production arrangement for several of our made-for-internet programs with online video platforms to obtain a relatively stable customer relationship and revenue source during our expansion in the new market. As we have quickly established ourselves in the made-for-internet market, we have started to adopt the revenue sharing model for our made-for-internet programs since 2019, as our contract for programs under the commissioned production model typically provides us with a right of first refusal to co-invest in the their subsequent seasons under the revenue sharing model.

- *First Seasons v. Later Seasons.* As of the Latest Practicable Date, we released or have scheduled to release the first season of seven new variety programs and the new season of three existing variety programs in 2022. Generally, if a variety program is successful in its first season, advertisers and the investing media platforms will be willing to invest more in the second or subsequent seasons, having witnessed its success. As a result, the revenue of the second season of such program is likely to increase compared to that of the first season.

Ability to manage the credit terms with our customers

Our cash flows and profitability are affected by the timely settlement of payments by our customers for the services we have rendered to them. Many of our customers are leading TV networks and online video platforms in China. Our contractual credit periods with these customers are usually determined after we evaluated the credit worthiness of each customer and are generally one month after they received our invoice. In practice, the settlement and payment process with our customers under the revenue sharing model usually takes longer time than that with customers under the commissioned production model. Under the commissioned production model, we typically receive all of our commission fee after the completion of the accounting process, which usually takes place shortly after the completion of the initial broadcast of a commissioned variety program. Under the revenue sharing model, investing media platforms and us usually have the accounting and allocation of revenue on a monthly basis after half of the program have been broadcast. This revenue allocation process typically continues until both parties have received all the proceeds from customers, and after all the revenue generated have been allocated between the investing media platforms and us after deducting the production cost. We also need to verify the amounts to be paid with customers before the invoices are issued. Such practices may prolong the turnover days for our trade receivables under the revenue sharing model. We set forth a maximum credit limit for each customer and review overdue balances on a regular basis. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our trade receivables totaled RMB1,258.9 million, RMB1,067.8 million, RMB1,011.2 million and RMB783.4 million, respectively. In 2019, 2020 and 2021, turnover days of our trade receivables were approximately 234 days, 272 days, 337 days, respectively. Turnover days of our trade receivables for the six months ended June 30, 2022 were 885 days, which were significantly higher than the turnover days for a full year, primarily because we usually recognize most of revenue in the second half of a year due to the seasonality of the entertainment industry. See "— Key Factors Affecting Our Results of Operations — Seasonality." The allowance for impairment of trade receivables was RMB181.9 million, RMB157.1 million, RMB164.1 million and RMB173.4 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. We recorded net cash inflow from operating activities of RMB516.3 million, RMB398.2 million, RMB409.2 million and RMB80.1 million in 2019, 2020, 2021 and for the six months ended June 30, 2022, respectively.

Preferential tax treatment and government grants

During the Track Record Period, we received various government grants from local government authorities amounted to RMB42.2 million, RMB42.1 million, RMB29.7 million and RMB3.7 million in 2019, 2020, 2021 and during the six months ended June 30, 2022, respectively, which were recorded in our other income in our consolidated statements of profit or loss. During the Track Record Period, we also received certain preferential tax treatment. For example, Canxing Culture and MXQY are recognized as High and New Technology Enterprises and therefore are entitled to a preferential income tax rate of 15% during the Track Record Period. To the extent that the governmental authorities decide to reduce or cancel such government grants or preferential tax treatment applicable to us, or if we fail to successfully or timely obtain the government grants or preferential tax treatment available to us, such changes or failures could adversely affect our business, financial condition, results of operations and prospects.

Seasonality

The development, production and distribution of variety programs are subject to seasonality. Most super large variety programs are typically broadcast between May and October each year, due to the audience's preferences and the broadcasting schedules of TV networks. In addition, shooting schedules usually start in the beginning of a year as the warm weather in the spring and the summer facilitates the production of variety programs. Because of the combined factors, the level of variety program development, production and distribution activities increases in the second quarter and continues into the second half of the calendar year. As a result, we historically had revenue and gross profit significantly higher in the second half of the year than in the first half.

IMPACT OF COVID-19

Since the outbreak of COVID-19 in early 2020, China has implemented, among other measures, restrictions on mobility and travel and cancellation of public activities, to contain the spread of the virus. Due to such measures, the growth rate of China's pan-entertainment market decreased from 40.4% between 2018 to 2019, to 8.2% between 2019 to 2020. Our business operations have also been impacted by delays in business activities and commercial transactions, decline in the entertainment market, and general uncertainties surrounding the duration of the governments' extended business and travel restrictions. For details, see "Industry Overview — Global Entertainment Market and China Pan-Entertainment Market" and "Industry Overview — Drama Series and Movie Market in China."

We undertook a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations. We also provided our employees with masks, hand sanitizers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs.

While the lock-down and various social distancing initiatives adopted by the governments have caused people to turn to online social and entertainment activities in lieu of physical gatherings, these measures have led to reduced business activities in general.

The decline of the global entertainment market and the hampered business operation of corporate customers led to a decrease in their advertising budget, which had a negative impact on our revenue. Our revenue decreased from RMB1,806.6 million in 2019 to RMB1,559.9 million in 2020, and further decreased to RMB1,126.7 million in 2021, due to high economic and business uncertainty under the negative effect of COVID-19 outbreak and the restrictions on mobility and travel. We also recognized impairment loss of RMB386.8 million and RMB380.7 million for the MXQY Goodwill as of December 31, 2020 and 2021, based on our annual impairment test on goodwill conducted for the Track Record Period in compliance with IFRS. We had adjusted the expected revenue generated from MXQY partly due to the outbreak of COVID-19 and its adverse impact on our revenue from licensing of the right to host offline entertainment events and organizing of concerts. For details, see "— Period to Period Comparison of Results of Operations" and "— Discussion of Certain Balance Sheet Items — Assets — Goodwill" in this section.

During the outbreak of COVID-19, our results of operations in 2020 and 2021 were particularly affected by the following specific factors:

- *Postponement in production and broadcasting schedules.* The ongoing business and travel restrictions have significantly impacted the availability of participants of our variety programs, which in turn affected the production and broadcasting schedules of our pipeline programs. As a result of the foregoing, the production and broadcasting of several of our popular variety programs initially broadcast in 2020 and 2021, such as "Sing! China" and "Street Dance of China," experienced a delay ranging from one to two months as compared to 2019. "Sing! China 2019," "Sing! China 2020" and "Sing! China 2021" were initially broadcast in mid-July 2019, late August 2020 and late July 2021, respectively. "Street Dance of China 2019," "Street Dance of China 2020" and "Street Dance of China 2021" were initially broadcast in mid-May 2019, mid-July 2020 and early August 2021, respectively.

- *Additional production cost.* We took a series of measures to protect our employees and program participants, which incurred additional production cost. For example, we provided COVID testing and paid for the quarantine expenses for program participants and some employees during the production of several variety programs, including "Street Dance of China 2020" and "Sing! China 2020."

  Restrictions on travel and closure of facilities led to the unavailability of certain guest actors and actresses, as well as certain production studios. For example, because of a resurgence of COVID-19 cases in the city where we were filming for "Sing! China 2021," we had to rent a production studio in another city and replicate the stage settings, which also incurred additional production cost.

- *Delay in offline entertainment events and concerts.* Restrictions on mobility and travel and COVID-19 testing requirements resulted in the reduction in size or even cancellation of various public events, which adversely affected our revenue from providing services for our customers' offline entertainment events and our ticket sales from organizing concerts. For example, in 2020, we canceled a series of planned concerts, including (i) the "China Music Awards Ceremonies (華語音樂榜中榜系列活動)," (ii) "Sing! China Macau Concerts (中國好聲音澳門演唱會)" and (iii) a concert we planned to organize for an e-commerce customer, which resulted in a decrease in our revenue in 2020. Our revenue generated from other IP-related business decreased by 30.1% from RMB112.0 million in 2019 to RMB78.3 million in 2020. For details, please see "— Period to Period Comparison of Results of Operations" in this section.

Recently, there has been a resurgence of COVID-19 cases in certain parts of China due to the Delta and Omicron variants, which has caused local governments to tighten COVID-19-related restrictions and led to additional uncertainties in our business environment. A portion of our employees have been working remotely for more than a month. In addition, resurgence of COVID-19 cases in Shanghai and its vicinity, where we plan to film for six of our variety programs, had led us to rent replacement production studios located further away. Despite our efforts, the production and broadcasting schedules for at least five of our pipeline variety programs were affected to various degrees. For example, the broadcasting schedule of "Sing! China 2022" and "Street Dance of China 2022" experienced a delay of about half a month and three months as compared to 2019, respectively.

There remain significant uncertainties surrounding the COVID-19 outbreak and its resurgence. Should China experience further outbreaks, China may take more emergency measures to combat it. Our Directors are of the view that the COVID-19 pandemic had a temporary adverse impact on our business operations and our financial performance in the short run, but is not expected to bring any permanent or material interruption to our operations. However, there can be no assurance that our business operations and financial performance will not be adversely affected, particularly if the COVID-19 pandemic continues for an extended period or gets worse in China. For more details, see "Risk Factors — Risks Relating to Our Business and Industries — Our business operations and financial performance have been affected by the COVID-19 outbreak."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

Revenue from Contracts with Customers

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

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

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

Variety program IP production, operation, and licensing

We create and distribute variety programs to various media platforms, including major TV networks and online video platforms. In most cases, we jointly invest in the programs with the media platforms and shares the revenue from advertising sales. In other cases, we are commissioned by media platforms to produce programs or commercials for a fixed commission fee or license fee, which is referred to as the commissioned production model. We develop our program content and generally retain part or all of the intellectual property rights on the program content except the intellectual property rights on variety programs produced under the commissioned production model. During the Track Record Period, we license customers the right to host offline entertainment events for our singing, dance and talent competition shows in exchange for a fixed licensing fee.

Revenue from licensing of broadcasting rights of variety programs is recognized at the point in time when the licensed content is made available for the customer's use and benefit, typically when the variety program has been transferred and accepted by the media platform.

Revenue from collaborating with media platforms is realized in the form of advertising sales. It is recognized at a point in time when each episode of the variety program is transferred to and accepted by the media platform, generally on the broadcast of the variety program.

Revenue from the production of commissioned variety programs is recognized over time, using an input method to measure progress towards complete production of commissioned variety programs, because our Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced.

Our Group authorizes customers to use our brand and program materials for their offline marketing activities. Revenue from the licensing of the right to host offline entertainment events is recognized on a straight-line basis over the period as our Group's promise in granting the license is a promise to provide a right to access our Group's intellectual property.

Music IP operation and licensing

We license content to the customers either on a fixed-payment basis or a minimum guaranteed amount plus revenue-sharing basis.

For the licensing of individual songs, fixed payment and minimum guaranteed amount are recognized when the licensed content is made available for the customer's use and benefit, typically upon the transfer of the licensed content to the customer. For the licensing of music library, our performance obligation is to maintain the music library and grant the right to access such music library to customers and our obligation is satisfied over the specified licensing period. Royalties exceeding the minimum guaranteed amount are recognized when the usage of the licensed content exceeding specified thresholds occurs and the amount is based on the relevant monthly or quarterly reports provided by the respective operators.

Drama series and film IP operation and licensing

Revenue from the licensing of drama series and licensed contents is recognized at the point in time when the licensed contents are available to the licensees, generally on delivery of the films after the start of the licensing period.

Other IP-related business

We provide artist management services by arranging our artists to provide service to customers, such as participating in concerts, tours, in-person appearances and sponsorship. Revenue is recognized on a straight-line basis over the period that the artists rendered relevant services to the organizer of the entertainment events and TV programs by attending those entertainment events and TV programs.

We organize concerts and earn revenue from ticket sales. Revenue from concert ticket sales is recognized over the contract period when the relevant concerts are hosted by us and the customers simultaneously receive and consume the benefits from performance of the concerts.

During the Track Record Period, our revenue generated from operation of mobile apps mainly includes income of membership fee and online music training, which is immaterial to our Group's financial performance. The revenue of such business recognized during the Track Record Period is as follows:

	Membership fee	**Online music training**
	(RMB in thousands)	
2020	192	579
2021	84	172

The income of membership fee, which is generated from operation of "Zongbache" mini-app and "Sing! China" app, is recognized ratably over the membership period as services are rendered. The membership period is usually less than one year. The income of online music training, which is generated from operation of "Sing! China" app, is recognized at the point in time when such online course is available to the customers.

Other Income

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

Income Tax

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

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

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

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

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

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

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

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

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

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

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

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

Investments in Associates and Joint Ventures

An associate is an entity in which we have a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Our investments in associates and joint ventures are stated in the consolidated statement of financial position at our share of net assets under the equity method of accounting, less any impairment losses. Our share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, we recognize our share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between us and our associates or joint ventures are eliminated to the extent of our investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of our investments in associates or joint ventures.

Business Combinations and Goodwill

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

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

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

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

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

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

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

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

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

Fair Value Measurement

We measure our financial assets at fair value through profit or loss at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly;

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable;

For assets and liabilities that are recognized in the financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Share-based Payments

We have a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees (including directors of our Group) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments, referred to as equity-settled transactions.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value of the shares granted is measured at the grant date using the income approach (Discounted Cash Flow ("DCF") method, in particular) and back-solve method, as well as the equity allocation method is adopted to reflect the different features of the different class of shares, further details of which are given in Note 32 to the historical financial information.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of our best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either we or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Intangible Assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

Trademarks are acquired in a business combination. Trademark with finite useful life is stated at cost less any impairment losses and is amortized on a straight-line basis over its estimated useful life of 20 to 30 years. We determine the useful life of trademarks with reference to the estimated periods that we intend to derive future economic benefits from the use of the assets.

Software

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

Film Rights

Film rights are stated at cost less accumulated amortization and any impairment losses.

Film rights acquired separately are measured on initial recognition at cost. The cost of film rights acquired in a business combination is the fair value as at the date of acquisition. Film rights are subsequently amortized on a systematic basis, reflecting the pattern in which their future economic benefits are expected to be consumed by our Group. The cost of the film library is allocated to three distinct film groups, which are identified based on the grading of each film, and is amortized based on the amortization rate of each film group. The amortization rate is the proportion of actual license of film rights in a particular film group granted during the year or period to the total estimated license of film rights in that particular film group expected to be granted. The total estimated license of film rights expected to be granted is reassessed by our Group at each financial year-end based on the historical information and management's judgment to reflect the change in expected pattern of consumption of future economic benefits embodied in the asset. The amortization method is reviewed regularly, and revised if appropriate. Film rights are assessed for impairment whenever there is an indication that the film rights may be impaired.

Music Copyrights

Music copyrights are stated at cost less accumulated amortization and any impairment losses.

Music copyrights acquired separately are measured on initial recognition at cost. Music copyrights are subsequently amortized on a systematic basis, reflecting the pattern in which their future economic benefits are expected to be consumed by our Group. The pattern is based on management's estimate of the total license of music copyrights expected to be granted and on an accelerated amortization rate. The total estimated license of music copyrights expected to be granted and the amortization rate are reassessed by our Group at each financial year-end based on the historical information and management's judgment to reflect the change in expected pattern of consumption of future economic benefits embodied in the asset. The amortization method is reviewed regularly, and revised if appropriate. Music copyrights are assessed for impairment whenever there is an indication that the music copyrights may be impaired.

Government Grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statements of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20.00%
Motor vehicles	20.00%
Office equipment	20.00%~33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment, including any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the building and leasehold improvements are completed and ready for use.

Financial Liabilities

Initial Recognition and Measurement

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

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

Our financial liabilities include trade payables, other payables and accruals, amounts due to related parties, interest-bearing bank borrowings and lease liabilities.

Subsequent Measurement

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

Financial liabilities at amortized cost (loans and borrowings)

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

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct costs or expenses incurred during the production and development of scripts. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and sale.

Program copyrights

Program copyrights represent legal rights of variety programs and drama series held by our Group. These rights are stated at cost less accumulated amortization and identified impairment loss. Costs of variety program copyrights comprise fees or investments paid and payable for the production of program copyrights under agreements, direct costs or expenses incurred during the production. The cost of variety program copyright is amortized based on the broadcast of each episode of the variety program, normally within one year after the first customer's acceptance of the respective variety programs and is recognized as cost of sales in the statement of profit or loss. The period is determined based on the estimated beneficial period and individual title basis.

Costs of drama series consist of (i) fees and investments paid and payable for the production of drama series under agreements, (ii) direct costs and expenses incurred during the production and (iii) the cost incurred for the purchase of copyrights or broadcasting rights of drama series. Drama series are subsequently amortized on a systematic basis which reflects the pattern in which their future economic benefits are expected to be consumed by us, normally within one year after the first customer's acceptance of the respective drama series and are recognized as cost of sales in the statement of profit or loss.

Program copyrights are assessed for impairment whenever there is an indication that the program copyrights may be impaired. Impairment loss is recognized in the statement of profit or loss. The recoverable amounts of the program copyrights are determined and reviewed on a title-by-title basis and are based on the higher of fair value less costs of disposal and value in use which include unobservable inputs and assumptions derived by our Group.

Any gain or loss arising from the disposal of program copyright is recognized in profit or loss. Gains or losses arising from the disposal of program copyright are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of disposal.

Impairment of Non-financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset (other than inventories, deferred tax assets and financial assets) is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Track Record Period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Impairment of Financial Assets

We recognize an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

Expected credit losses are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months (a "12-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a "lifetime ECL").

At each reporting date, we assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, we compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

We consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, we may also consider a financial asset to be in default when internal or external information indicates that we are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by us. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of expected credit losses except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when we apply the practical expedient of not adjusting the effect of a significant financing component, we apply the simplified approach in calculating expected credit losses. Under the simplified approach, we do not track changes in credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. We have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, we choose as our accounting policy to adopt the simplified approach in calculating expected credit losses with policies as described above.

Significant Accounting Judgments and Estimates

The preparation of our Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying our accounting policies, our management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the historical financial information:

Identifying performance obligations in a bundled sale of music copyright licensing arrangement

We are required to deliver licensed content from our existing musical content and additional musical content when it is produced in the future to operators of those third parties' online platforms. We license both content separately or within a bundle.

We determined that each existing song copyright licensing and each new song copyright licensing are each capable of being distinct. The fact that we regularly license both existing and new songs copyrights on a standalone basis indicates that the customer can benefit from each product on their own. We also determined that the promises to license each existing song and each new song copyright are distinct within the context of the contract. The existing and new songs copyright licensing is not an input to a combined item in the contract. We are not providing a significant integration service because the presence of the existing and new songs copyright licensing together in the contract does not result in any additional or combined functionality. In addition, the existing and new songs copyright licensing is not highly interdependent or highly interrelated, because we would be able to provide the existing songs copyright licensing even if the customer declined the new songs copyright licensing and would be able to provide new songs copyright licensing in relation to other customers. Consequently, we have allocated a portion of the transaction price to the new songs copyright licensing and existing songs copyright licensing based on their relative stand-alone selling prices.

The contracts of licensing of music library typically contain a single performance obligation, which is to provide ongoing access to all intellectual properties in an evolving content library maintained by us on an ongoing basis. No transaction price allocation is needed. Revenue is recognized on a straight-line basis over the licensing period.

Principal versus agent

Determining whether our revenue should be reported gross or net is based on a continuing assessment of various factors. When determining whether we are acting as the principal or agent in offering goods or services to the customer, we need to first identify who controls the specified goods or services before they are transferred to the customer. We are a principal that controls the specified goods or services before they are transfered to a customer when: (i) we are primarily responsible for fulfilling the promise to provide the specified good or service; (ii) we have inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer; or (iii) we have discretion in establishing the price for the specified good or service.

Contractual Arrangements

Canxing Culture and its subsidiaries are engaged in the radio and television program production, internet cultural activities, television drama production and value-added telecommunication services. Under the scope of "Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2021 Version)," foreign investors are prohibited to invest in such business.

As part of the Reorganization, we exercise control over our Consolidated Entities and enjoy substantially all economic benefits of our Consolidated Entities through the Contractual Arrangements.

Our Company does not have any equity interest in the Consolidated Entities. However, as a result of the Contractual Arrangements, our Company has power over the Consolidated Entities, has rights to variable returns from its involvement with the Consolidated Entities and has the ability to affect those returns through its power over the Consolidated Entities and is therefore considered to have control over them. Consequently, our Company regards the Consolidated Entities as indirect subsidiaries. We have consolidated the financial position and results of the Consolidated Entities in the historical financial information during the relevant periods.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

We use a provision matrix to calculate expected credit losses for trade receivables. The provision rates are based on aging periods and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on our Group's historical observed default rates. Our Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the media and entertainment sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The provision for impairment of trade receivables as of December 31, 2019, 2020 and 2021 and June 30, 2022 amounted to RMB181.9 million, RMB157.1 million, RMB164.1 million and RMB173.4 million, respectively. Details about provision for impairment of trade receivables are set out in Note 23 to the Accountants' Report included in Appendix I to this document.

Provision for expected credit losses on other receivables

We have applied the general approach to provide for expected credit losses for other receivables and considered the default event, historical loss rate and adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate, details of which are set out in Note 24 to the Accountants' Report included in Appendix I to this document.

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to two individual cash-generating units for impairment testing as follows:

(a) MXQY cash-generating unit ("MXQY unit"), which engages in music IP operation and licensing and other IP-related business; and

(b) Fortune Star Media cash-generating unit ("Fortune Star Media unit"), which engages in drama series and film IP operation and licensing.

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
MXQY unit	1,983.1	1,596.3	1,215.6	1,215.6
Fortune Star Media unit	273.2	255.5	249.7	262.8
	2,256.3	1,851.8	1,465.3	1,478.4

The recoverable amounts of the cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period for all units. The pre-tax discount rates applied to the cash flow projections, the budgeted gross margins and the growth rates beyond five years period used to extrapolate the cash flows of the above cash-generating units are as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	%	%	%	%
MXQY unit				
Budgeted gross margins	78.71-79.73	71.59-73.05	67.78-68.80	66.35-68.88
The pre-tax discount rates*	13.23	13.09	12.43	12.09
Terminal growth rate**	0.00	0.00	0.00	0.00
Fortune Star Media unit				
Budgeted gross margins	43.12-96.00	43.38-89.22	37.09-86.65	40.00-86.11
The pre-tax discount rates*	12.00	12.00	12.00	12.00
Terminal growth rate**	1.50	1.50	1.50	1.50

* The pre-tax discount rates applied to the cash flow projections are determined by reference to the average rates for similar industries and the business risks of the relevant business units as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The same pre-tax discount rate was adopted for the Fortune Star Media unit during the relevant periods as management considered that no significant changes in the underlying internal and external factors would affect the determination of the pre-tax discount rate.

** The growth rates used to extrapolate the cash flows beyond the five-year period applied similar long term growth rates of music IP operation and licensing and other IP-related business and drama series and film IP operation and licensing industry as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The same terminal growth rate was adopted during the relevant periods as management considered that no significant changes in the long term market development would affect the determination of the terminal growth rates.

Assumptions were used in the value in use calculation of the cash-generating units for the reporting periods. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year immediately before the budget year, increased for expected market development.

Pre-tax discount rates – The discount rates used are before tax and reflects risks specific to each of the units.

Growth rates – The growth rates used are based on the historical data and management's expectation of the future market.

The values assigned to the key assumptions on budgeted gross margins, discount rates and growth rates are consistent with management's past experience and external information sources.

Based upon the due diligence work conducted by the Joint Sponsors, including but not limited to the review of material assumptions adopted in the valuation reports and the accountants' report, due diligence interviews with the Company, expert due diligence interview with the Reporting Accountants and the internal control consultant and the comparison of key assumptions adopted by peer/comparable companies, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to cast doubt on the reasonableness of the material assumptions.

As of December 31, 2019 and June 30, 2022, the recoverable amount of the MXQY unit exceeds its carrying amount by RMB154.6 million and RMB62.4 million, respectively. As of December 31, 2020 and 2021, we recognized impairment of RMB386.8 million and RMB380.7 million, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the recoverable amount of the Fortune Star Media unit exceeds its carrying amount by RMB275.5 million, RMB289.5 million, RMB154.9 million and RMB278.5 million, respectively.

The following table illustrates the amounts by which the values assigned to the key assumptions must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amounts, in order for the two units' recoverable amounts to be equal to their carrying amounts.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		(%)		
MXQY unit				
Budgeted gross margins	(4.7)	N/A	N/A	(2.5)
The pre-tax discount rates	1.0	N/A	N/A	0.6
Terminal growth rate	(8.4)	N/A	N/A	(4.3)
Fortune Star Media unit				
Budgeted gross margins	(12.2)	(12.6)	(7.5)	(12.1)
The pre-tax discount rates	7.0	8.2	5.3	8.4
Terminal growth rate	(13.1)	(16.7)	(9.8)	(15.2)

The following table sets forth the impact of reasonably possible changes in each of the key assumptions, with all other variables held constant, on goodwill impairment testing as of the dates indicated.

	Recoverable amount of the cash-generating unit exceeds/(below) its carrying amount by			
	As of December 31,			As of June 30,
Possible changes of key assumptions	**2019**	**2020**	**2021**	**2022**
	(RMB in millions)			
MXQY unit				
Gross margins decrease by 1%	121.8	N/A	N/A	37.3
Gross margins decrease by 3%	55.7	N/A	N/A	(12.1)
Discount rates increase by 1%	4.1	N/A	N/A	(36.3)
Discount rates increase by 3%	(240.9)	N/A	N/A	(193.8)
Growth rates decrease by 1%	136.3	N/A	N/A	47.5
Growth rates decrease by 3%	99.4	N/A	N/A	18.6
Fortune Star Media unit				
Gross margins decrease by 1%	269.3	282.3	148.2	271.5
Gross margins decrease by 3%	256.8	267.9	134.6	257.6
Discount rates increase by 1%	215.5	232.3	115.1	224.0
Discount rates increase by 3%	122.0	143.3	52.6	139.1
Growth rates decrease by 1%	232.4	248.5	127.1	237.5
Growth rates decrease by 3%	165.3	184.8	83.8	173.7

With regard to the assessment of the value in use of the FSML unit, our Directors believe that reasonable possible changes in above key assumptions would not lead to the carrying value, including goodwill, of the FSML unit to exceed the recoverable amount as of December 31, 2019, 2020, 2021 and June 30, 2022.

Impairment of non-financial assets (other than goodwill)

We assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment, other intangible assets, right-of-use assets, investments in joint ventures and associates, and prepayments for leasehold land as of December 31, 2019, 2020, 2021 and June 30, 2022 in aggregate were RMB641.7 million, RMB606.1 million, RMB1,136.1 million and RMB1,293.7 million, respectively.

Deferred tax assets

Deferred tax assets are recognized for impairment of financial assets, accrued expenses, payroll payable, deferred revenue and lease liabilities to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The unrecognized tax losses as of December 31, 2019, 2020 and 2021 and June 30, 2022 amounted to RMB18.5 million, RMB25.0 million, RMB46.2 million and RMB57.3 million, respectively. Further details are given in Note 28 to the Accountants' Report included in Appendix I to this document.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The table below sets forth selected consolidated statements of profit or loss items for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(RMB in millions, except for percentages)									
							(unaudited)			
Revenue	1,806.6	100.0%	1,559.9	100.0%	1,126.7	100.0%	154.6	100.0%	182.6	100.0%
Cost of sales	(1,101.7)	(61.0%)	(972.5)	(62.3%)	(852.4)	(75.7%)	(97.9)	(63.3%)	(126.1)	(69.1%)
Gross profit	704.9	39.0%	587.4	37.7%	274.3	24.3%	56.7	36.7%	56.5	30.9%
Other income and gains	66.4	3.7%	53.1	3.4%	39.9	3.5%	21.6	14.0%	9.4	5.1%
Selling and distribution expenses	(43.1)	(2.4%)	(42.4)	(2.7%)	(35.3)	(3.1%)	(16.0)	(10.3%)	(9.2)	(5.0%)
Administrative expenses	(218.3)	(12.1%)	(198.9)	(12.8%)	(180.9)	(16.1%)	(73.2)	(47.3%)	(51.5)	(28.2%)
Impairment of goodwill	–	–	(386.8)	(24.8%)	(380.7)	(33.8%)	–	–	–	–
Reversal of impairment losses/(impairment losses) on financial assets, net	(45.2)	(2.5%)	18.9	1.2%	(10.3)	(0.9%)	3.0	1.9%	(9.8)	(5.4%)
Other expenses	(4.9)	(0.3%)	(15.4)	(1.0%)	(2.6)	(0.2%)	(1.1)	(0.7%)	(0.4)	(0.2%)

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(RMB in millions, except for percentages)									
							(unaudited)			
Changes in fair value of financial assets at fair value through profit or loss	(1.5)	(0.1%)	17.9	1.1%	(27.6)	(2.4%)	(6.4)	(4.1%)	(4.6)	(2.5%)
Finance costs	(14.1)	(0.8%)	(6.3)	(0.4%)	(2.7)	(0.2%)	(1.0)	(0.6%)	(1.0)	(0.5%)
Share of profits and losses of:										
Joint ventures	(1.9)	(0.1%)	(0.3)	0.0%	(0.3)	0.0%	(0.1)	(0.1%)	(0.2)	(0.1%)
Associates	(0.7)	0.0%	(0.7)	0.0%	(1.2)	(0.1%)	(1.7)	(1.1%)	(1.5)	(0.8%)
Profit/(loss) before tax	441.5	24.4%	26.5	1.7%	(327.4)	(29.1%)	(18.2)	(11.8%)	(12.3)	(6.7%)
Income tax expense	(61.3)	(3.4%)	(64.4)	(4.1%)	(24.3)	(2.2%)	(7.2)	(4.7%)	(1.1)	(0.6%)
Profit/(loss) for the year/period	380.2	21.0%	(37.9)	(2.4%)	(351.7)	(31.2%)	(25.4)	(16.4%)	(13.4)	(7.3%)
Attributable to:										
Owners of the parent	323.4	17.9%	(16.5)	(1.1%)	(345.0)	(30.6%)	(21.8)	(11.9%)	(11.9)	(6.5%)
Non-controlling interests	56.8	3.1%	(21.4)	(1.4%)	(6.8)	(0.6%)	(3.6)	(2.0%)	(1.5)	(0.8%)
	380.2	21.0%	(37.9)	(2.4%)	(351.7)	(31.2%)	(25.4)	(13.9%)	(13.4)	(7.3%)

Non-IFRS Measures

To supplement our consolidated financial statements which are presented under IFRS, we also use adjusted net profit/(loss) (non-IFRS measures) and adjusted net profit/(loss) margin (non-IFRS measures) as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that such non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impact of certain items. We believe that such measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted net profit/(loss) (non-IFRS measures) and adjusted net profit/(loss) margin (non-IFRS measures) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures has limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net profit/(loss) (non-IFRS measures) as profit/(loss) for the year/period adjusted for (i) equity-settled share award expense and (ii) [**REDACTED**] expenses. Equity-settled share award expenses, which are non-cash in nature, consist of expenses arising from granting restricted stock units to eligible individuals under our share award scheme. [**REDACTED**] expenses mainly include professional fees paid to legal advisors and the Reporting Accountants for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. We define adjusted net profit/(loss) margin (non-IFRS measures) as adjusted net profit/(loss) (non-IFRS measures) divided by revenue. The table below sets forth our adjusted net profit/(loss) (non-IFRS measures) and adjusted net profit/(loss) margin (non-IFRS measures) for the periods indicated.

	For year ended December 31,			For the six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	(RMB in millions, except for percentages)			*(unaudited)*	
Profit/(loss) for the year/period	380.2	(37.9)	(351.7)	(25.4)	(13.4)
Adjusted for:					
Equity-settled share award expense	26.0	27.5	27.4	27.4	–
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit/(loss) (non-IFRS measures)	406.2	(10.4)	(304.3)	11.2	(6.3)
Adjusted net profit/(loss) margin (non-IFRS measures)	22.48%	(0.67%)	(27.01%)	7.24%	(3.45%)

Revenue

During the Track Record Period, we generated our revenues primarily from (i) variety program IP production, operation, and licensing, (ii) music IP operation and licensing, (iii) film and drama series IP operation and licensing, and (iv) other IP-related business. For more details, see "Business — Our Businesses."

Revenue by Business Line

The table below sets forth a breakdown of our revenues by business line for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)									
							(unaudited)			
Variety program IP production, operation, and licensing	1,340.5	74.2%	1,090.1	69.9%	879.5	78.0%	72.5	46.9%	136.5	74.7%
Music IP operation and licensing	239.1	13.2%	217.3	13.9%	118.3	10.5%	45.2	29.2%	19.5	10.7%
Film and drama series IP operation and licensing	115.0	6.4%	174.2	11.2%	86.4	7.7%	22.4	14.5%	13.7	7.5%
Other IP-related business	112.0	6.2%	78.3	5.0%	42.5	3.8%	14.5	9.4%	12.9	7.1%
Total	1,806.6	100.0%	1,559.9	100.0%	1,126.7	100.0%	154.6	100.0%	182.6	100.0%

Variety Program IP Production, Operation, and Licensing

Our revenue generated from variety program IP production, operation, and licensing consists primarily of (i) revenue from advertising sales of variety programs which we produce and jointly invest in under the revenue sharing model; (ii) commission received from producing variety programs under the commissioned production model; (iii) licensing fees received from licensing the broadcasting rights of our variety programs; and (iv) licensing fees received from licensing the right to host offline entertainment events.

The table below sets forth a breakdown of our revenue from variety program IP production, operation, and licensing by nature during the Track Record Period for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)									
							(unaudited)			
Advertising sales	948.2	70.7%	571.4	52.4%	604.5	68.7%	20.5	28.3%	23.6	17.3%
TV networks	638.8	47.6%	367.5	33.7%	255.7	29.1%	20.5	28.3%	–	–
Online video platforms	309.4	23.1%	203.0	18.6%	348.9	39.6%	–	–	23.6	17.3%
Others(1)	–	–	0.9	0.1%	–	–	–	–	–	–
Commissioned programs	203.0	15.1%	424.3	38.9%	174.8	19.9%	16.2	22.4%	100.4	73.6%
TV networks	43.1	3.2%	198.8	18.2%	0.8	0.1%	0.2	0.3%	2.1	1.5%
Online video platforms	151.4	11.3%	222.4	20.4%	171.5	19.5%	16.0	22.1%	98.3	72.0%
Others(1)	8.5	0.6%	3.1	0.3%	2.5	0.3%	–	–	–	–
Licensing of broadcasting rights	121.0	9.0%	69.9	6.4%	52.1	5.9%	4.0	5.5%	0.1	0.1%
TV networks	4.1	0.3%	2.1	0.2%	3.3	0.4%	0.1	0.1%	0.1	0.1%
Online video platforms	116.9	8.7%	67.8	6.2%	48.8	5.5%	3.9	5.4%	–	–
Licensing of offline entertainment events(2)	68.3	5.1%	24.5	2.3%	48.1	5.5%	31.8	43.8%	12.4	9.1%
Total	1,340.5	100.0%	1,090.1	100.0%	879.5	100.0%	72.5	100.0%	136.5	100.0%

(1) Others represent customers other than TV networks and online video platforms.

(2) We granted a licensing partner the right to host the offline entertainment events in connection with our variety programs between July 2018 to June 2021 (the "2018 Licensing Agreement"). Pursuant to the 2018 Licensing Agreement, we shall receive a fixed licensing fee for each licensing year. Our revenue generated from licensing of offline entertainment events decreased from RMB68.3 million in 2019 to RMB24.5 million in 2020, primarily because in September 2020, we entered into a supplement agreement with the licensing partner. Pursuant to the supplemental agreement, we agreed to lower our licensing fee for the second licensing year from July 2019 to June 2020, considering our good cooperative relationship with the licensing partner and the fact that most offline entertainment events it planned for 2020 had been canceled due to the first outbreak of the COVID-19 pandemic. We also agreed that the third licensing year shall start from August 2020 and end in August 2021, given the continued negative impact of the COVID-19 pandemic. Our revenue from licensing offline entertainment events increased from RMB24.5 million in 2020 to RMB48.1 million in 2021, primarily because the licensing fee for the third licensing year under the 2018 Licensing Agreement is unaffected by the supplemental agreement. Our revenue from licensing offline entertainment events in 2021 was still not as high as that in 2019, primarily because we entered into a new licensing contract with the licensing partner in 2021. Pursuant to the new licensing contract, our yearly licensing fee is lower than that under the 2018 Licensing Agreement, mainly due to the continued negative impact of the COVID-19 pandemic. As a result, we recognized less revenue in the four months ended December 31, 2021 than that in the corresponding period in 2019.

Our variety program IP production, operation, and licensing business is generally on a project basis. Revenue generated from each variety program is primarily affected by a series of factors, including (i) the total advertising sales under the revenue sharing model and the revenue sharing arrangements we negotiated, or the commission fees we are entitled to receive under the commissioned production model, (ii) the size and investment amount of each variety program, (iii) revenue from licensing the broadcasting rights of our variety programs to online video platforms for streaming, if any, and (iv) revenue from licensing the right to host offline entertainment events, if any.

Music IP Operation and Licensing

Our revenue generated from music IP operation and licensing consists primarily of the royalties or licensing fees received from licensing the music IPs we produced to music service providers such as online music platforms, media companies and karaoke operators.

Film and Drama Series IP Operation and Licensing

Our revenue generated from film and drama series IP operation and licensing consists primarily of the licensing fees received from licensing the broadcasting rights of the films in our film IP library.

Other IP-related Business

Our revenue generated from other IP-related business consists primarily of (i) service fees received from customers who engage our artists for concerts, tours, in-person appearances and endorsement deals, and (ii) ticket sales from the concerts we organized.

Revenue by Customer Type

During the Track Record Period, our customers primarily included: (i) TV networks and online video platforms that engage us to produce and distribute variety programs; (ii) music service providers that license our music IPs; (iii) TV networks and online video platforms that license our films or engage us to produce and distribute drama series; (iv) corporate customers, advertising agencies and media platforms that engage us and our managed artists for concerts, tours, and in-person appearances; (v) students who enroll in our arts education program or attend our arts training classes; and (vi) consumer products brands that license our IPs.

The following table sets out a breakdown of our revenue by customer type for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)									
							(unaudited)			
TV networks[1]	686.0	38.0%	568.4	36.4%	259.8	23.1%	20.8	13.5%	2.2	1.2%
Online video platforms[2]	577.7	32.0%	493.2	31.6%	569.2	50.5%	19.9	12.9%	121.9	66.7%
Music service providers[3]	239.1	13.2%	217.3	13.9%	118.3	10.5%	45.2	29.2%	19.5	10.7%
Customers of our films and drama series IP operation and licensing business	115.0	6.4%	174.2	11.2%	86.4	7.7%	22.4	14.5%	13.7	7.5%
Customers of our artist management service	51.7	2.9%	42.7	2.7%	15.0	1.3%	5.6	3.6%	6.4	3.5%
Others[4]	137.1	7.6%	64.2	4.1%	78.0	6.9%	40.6	26.3%	18.8	10.3%
Total	1,806.6	100.0%	1,559.9	100.0%	1,126.7	100.0%	154.6	100.0%	182.6	100.0%

(1) Represents revenue from TV networks and revenue from payments directly paid by advertising clients for TV variety programs.

(2) Represents revenue from online video platforms and revenue from payments directly paid by advertising clients for made-for-internet variety programs.

(3) Represents revenue from online music platforms, karaoke operators, mobile value-added services providers and other companies that provide cultural or media service who license our music IPs.

(4) Represents revenue from companies that license our variety program IPs for offline entertainment events, students who enroll in our arts education program or attend our arts training classes, consumer products bands that license our IPs, and other customers of our other IP-related business.

TV Networks

Our revenue generated from TV networks decreased from RMB20.8 million for the six months ended June 30, 2021 to RMB2.2 million for the six months ended June 30, 2022, primarily because we recognized part of the revenue from "Guess the Singer! 2020" in the first half of 2021, while we did not recognize any revenue for "Guess the Singer!" program in the first half of 2022. Our revenue generated from TV networks decreased from RMB568.4 million in 2020 to RMB259.8 million in 2021, primarily because (i) we did not produce the subsequent season for "The Great Wall" in 2021, and (ii) our revenue in connection with "Sing! China 2021" decreased compared to "Sing! China 2020." Our revenue generated from TV networks decreased from RMB686.0 million in 2019 to RMB568.4 million in 2020, primarily because (i) our revenue in connection with "Sing! China 2020" decreased compared to "Sing! China 2019," and (ii) we did not produce the subsequent season for "China's Got Talent 2019" in 2020. The decrease in 2020 was partially offset by the recognition of a majority of our revenue from "The Great Wall" in 2020.

Online Video Platforms

Our revenue generated from online video platforms increased from RMB19.9 million for the six months ended June 30, 2021 to RMB121.9 million for the six months ended June 30, 2022, primarily because we produced "Great Dance Crew" in the first half of 2022. Our revenue generated from online video platforms increased from RMB493.2 million in 2020 to RMB569.2 million in 2021, primarily because we produced "Likes! Talent" in 2021. Our revenue generated from online video platforms decreased from RMB577.7 million in 2019 to RMB493.2 million in 2020, primarily because we did not produce the subsequent season for "CHUANG" in 2020. The decrease in 2020 was partially offset by an increase in our revenue from "Arrival of the Best-Seller! 2020" compared to "Arrival of the Best-Seller! 2019."

Music Service Providers

Our revenue generated from music service providers decreased from RMB45.2 million for the six months ended June 30, 2021 to RMB19.5 for the six months ended June 30, 2022, primarily due to a decrease in the number of music IPs we delivered to music service providers as we did not produce any music variety programs in the six months ended June 30, 2022. Our revenue generated from music service providers decreased from RMB217.3 million in 2020 to RMB118.3 million in 2021, primarily due to (i) a decrease in the music IPs we delivered to music service providers in relation to "Guess the Singer! 2020" in 2021 compared to 2020, and (ii) a decrease in the licensing fee for the music IPs we produced during the production of "Sing! China 2021." Our revenue generated from music service providers slightly decreased from RMB239.1 million in 2019 to RMB217.3 million in 2020, primarily because (i) we produced "CHUANG" in 2019 and generated licensing revenue from music service providers in relation to the program; but we did not produce any subsequent season of this program in 2020; and (ii) we produced fewer music IPs for "Guess the Singer! 2020" compared to "Guess the Singer! 2019." Such decreases were partially offset by an increase in our licensing revenue generated from licensing our existing music IPs to music service providers.

Customers of Our Film and Drama Series IP Operation and Licensing

Our revenue generated from customers of our film and drama series IP operation and licensing slightly decreased from RMB22.4 million for the six months ended June 30, 2021 to RMB13.7 million for the six months ended June 30, 2022, primarily because we recognized licensing revenue for "Monthly Girls' Nozaki-kun (月刊少女野崎君)" in the six months ended June 30, 2021. Our revenue generated from customers of our film and drama series IP operation and licensing increased from RMB115.0 million in 2019 to RMB174.2 million in 2020, and then decreased to RMB86.4 million in 2021, primarily because we entered into a multi-year film IP licensing contract with a leading short video platform in China in 2020 and recognized licensing revenue of approximately RMB102.5 million for films whose licensing period started in 2020.

Customers of Our Artist Management Service

Our revenue generated from customers of our artist management service remained stable at RMB5.6 million and RMB6.4 million for the six months ended June 30, 2021 and 2022, respectively. Our revenue generated from customers of our artist management service decreased from RMB42.7 million in 2020 to RMB15.0 million in 2021, primarily because our artist management contracts with certain of our managed artists expired. Our revenue generated from customers of our artist management service decreased from RMB51.7 million in 2019 to RMB42.7 million in 2020, primarily attributable to a decrease in revenue generated from concert organization and production for our managed artists.

Others

Our revenue generated from other customers decreased from RMB40.6 million for the six months ended June 30, 2021 to RMB18.8 for the six months ended June 30, 2022. Our revenue generated from other customers decreased from RMB137.1 million in 2019 to RMB64.2 million in 2020, and then slightly increased to RMB78.0 million in 2021. The fluctuations were primarily due to changes in our licensing revenue generated from licensing the right to host offline entertainment events during the Track Record Period. For details, see "— Revenue by Business Line — Variety Program IP Production, Operation, and Licensing" in this section.

Revenue by Geographical Region

The table below sets forth a breakdown of our revenue by geographic region for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)									
							(unaudited)			
Mainland China	1,703.3	94.3%	1,424.2	91.3%	1,045.0	92.7%	137.1	88.7%	168.9	92.5%
Overseas	103.3	5.7%	135.7	8.7%	81.7	7.3%	17.5	11.3%	13.7	7.5%
Total	1,806.6	100.0%	1,559.9	100.0%	1,126.7	100.0%	154.6	100.0%	182.6	100.0%

Our revenue generated from mainland China, as a percentage of our total revenue, decreased from 94.3% in 2019 to 91.3% in 2020 and increased to 92.7% in 2021, and remained relatively stable at 92.5% for the six months ended June 30, 2022. Our revenue generated from other regions, as a percentage of our total revenue, increased from 5.7% in 2019 to 8.7% in 2020, and decreased to 7.3% in 2021, and slightly increased to 7.5% for the six months ended June 30, 2022. These changes reflected our continual efforts to further promote and monetize our entertainment IPs in the global market.

Cost of Sales

Our cost of sales was RMB1,101.7 million, RMB972.5 million, RMB852.4 million and RMB126.1 million in 2019, 2020, 2021, and for the six months ended June 30, 2022, respectively.

The table below sets forth a breakdown of our cost of sales by business line for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)						*(unaudited)*			
Variety program IP production, operation, and licensing	971.0	88.1%	886.3	91.1%	763.3	89.5%	55.5	56.7%	107.5	85.2%
Music IP operation and licensing	37.2	3.4%	34.5	3.5%	33.0	3.9%	17.9	18.3%	7.0	5.6%
Film and drama series IP operation and licensing	34.1	3.1%	16.7	1.7%	30.4	3.6%	15.0	15.3%	5.5	4.4%
Other IP-related business[1]	59.4	5.4%	35.0	3.7%	25.7	3.0%	9.5	9.7%	6.1	4.8%
Total	1,101.7	100.0%	972.5	100.0%	852.4	100.0%	97.9	100.0%	126.1	100.0%

(1) Other IP-related business includes artist management, concert organization and production, and others.

Our cost of sales consists primarily of (i) cost relating to our production and operation of variety program IPs, musical IPs, as well as film and drama IPs, (ii) staff cost, including salaries and benefits for our employees, and (iii) equity-settled share award expenses incurred related to the granting of share awards to certain employees and former employees of our Group under our Canxing ESOP Plan, which was terminated in May 2021 as part of the Reorganization in preparation for the [**REDACTED**]. For details of the Reorganization, see "History, Reorganization and Corporate Structure – Reorganization."

The table below sets forth a breakdown of our cost of sales by nature for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)						*(unaudited)*			
Production and operation cost	1,027.2	93.2%	906.9	93.3%	785.3	92.1%	74.8	76.5%	114.9	91.1%
Staff cost	56.6	5.1%	47.0	4.8%	48.8	5.7%	4.8	4.9%	11.1	8.8%
Equity-settled share award expenses	17.9	1.6%	18.5	1.9%	18.3	2.1%	18.3	18.7%	–	–
Total	1,101.7	100.0%	972.5	100.0%	852.4	100.0%	97.9	100.0%	126.1	100.0%

Gross Profit and Gross Profit Margin

Our gross profit consists of our revenue less cost of sales. Our gross profit was RMB704.9 million, RMB587.4 million and RMB274.3 million in 2019, 2020 and 2021, respectively, and RMB56.7 million and RMB56.5 million for the six months ended June 30, 2021 and 2022, respectively. Gross profit margin represents gross profit divided by total revenue, expressed as a percentage. Our gross profit margin was approximately 39.0%, 37.7% and 24.3% in 2019, 2020 and 2021, respectively, and 36.7% and 30.9% for the six months ended June 30, 2021 and 2022, respectively.

The table below sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
		(%)		*(%)*		*(%)*		*(%)*		*(%)*
	(RMB in millions, except for percentages)						*(unaudited)*			
Variety program IP production, operation, and licensing	369.5	27.6%	203.8	18.7%	116.2	13.2%	17.0	23.4%	29.0	21.2%
Music IP operation and licensing	201.9	84.4%	182.8	84.1%	85.3	72.1%	27.3	60.4%	12.5	64.1%
Film and drama series IP operation and licensing	80.9	70.3%	157.5	90.4%	56.0	64.8%	7.4	33.0%	8.2	59.9%
Other IP-related business(1)	52.6	47.0%	43.3	55.3%	16.8	39.5%	5.0	34.5%	6.8	52.7%
Total	704.9	39.0%	587.4	37.7%	274.3	24.3%	56.7	36.7%	56.5	30.9%

(1) Other IP-related business includes artist management, concert organization and production, and others.

Other Income and Gains

Our other income and gains primarily consist of (i) bank interest income, (ii) government grants, (iii) interest income from loan receivable, (iv) gain on lease termination, (v) gain on disposal of associates, and (vi) others. The government grants mainly represent incentives awarded by the local governments to support our business operations. For the years ended December 31, 2019, 2020 and 2021, our other income and gains were approximately RMB66.4 million, RMB53.1 million and RMB39.9 million, respectively. For the six months ended June 30, 2021 and 2022, our other income and gains were RMB21.6 million and RMB9.4 million, respectively.

The table below sets forth a breakdown of other income and gains for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in millions)				
				(unaudited)	
Bank interest income	5.6	9.1	8.2	5.0	3.7
Government grants	42.2	42.1	29.7	15.1	3.7
Interest income from loan receivable	–	0.3	1.0	0.5	–
Gain on lease termination	1.1	–	0.7	0.1	–
Gain on disposal of associates	–	–	0.1	–	–
Gain on disposal of a subsidiary(1)	–	–	–	–	1.6
Others(2)	17.5	1.6	0.2	0.9	0.4
Total	66.4	53.1	39.9	21.6	9.4

(1) We disposed 31% of Shanghai Canteng Culture & Media Co., Ltd. (上海燦騰文化傳媒有限公司, or "Shanghai Canteng") (currently known as Shanghai Heilai Music Co., Ltd. (上海黑籟音樂有限公司, or "Shanghai Heilai")) in February 2022 and recorded gain on disposal of a subsidiary of RMB1.6 million. For details, see Note 34 to the Accountants' Report included in Appendix I to this document.

(2) Consists primarily of amounts recovered from litigations and foreign exchange gains.

Selling and Distribution Expenses

Our selling and distribution expenses consist primarily of (i) staff cost, which relates to the market promotion and business development activities of our variety programs, music, film and drama series, (ii) office expenses, (iii) depreciation, (iv) traveling and business development expenses, (v) equity-settled share award expenses, and (vi) others. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in millions, except for percentages)									
							(unaudited)			
Staff cost	24.6	57.1%	21.2	50.0%	18.2	51.6%	10.2	63.8%	7.3	79.3%
Office expenses	2.0	4.6%	2.8	6.6%	1.7	4.8%	0.7	4.4%	0.5	5.4%
Depreciation	0.1	0.2%	0.1	0.2%	0.1	0.3%	0.1	0.6%	0.0	0.0%
Traveling and business development expenses	7.1	16.5%	8.6	20.3%	6.4	18.1%	2.4	15.0%	1.1	12.0%
Equity-settled share award expenses	1.3	3.0%	1.4	3.3%	1.5	4.2%	1.5	9.4%	–	–
Others[1]	8.0	18.6%	8.3	19.6%	7.4	21.0%	1.1	6.8%	0.3	3.3%
Total	43.1	100.0%	42.4	100.0%	35.3	100.0%	16.0	100.0%	9.2	100.0%

(1) Consists primarily of professional service fees, marketing expenses and other miscellaneous expenses.

Administrative Expenses

Our administrative expenses primarily consist of (i) staff cost for our administrative staff, (ii) professional services expenses for legal and accounting services, (iii) amortization of intangible assets, (iv) right-of-use depreciation, (v) depreciation of property, plant and equipment, (vi) office expenses which include short-term leases, and traveling and business expenses, (vii) tax and surcharges, (viii) equity-settled share award expense, (ix) research and development expenses in relation to the development and improvement of our variety programs, (x) [**REDACTED**] expenses for the [**REDACTED**] and the [**REDACTED**], and (xi) others. The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in million, except for percentages)									
							(unaudited)			
Staff cost	39.1	17.9%	34.2	17.2%	37.8	20.9%	17.9	24.5%	16.7	32.3%
Professional services expenses	16.9	7.7%	31.6	15.9%	16.6	9.2%	6.5	8.9%	2.2	4.3%
Amortization of intangible assets	1.3	0.6%	1.2	0.6%	1.2	0.7%	0.6	0.8%	0.6	1.2%
Right-of-use depreciation	12.6	5.8%	10.4	5.2%	7.3	4.0%	4.7	6.4%	3.8	7.4%
Depreciation of property, plant and equipment	15.6	7.1%	9.4	4.7%	3.0	1.7%	3.3	4.5%	1.2	2.3%
Office expenses	32.0	14.7%	25.4	12.8%	20.3	11.2%	11.4	15.6%	5.5	10.7%
Tax and surcharges	20.6	9.4%	13.1	6.6%	11.3	6.2%	1.1	1.5%	0.5	1.0%
Research and development expenses	72.7	33.3%	66.6	33.5%	54.7	30.2%	13.0	17.8%	13.6	26.4%
Equity-settled share award expense	3.8	1.7%	4.2	2.1%	4.6	2.5%	4.6	6.3%	–	–
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others[1]	3.7	1.8%	2.8	1.4%	4.1	2.3%	0.9	1.1%	0.3	0.6%
Total	218.3	100.0%	198.9	100.0%	180.9	100.0%	73.2	100.0%	51.5	100.0%

(1) Consists primarily of bank service fees and other miscellaneous expenses.

Impairment of Goodwill

We determine whether goodwill is impaired at the end of each of the year or period of the Track Record Period. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. During the Tracked Record Period, we only had impairment of goodwill of RMB386.8 million and RMB380.7 million in 2020 and 2021, respectively. The carrying amount of goodwill as of December 31, 2019, 2020, 2021 and June 30, 2022 was RMB2,256.3 million, RMB1,851.9 million, RMB1,465.3 million and RMB1,478.4 million, respectively. Further details are given in Note 16 to the Accountants' Report included in Appendix I to this document.

(Impairment losses)/reversal of impairment losses on financial assets

Our impairment losses or reversal of impairment losses on financial assets consist primarily of the impairment losses on trade receivables due from customers or reversal of impairment losses if we expect our credit loss to decrease. We had impairment losses on financial assets of RMB45.2 million, RMB10.3 million and RMB9.8 million in 2019, 2021 and for the six months ended June 30, 2022, primarily due to the provision for the impairment loss on the accounts receivables due from customers. We had reversal of impairment losses of RMB18.9 million in 2020 and RMB3.0 million for the six months ended June 30, 2021, primarily due to our collection of trade receivables from certain customers.

Other Expenses

Our other expenses consist primarily of foreign exchange loss, litigation expenses, loss from disposal of property, plant and equipment and other miscellaneous expenses. Our other expenses were RMB4.9 million, RMB15.4 million and RMB2.6 million in 2019, 2020 and 2021, respectively, and RMB1.1 million and RMB0.4 million for the six months ended June 30, 2021 and 2022, respectively.

Changes in Fair Value of Financial Assets at Fair Value through Profit or Loss

Changes in fair value of financial assets at fair value through profit or loss represent the changes in the market prices of TME's stocks held by us. During the six months ended June 30, 2022, we recorded a loss in changes in fair value of financial assets at fair value through profit or loss of RMB4.6 million. During 2021, we recorded a loss in changes in fair value of financial assets at fair value through profit or loss of RMB27.6 million. During 2020, we recorded a gain in changes in fair value of financial assets at fair value through profit or loss of RMB17.9 million. During 2019, we recorded a loss in changes in fair value of financial assets at fair value through profit or loss of RMB1.5 million. We purchased TME's stock in February 2018, to build a strategic relationship with TME which we believe can benefit our music IP operation and licensing business. This investment is in line with our strategy to pursue investments and acquisitions in assets and businesses that are complementary to our business. In December 2018, TME's stocks were publicly listed on New York Stock Exchange. The accumulated amount of our loss in changes in fair value of TME's stocks, representing the difference between the fair value of TME's stocks held by us as of June 30, 2022 and the price we paid to subscribe the TME's stocks in 2018, was RMB45.7 thousand as of June 30, 2022. At the time of purchase, our senior management carefully considered a number of factors, such as (i) potential benefit that we can enjoy from building a long-term relationship through our strategic investment in TME and (ii) TME's historical financial and operational performance. We expect to make strategic investment in the future in line with our growth strategies, and we do not expect to make financial investments in the secondary market.

When making investment decisions, our finance department is responsible for providing analysis with the guidance from our comprehensive set of internal policies and guidelines. Our finance department will then submit the investment proposals to our chief executive officer and chief financial officer for review and approval. Our management team may also seek approval of the Board or the shareholders when making significant investment decisions. We believe that our internal control and risk management measures regarding investment in financial assets are adequate. Before making investment in financial instruments, we evaluate on a case-by-case basis, cautiously consider a number of factors such as macro-economic environment, general market conditions and the expected profit or potential loss of the proposed investment, and ensure that the proposed investment will not interfere with our daily operation and business prospects.

In relation to the valuation of our financial instruments during the Track Record Period, we adopted the following procedures: (i) reviewed the terms of the relevant financial instruments; (ii) reviewed the fair value measurement assessment of the relevant financial instruments presented by our finance personnel and carefully considered all information available and various applicable valuation techniques and process in determining the valuation of the relevant financial instruments; (iii) reviewed the fair value measurement of the financial instruments in the Accountants' Report taking into account of the valuation techniques and assumptions of unobservable inputs and determine if the fair value measurement of level 3 investments is in compliance with the applicable IFRS; and (iv) analyzed and discussed with our finance personnel regarding the contents of the valuation analysis including but not limited to, the basis of computation, assumptions and valuation methodologies on which the valuation is based, the basis of the discount rates. Having performed these procedures, the Directors consider that the valuation of our level 3 financial assets were reasonable and approximate to the fair values. During 2019 and 2020, there were no transfers of fair value measurements between level 1 and level 2, or transfers into or out of level 3 for financial assets. During 2021, the TME stocks we hold were transferred out of level 3 to level 1 due to the lifting of the contractual restriction on such stocks since February 5, 2021. There were no transfers into or out of level 2 for financial assets in 2021. For details, please see Note 40 to the Accountants' Report in Appendix I to this document.

In relation to the fair value measurement of the financial assets categorized within level 3 of fair value measurement, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes and disclosure in the Accountants' Report in Appendix I to this document; (ii) reviewing the underlying documents relating to the financial assets categorized within Level 3 of fair value measurement, (iii) discussing with the Company and the Reporting Accountants on the valuation methodology, and the key basis and assumptions for the valuation of the financial assets categorized within Level 3 of fair value measurement; (iv) discussing with the Company to understand, among others, the reason for investing in the financial assets categorized within Level 3 of fair value measurement; and (v) discussing with the Reporting Accountants to understand the work they have performed in this regard. Having considered the work done by the Directors and the Reporting Accountants and the relevant due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors' attention that would reasonably cause the Joint Sponsors to disagree with the Directors and the Reporting Accountants in respect of the valuation of such financial assets in any material respect.

Finance Costs

Our finance costs consist of interest on our interest-bearing bank loans, interest on discounted notes receivables, interest on lease liabilities and interest on loans from related parties. Our finance costs were RMB14.1 million, RMB6.3 million and RMB2.7 million in 2019, 2020 and 2021, respectively, and RMB1.0 million and RMB1.0 million for the six months ended June 30, 2021 and 2022, respectively.

Share of Profits and Losses of Joint Ventures and Associates

Our share of profits and losses of joint ventures mainly represent our share of profits and losses of Mengxiang Qi'an Culture Development (Shanghai) Co., Ltd. (夢響啟岸文化發展(上海)有限公司) ("Mengxiang Qi'an") and Shanghai Ximan Canxing Culture Broadcast Co., Ltd. (上海喜漫燦星文化傳播有限公司). We recorded share of losses of joint ventures of RMB1.9 million, RMB0.3 million and RMB0.3 million in 2019, 2020 and 2021, respectively, and RMB0.1 million and RMB0.2 million for the six months ended June 30, 2021 and 2022, respectively.

Our share of profits and losses of associates mainly represent our share of profits and losses of Shaanxi Star Shuolan Real Estate Co., Ltd. (陝西星空碩藍置業有限公司, or "Shuolan"), Shaanxi Star Yuanlv Real Estate Co., Ltd. (陝西星空原綠置業有限公司, or "Yuanlv"), Guangdong Pumpkin Pictures Culture & Communication Co., Ltd. (廣東南瓜視業文化傳播有限公司) ("Guangdong Pumpkin") and Shanghai Hongying Culture & Art Development Co., Ltd. (上海鴻贏文化藝術發展有限公司) ("Shanghai Hongying"). We recorded share of losses of associates of RMB0.7 million, RMB0.7 million and RMB1.2 million in 2019, 2020 and 2021, respectively, and RMB1.7 million and RMB1.5 million for the six months ended June 30, 2021 and 2022, respectively.

TAXATION

Cayman Islands

Our Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act. Pursuant to the rules and regulations of the Cayman Islands, our Company is not subject to any income tax in the Cayman Islands.

Hong Kong

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period.

Macau

Pursuant to the relevant tax law of the Macau Special Administrative Region, Macau profits tax has been provided at the rate of 12% on the estimated assessable profits arising in Macau during the Track Record Period.

PRC

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of our Group as determined in accordance with the PRC Corporate Income Tax Law.

Canxing Culture and MXQY are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Our revenue increased by 18.1% from RMB154.6 million for the six months ended June 30, 2021 to RMB182.6 million for the same period in 2022, primarily due to an increase in revenue generated from variety program IP production, operation, and licensing.

Variety Program IP Production, Operation, and Licensing

Revenue generated from variety program IP production, operation, and licensing increased by 88.3% from RMB72.5 million for the six months ended June 30, 2021 to RMB136.5 million for the same period in 2022, primarily because we produced a new variety program named "Great Dance Crew" and generated revenue of RMB53.3 million in the six months ended June 30, 2022. The total number of episodes of the new variety programs we launched increased from seven for the six months ended June 30, 2021 to 12 for the same period in 2022.

Music IP Operation and Licensing

Revenue generated from music IP operation and decreased by 56.9% from RMB45.2 million for the six months ended June 30, 2021 to RMB19.5 million for the same period in 2022, primarily due to (i) a decrease in the number of music IPs we delivered as we did not produce any music variety programs in the six months ended June 30, 2022, while we produced music IPs in relation to the last two episodes of "Guess the Singer! 2020" in the same period in 2021; (ii) a decrease in the licensing fee generated from karaoke operators as our previous exclusive music licensing contract with a karaoke operator was terminated in January 2022 and we entered into new non-exclusive music licensing contract with it as well as several other karaoke operators, and some of the new music licensing contracts only came into effect in the second half of 2022; and (iii) a decrease in the number of music IPs we delivered to an online music platform as we produced less music works for our managed artists.

Film and Drama Series IP Operation and Licensing

Revenue generated from film and drama series IP operation and licensing decreased by 38.8% from RMB22.4 million in the six months ended June 30, 2021 to RMB13.7 million for the same period in 2022, primarily because we recognized licensing revenue for "Monthly Girls' Nozaki-kun (月刊少女野崎君)" in the six months ended June 30, 2021.

Other IP-related Business

Revenue generated from our other IP-related business slightly decreased by 11.0% from RMB14.5 million for the six months ended June 30, 2021 to RMB12.9 million for the same period in 2022, primarily because we provided other IP-related service to a media platform in the six months ended June 30, 2021.

Cost of Sales

Our cost of sales increased by 28.8% from RMB97.9 million for the six months ended June 30, 2021 to RMB126.1 million for the same period in 2022, primarily due to an increase in cost of sales associated with variety program IP production, operation, and licensing.

- *Variety program IP production, operation, and licensing.* Cost of sales associated with variety program IP production, operation, and licensing increased by 93.7% from RMB55.5 million for the six months ended June 30, 2021 to RMB107.5 million for the same period in 2022. The increase was, primarily due to an increase in the number of episodes of the new variety programs we launched, such as "Great Dance Crew," which incurred cost of sales of RMB42.0 million in the six months ended June 30, 2022. Such increase was in line with the increase in our revenue from variety program IP production, operation, and licensing.

- *Music IP operation and licensing*. Cost of sales associated with music IP operation and licensing decreased by 60.9% from RMB17.9 million for the six months ended June 30, 2021 to RMB7.0 million for the same period in 2022, primarily due to a decrease in the number of music IPs we produced in relation to our music variety programs and for our managed artists in the six months ended June 30, 2022, as compared to the same period in 2021.

- *Film and drama series IP operation and licensing*. Cost of sales associated with film and drama series IP operation and licensing decreased by 63.3% from RMB15.0 million for the six months ended June 30, 2021 to RMB5.5 million for the same period in 2022, primarily due to our recognition of the cost in relation to the licensing of "Monthly Girls' Nozaki-kun" in the six months ended June 30, 2021.

- *Other IP-related business*. Cost of sales associated with our other IP-related business decreased by 35.8% from RMB9.5 million for the six months ended June 30, 2021 to RMB6.1 million for the same period in 2022, primarily due to our recognition of the cost in relation to our provision of other IP-related service to a media platform in the six months ended June 30, 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit remained stable at RMB56.7 million for the six months ended June 30, 2021 as compared to RMB56.5 million for the same period in 2022. Our gross profit margin decreased from 36.7% for the six months ended June 30, 2021 to 30.9% for the same period in 2022.

- *Variety program IP production, operation, and licensing.* Gross profit for variety program IP production, operation, and licensing increased by 70.6% to RMB29.0 million for the six months ended June 30, 2022 from RMB17.0 million for the same period in 2021, primarily due to an increase in the number of episodes of the new variety programs we launched in the six months ended June 30, 2022 such as "Great Dance Crew". Gross profit margin slightly decreased from 23.4% for the six months ended June 30, 2021 to 21.2% for the same period in 2022.

- *Music IP operation and licensing*. Gross profit for music IP operation and licensing decreased by 54.2% from RMB27.3 million for the six months ended June 30, 2021 to RMB12.5 million for the same period in 2022, primarily due to a decrease in the number of music IPs we produced in relation to our music variety programs and for our managed artists. Gross profit margin slightly increased from 60.4% for the six months ended June 30, 2021 to 64.1% for the same period in 2022.

- *Film and drama series IP operation and licensing*. Gross profit for film and drama series IP operation and licensing slightly increased by 10.8% from RMB7.4 million for the six months ended June 30, 2021 to RMB8.2 million for the same period in 2022. Gross profit margin increased from 33.0% for the six months ended June 30, 2021 to 59.9% for the same period in 2022. This increase was primarily because the licensing of "Monthly Girls' Nozaki-kun" in the six months ended June 30, 2021 had a relatively low gross profit margin.

- *Other IP-related business*. Gross profit for our other IP-related business increased by 36.0% from RMB5.0 million for the six months ended June 30, 2021 to RMB6.8 million for the same period in 2022. Gross profit margin increased from 34.5% for the six months ended June 30, 2021 to 52.7% for the same period in 2022. This increase was primarily because we provided other IP-related service to a media platform in the six months ended June 30, 2021, which had a relatively low gross profit margin.

Other Income and Gains

Our other income and gains decreased by 56.5% from RMB21.6 million for the six months ended June 30, 2021 to RMB9.4 million for the same period in 2022, primarily due to a decrease in government grants, which mainly represent cash incentives awarded by the local government to support our day-to-day business operation and development, resulting from a delay in receiving such cash incentives because of the COVID-19 resurgence and mandatory quarantine requirements in the six months ended June 30, 2022.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 42.5% from RMB16.0 million for the six months ended June 30, 2021 to RMB9.2 million for the same period in 2022, primarily due to (i) a decrease in staff cost of RMB2.9 million, resulting from a decrease of performance-based compensation for our selling and distribution staff during the resurgence of the COVID-19 pandemic and mandatory quarantine requirements in Shanghai; and (ii) a decrease in equity-settled share award expenses of RMB1.5 million as our Canxing ESOP Plan was terminated in 2021.

Administrative Expenses

Our administrative expenses decreased by 29.6% from RMB73.2 million for the six months ended June 30, 2021 to RMB51.5 million for the same period in 2022, primarily due to (i) a decrease in office expenses of RMB5.9 million as most of our employees have been working remotely during the COVID-19 resurgence and mandatory quarantine requirements in Shanghai; (ii) a decrease in equity-settled share award expenses of RMB4.6 million as our Canxing ESOP Plan was terminated in 2021; and (iii) a decrease in professional services expenses of RMB4.3 million, which primarily represent design fees for our "Songjiang Star Variety Program, Film and Drama Series Production Base" (the "Songjiang Base").

Impairment of Goodwill

We recorded impairment of goodwill of nil and nil for the six months ended June 30, 2021 and 2022, respectively, in connection with our acquisitions of MXQY based on our annual assessment of its operational performance. For details, please see "— Description of Key Statement of Profit or Loss Items" and Note 16 of the Accountants' Report in Appendix I to this document.

(Impairment Losses)/Reversal of Impairment Losses on Financial Assets

We had impairment losses on financial assets of RMB9.8 million in the six months ended June 30, 2022 compared to reversal of impairment losses on financial assets of RMB3.0 million for the same period in 2021, primarily reflecting the increased expected credit loss of certain trade receivables based on our assessment in the six months ended June 30, 2022.

Changes in Fair Value of Financial Assets at Fair Value through Profit or Loss

Our loss in changes in fair value of financial assets at fair value through profit or loss decreased by 28.1% from RMB6.4 million for the six months ended June 30, 2021 to RMB4.6 million for the same period in 2022, primarily due to fluctuations in the stock price of TME.

Other Expenses

Our other expenses decreased by 63.6% from RMB1.1 million for the six months ended June 30, 2021 to RMB0.4 million for the same period in 2022, primarily due to a decrease in our litigation expenses.

Finance Costs

Our finance costs remained stable at RMB1.0 million for the six months ended June 30, 2022, as compare to RMB1.0 million for the same period in 2021.

Share of Profits and Losses of Joint Ventures and Associates

Our share of losses of joint ventures increased from RMB0.1 million for the six months ended June 30, 2021 to RMB0.2 million for the same period in 2022. Our share of losses of associates decreased from RMB1.7 million for the six months ended June 30, 2021 to RMB1.5 million for the same period in 2022.

Income Tax Expense

Our income tax expense decreased by 84.7% from RMB7.2 million for the six months ended June 30, 2021 to RMB1.1 million for the same period in 2022, primarily due to a decrease in our taxable profit.

Profit/(Loss) for the Period

As a result of the foregoing, we recorded a net loss of RMB25.4 million for the six months ended June 30, 2021, as compared to RMB13.4 million for the same period in 2022. Our adjusted net profit, which is a non-IFRS measure, for the six months ended June 30, 2021 was RMB11.2 million as compared to the adjusted net loss (non-IFRS measures) of RMB6.3 million for the same period in 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue decreased by 27.8% to RMB1,126.7 million in 2021 from RMB1,559.9 million in 2020, primarily due to a decrease in revenue generated from variety program IP production, operation, and licensing.

Variety Program IP Production, Operation, and Licensing

Revenue generated from variety program IP production, operation, and licensing decreased by 19.3% from RMB1,090.1 million in 2020 to RMB879.5 million in 2021. Such decrease was mainly due to the following reasons:

(i) The number of super large variety programs we produced decreased from eight in 2020 to seven in 2021. In 2020, we produced "The Great Wall" and "The Arrival of the Best-seller!," two super large variety programs, under the commissioned production model, which generated aggregate revenue of approximately RMB235.1 million. In 2021, we did not produce any subsequent season of "The Great Wall", primarily due to the negative impact of COVID-19 pandemic on the advertising budget of corporate customers since 2020, which reflected the negative impact of COVID-19 pandemic on the economic environment, and policy or economic changes that adversely affected certain industries such as after-school tutoring, an enterprise in which was an advertising client of "Sing! China 2020." We also did not produce any subsequent season for "The Arrival of the Best-seller!" in 2021, mainly due to changes in the investing media platform's marketing demand. In addition, we produced "Guess the Singer! 2020" under the revenue sharing model and generated revenue of approximately RMB65.1 million in 2020, but we did not produce any subsequent season in 2021, mainly due to the availability of broadcasting media platform's primetime slots.

To increase stability in our revenue generation, we have actively identified potential business partners and expanded our business network. For example, we collaborated with Douyin, a leading short video platform in China and produced "Likes! Talent," a super large variety program, under the revenue sharing model in 2021, which generated revenue of approximately RMB110.3 million in 2021.

(ii) Our revenue generated from "Sing! China" decreased from RMB324.5 million in 2020 to RMB251.6 million in 2021, primarily resulting from a decrease in the advertising budget of corporate customers, reflecting high economic and business uncertainty under the negative impact of COVID-19, and policy or economic changes that adversely affected certain industries such as after-school tutoring, an enterprise in which was an advertising client of "Sing! China 2020."

Music IP Operation and Licensing

Revenue generated from music IP operation and licensing decreased by 45.6% from RMB217.3 million in 2020 to RMB118.3 million in 2021, primarily due to the following reasons:

(i) We produced "Guess the Singer! 2020" and produced 58 music IPs during the production of the program in 2020. As we did not produce any subsequent season of "Guess the Singer!" in 2021, we produced less music IPs in relation to "Guess the Singer!" program in 2021 than in 2020.

(ii) There was a decrease in the licensing fee for the music IPs we produced during the production of "Sing! China 2021."

(iii) We entered into a multi-year, music IP licensing agreement with a major online music platform in 2020 and recognized licensing revenue of approximately RMB18.8 million in the same year.

Film and Drama Series IP Operation and Licensing

Revenue generated from film and drama series IP operation and licensing decreased by 50.4% from RMB174.2 million in 2020 to RMB86.4 million in 2021, primarily because we entered into a multi-year film IP licensing contract with a leading short video platform in China in 2020. We recognized licensing revenue of approximately RMB102.5 million for films whose licensing period started in 2020, which is the sum of the licensing fee for such films as set out in the contract. We will recognize the remaining revenue under the contract in the future upon the start of their licensing period.

Other IP-related Business

Revenue generated from our other IP-related business decreased by 45.7% from RMB78.3 million in 2020 to RMB42.5 million in 2021, primarily due to a decrease in revenue generated from artist management business because our artist management contracts with certain of our managed artists expired, one of whom had contributed a relatively large portion of our revenue from other IP-related business in 2020. As we have entered into new artist management contracts, the total number of our managed artists remained relatively stable at 157 as of December 31, 2021, as compared to 159 as of December 31, 2020.

Cost of Sales

Our cost of sales decreased by 12.3% to RMB852.4 million in 2021 from RMB972.5 million in 2020. The decrease was primarily due to a decrease in the number of episodes released in 2021, resulting from differences in the scheduled broadcast of our programs from year to year.

- *Variety program IP production, operation, and licensing.* Cost of sales associated with variety program IP production, operation, and licensing decreased by 13.9% from RMB886.3 million in 2020 to RMB763.3 million in 2021, primarily due to a decrease in the number of episodes released in 2021, which decreased from 108 in 2020 to 86 in 2021. In particular, our cost of sales incurred for "Sing! China" decreased from RMB270.1 million in 2020 to RMB246.0 million in 2021. Such decrease was in line with the decrease in our revenue from variety program IP production, operation, and licensing and was partially offset by an increase in our cost of sales of RMB9.2 million associated with "Guess the Dancer! 2021," as corporate customers required us to increase spending on show setting and guest invitation.

- *Music IP operation and licensing*. Cost of sales associated with music IP operation and licensing decreased by 4.3% from RMB34.5 million in 2020 to RMB33.0 million in 2021, primarily due to a decrease in the number of songs that we produced for artists in 2021, as compared to 2020.

- *Film and drama series IP operation and licensing*. Cost of sales associated with film and drama series IP operation and licensing increased by 82.0% from RMB16.7 million in 2020 to RMB30.4 million in 2021, primarily because we recognized the cost of two drama series scripts we purchased, "Monthly Girls' Nozaki-kun" and "When I Get Home, My Wife Always Pretends to Be Dead (每天回家老婆都在裝死)," of approximately RMB9.3 million and RMB8.7 million, respectively.

- *Other IP-related business*. Cost of sales associated with our other IP-related business decreased by 26.6% from RMB35.0 million in 2020 to RMB25.7 million in 2021, primarily due to a decrease in our artist management activities.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 53.3% to RMB274.3 million in 2021 from RMB587.4 million in 2020, primarily because the decrease in revenue outpaced the decrease in cost of sales. Our gross profit margin decreased to 24.3% in 2021 from 37.7% in 2020.

- *Variety program IP production, operation, and licensing.* Gross profit for variety program IP production, operation, and licensing decreased by 43.0% from RMB203.8 million in 2020 to RMB116.2 million in 2021. This decrease was primarily because the programs we released in 2020 were of more episodes and as a result generated more profit. Gross profit margin decreased from 18.7% in 2020 to 13.2% in 2021. This decrease was primarily due to a decrease in the number of variety programs and the number of episodes produced under the commissioned production model in 2021. Such decrease was also resulted from (i) a decrease in the gross profit margin of "Sing! China" from 16.8% in 2020 to 2.2% in 2021 and (ii) a decrease in the gross profit margin of "Guess the Dancer!" from 24.0% in 2020 to 12.3% in 2021. In addition, we recorded a relatively low gross profit margin of 1.8% for "Likes! Talent", primarily because it was a newly launched program and the advertising revenue was relatively modest.

- *Music IP operation and licensing*. Gross profit for music IP operation and licensing decreased by 53.3% from RMB182.8 million in 2020 to RMB85.3 million in 2021. Gross profit margin decreased from 84.1% in 2020 to 72.1% in 2021, primarily due to the decrease in music IP licensing revenue of the music IPs we produced in association with "Guess the Singer! 2020" and "Sing! China 2021."

- *Film and drama series IP operation and licensing*. Gross profit for film and drama series IP operation and licensing decreased by 64.4% from RMB157.5 million in 2020 to RMB56.0 million in 2021. Gross profit margin decreased from 90.4% in 2020 to 64.8% in 2021, primarily because we licensed our film IPs to a major video platform in China in 2020 and recognized revenue in that period.

- *Other IP-related business*. Gross profit for our other IP-related business decreased by 61.2% from RMB43.3 million in 2020 to RMB16.8 million in 2021. Gross profit margin decreased from 55.3% in 2020 to 39.5% in 2021. These decreases were in line with the decrease in revenue generated from artist management business as the artist management contracts with a few of our managed artists expired.

Other Income and Gains

Our other income and gains decreased by 24.9% to RMB39.9 million in 2021 from RMB53.1 million in 2020, primarily due to a decrease in government grants, which mainly represent cash incentives awarded by the local governments to support our day-to-day business operations and development, resulting from a decrease in our taxable income in 2020 due to the outbreak of COVID-19.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 16.7% to RMB35.3 million in 2021 as compared to RMB42.4 million in 2020, primarily due to: (i) a decrease in staff cost of RMB3.0 million, which mainly due to the decrease of performance-based compensation for our selling and distribution staff, resulting from a decrease in our revenues, (ii) a decrease in travel and business development expenses of RMB2.2 million resulting from a decrease in our sales and marketing activities, and (iii) a decrease in office expenses of RMB1.1 million.

Administrative Expenses

Our administrative expenses decreased by 9.0% to RMB180.9 million in 2021 as compared to RMB198.9 million in 2020, mainly due to (i) a decrease in professional services expenses of RMB15.0 million which were incurred primarily for our proposed domestic listing in 2020, (ii) a decrease in research and development expenses of RMB11.9 million primarily due to a decrease in our research and development activities as we produced less episodes in 2021, and (iii) a decrease in our depreciation of property, plant and equipment of RMB6.4 million. These decreases were partially offset by an increase in [**REDACTED**] expenses of RMB[**REDACTED**] related to the [**REDACTED**] and the [**REDACTED**].

Impairment of Goodwill

We recorded impairment of goodwill of RMB380.7 million in 2021 in connection with our acquisitions of MXQY based on our annual assessment of its operational performance. Impairment of goodwill was RMB386.8 million in 2020. For details, see "— Description of Key Statement of Profit or Loss Items" and Note 16 of the Accountants' Report in Appendix I to this document.

(Impairment Losses)/Reversal of Impairment Losses on Financial Assets

We recorded impairment losses on financial assets of RMB10.3 million in 2021, primarily reflecting the increased expected credit loss of certain trade receivables based on our assessment. We had a reversal of impairment losses on financial assets of RMB18.9 million for 2020, primarily reflecting our collection of trade receivables from certain customers in 2020.

Changes in Fair Value of Financial Assets at Fair Value through Profit or Loss

We had a loss in changes in fair value of financial assets at fair value through profit or loss of RMB27.6 million in 2021, while we had a gain in changes in fair value of financial assets at fair value through profit or loss of RMB17.9 million in 2020, primarily due to fluctuations in the stock price of TME.

Other Expenses

Our other expenses decreased by 83.1% to RMB2.6 million in 2021 from RMB15.4 million in 2020, primarily due to a decrease in our litigation expenses incurred.

Finance Costs

Our finance costs decreased by 57.1% to RMB2.7 million in 2021 from RMB6.3 million in 2020, primarily due to a decrease in interest on bank loans resulting from our repayment of all of our interest-bearing bank loans in 2021.

Share of Profits and Losses of Joint Ventures and Associates

Our share of losses of joint ventures remained stable at RMB0.3 million in 2020 and RMB0.3 million in 2021. Our share of losses from associates increased by 71.4% from RMB0.7 million in 2020 to RMB1.2 million in 2021.

Income Tax Expense

Our income tax expense decreased by 62.3% to RMB24.3 million in 2021 from RMB64.4 million in 2020, primarily due to a decrease in taxable profit in 2021.

Profit/(Loss) for the Year

As a result of the foregoing, our net loss increased from RMB37.9 million in 2020 to RMB351.7 million in 2021. We recorded adjusted net loss (non-IFRS measures) of RMB10.4 million and RMB304.3 million in 2020 and 2021, respectively.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue decreased by 13.7% to RMB1,559.9 million in 2020 from RMB1,806.6 million in 2019, primarily attributable to a decrease in revenue generated from variety program IP production, operation, and licensing primarily due to the negative impact of COVID-19 on variety program production.

Variety Program IP Production, Operation, and Licensing

Revenue generated from variety program IP production, operation, and licensing decreased by 18.7% from RMB1,340.5 million in 2019 to RMB1,090.1 million in 2020, primarily due to the following reasons:

(i) Our revenue generated from "Sing! China" decreased from RMB490.5 million in 2019 to RMB324.5 million in 2020, primarily resulting from (a) a decrease in the advertising budget of corporate customers, due to high economic and business uncertainty under the negative effect of COVID-19; (b) a decrease in the licensing fees we received from licensing the broadcasting rights of "Sing! China 2020"; and (c) a decrease in the revenue we generated from licensing the right to host offline entertainment events in association with "Sing! China 2020," due to restrictions on mobility and travel implemented to combat the COVID-19 pandemic.

(ii) Our revenue generated from "Guess the Singer!" decreased from RMB132.8 million for "Guess the Singer! 2019" to RMB88.9 million for "Guess the Singer! 2020," primarily resulting from a decrease in the advertising budget of corporate customers, reflecting high economic and business uncertainty under the negative impact of the COVID-19 pandemic.

(iii) We produced "China's Got Talents 2019" and "CHUANG" in 2019, and generated aggregate revenue of RMB323.2 million in 2019, but we did not produce any subsequent season of these two programs in 2020, resulting from changes in the investing media platform's production budget, and broadcasting plans and schedules.

(iv) These decreases were partially offset by an increase in revenue from variety programs produced under the commissioned production model, primarily attributable to the increased number of commissioned variety programs we delivered in 2020.

Music IP Operation and Licensing

Revenue generated from music IP operation and licensing decreased by 9.1% from RMB239.1 million in 2019 to RMB217.3 million in 2020, primarily attributable to the following reasons:

(i) We produced "CHUANG," a super large music variety program in 2019, and generated music IP operation and licensing revenue. We did not produce any subsequent season of this program in 2020, primarily resulting from changes in the investing media platform's production budget, broadcasting plans and schedules.

(ii) We produced less music recordings for "Guess the Singer!" program in 2020 than in 2019, primarily because we released less episodes in 2020 due to a delay in the production and broadcasting schedule of "Guess the Singer! 2020," under the negative impact of COVID-19. "Guess the Singer! 2019" was initially broadcast between October 2019 and December 2019, and we released all 11 episodes in 2019. In contrast, "Guess the Singer! 2020" was initially broadcast between November 2020 and January 2021, and we only released eight out of 11 episodes in 2020.

(iii) Such decreases were partially offset by an increase of RMB13.3 million in our revenue generated from licensing our existing music IPs, primarily resulting from the renewal of our existing licenses and an increase in the number of music recordings we produced and licensed for our managed artists.

Film and Drama series IP Operation and Licensing

Revenue generated from film and drama series IP operation and licensing increased by 51.5% from RMB115.0 million in 2019 to RMB174.2 million in 2020, primarily because we entered into a multi-year film IP licensing contract with a leading short video platform in China in 2020 and recognized licensing revenue of approximately RMB102.5 million in 2020.

Other IP-related Business

Revenue generated from other IP-related business decreased by 30.1% from RMB112.0 million in 2019 to RMB78.3 million in 2020, primarily attributable to a decrease in revenue generated from concert organization and production, due to the negative impact of COVID-19. We canceled a series of concert under negotiation, including (i) the "China Music Awards Ceremonies (華語音樂榜中榜系列活動)," (ii) "Sing! China Macau Concerts (中國好聲音澳門演唱會)," (iii) a concert we organized for an e-commerce customer, and (iv) several other concerts we organized for customers in various industries.

Cost of Sales

Our cost of sales decreased by 11.7% to RMB972.5 million in 2020 from RMB1,101.7 million in 2019.

- *Variety program IP production, operation, and licensing.* Cost of sales associated with variety program IP production, operation, and licensing decreased by 8.7% to RMB886.3 million in 2020 from RMB971.0 million in 2019, which is in line with the decrease in our revenue generated from variety program IP production, operation, and licensing. In particular, our cost of sales incurred for "Guess the Singer!" decreased from RMB114.9 million for "Guess the Singer! 2019" to RMB86.2 million for "Guess the Singer! 2020."

- *Music IP operation and licensing*. Cost of sales associated with music IP operation and licensing decreased by 7.3% from RMB37.2 million in 2019 to RMB34.5 million in 2020, primarily because we successfully negotiated better terms with our suppliers.

- *Film and drama series IP operation and licensing*. Cost of sales associated with film and drama series IP operation and licensing decreased by 51.0% from RMB34.1 million in 2019 to RMB16.7 million in 2020, primarily due to our recognition of a majority of the cost of RMB15.5 million in association with our purchase of the subsequent broadcasting rights of "Borders of Love" (愛情的邊疆), a TV drama series. "Borders of Love" was initially broadcast on Zhejiang Satellite TV in May 2018. We licensed the subsequent broadcasting rights of "Borders of Love" to multiple TV networks in 2018 and 2019, and it was subsequently broadcast on these licensed TV networks since 2019.

- *Other IP-related business*. Cost of sales associated with other IP-related business decreased by 41.1% from RMB59.4 million in 2019 to RMB35.0 million in 2020, primarily due to a decrease in the number and size of our concert organization and production, and artist management activities, because of the negative impact of COVID-19.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 16.7% to RMB587.4 million in 2020 from RMB704.9 million in 2019, primarily because the decrease in revenue outpaced the decrease in cost of sales. Our gross profit margin decreased to 37.7% in 2020 from 39.0% in 2019.

- *Variety program IP production, operation, and licensing.* Gross profit for variety program IP production, operation, and licensing decreased by 44.8% from RMB369.5 million in 2019 to RMB203.8 million in 2020. Gross profit margin decreased from 27.6% in 2019 to 18.7% in 2020. The gross profit margin of "Sing! China" program decreased from 46.6% in 2019 to 16.8% in 2020, were primarily due to a decrease in revenue from licensing of broadcasting rights of TV variety programs and offline entertainment activities. The overall gross profit margin of "Guess the Singer!" program also decreased from 13.5% for "Guess the Singer! 2019" to 3.0% for "Guess the Singer! 2020," primarily due to a decrease in revenue of RMB43.9 million, resulting from a decrease in the advertising budget of corporate customers, reflecting high economic and business uncertainty under the negative impact of the COVID-19 pandemic.

- *Music IP operation and licensing*. Gross profit for music IP operation and licensing decreased by 9.5% from RMB201.9 million in 2019 to RMB182.8 million in 2020, primarily due to a decrease in the number of music IPs we produced licensed to music service providers in 2020 as compared to 2019. The decrease in the number of music IPs we produced in 2020 was mainly resulted from a delay in the production and broadcasting schedule of "Guess the Singer! 2020" under the negative impact of COVID-19. Gross profit margin remained stable at 84.1% in 2020 as compared to 84.4% in 2019.

- *Film and drama series IP operation and licensing*. Gross profit for film and drama series IP operation and licensing increased by 94.7% from RMB80.9 million in 2019 to RMB157.5 million in 2020. Gross profit margin increased from 70.3% in 2019 to 90.4% in 2020. These increases were primarily due to a licensing agreement we entered into with a major video platform in 2020 to license our film rights.

- *Other IP-related business*. Gross profit for other IP-related business decreased by 17.7% from RMB52.6 million in 2019 to RMB43.3 million in 2020. Gross profit margin increased from 47.0% in 2019 to 55.3% in 2020, which was primarily due to the decreased proportion of gross profit generated from our artist management activities due to the negative effect of COVID-19, from which we recorded relatively lower gross profit margin as compared to the gross profit margin from other IP-related business.

Other Income and Gains

Our other income and gains decreased by 20.0% to RMB53.1 million in 2020 from RMB66.4 million in 2019, primarily because in 2019 we received compensation payments in the aggregate amount of RMB12.7 million in two concluded litigations we brought against our then managed artists for breach of artist management contracts.

Selling and Distribution Expenses

Our selling and distribution expenses slightly decreased by 1.6% to RMB42.4 million in 2020 from RMB43.1 million in 2019, primarily due to a decrease in employee salaries and benefits as a result of our cost control measures during the COVID-19 pandemic, which was partially offset by an increase in travel and business development expenses attributable to our increased business development efforts.

Administrative Expenses

Our administrative expenses decreased by 8.9% to RMB198.9 million in 2020 from RMB218.3 million in 2019, primarily due to (i) a decrease in office expenses, resulting from the expiration of a short-term lease and a decrease in business traveling due to the negative impact of COVID-19, (ii) a decrease in tax and surcharges, primarily due to tax reliefs granted by the Chinese government in response to COVID-19, (iii) a decrease in research and development expenses primarily due to a decrease in employee salaries and benefits as a result of our cost control measures during the COVID-19 pandemic, and (iv) a decrease in depreciation of property, plant and equipment. These decreases were partially offset by an increase in professional services expenses which were incurred primarily for our proposed domestic listing.

Impairment of Goodwill

We recorded impairment of goodwill of RMB386.8 million in 2020 in connection with our acquisitions of MXQY based on our assessment of its operational performance. Impairment of goodwill was nil in 2019. For details, please see "— Description of Key Statement of Profit or Loss Items" and Note 16 of the Accountants' Report in Appendix I to this document.

(Impairment Losses)/Reversal of Impairment Losses on Financial Assets

We had a reversal of impairment losses on financial assets of RMB18.9 million for 2020, primarily reflecting our collection of trade receivables from certain customers in 2020. We recorded impairment losses on financial assets of RMB45.2 million in 2019, primarily reflecting the increased expected credit loss of certain trade receivables based on our assessment.

Changes in Fair Value of Financial Assets at Fair Value through Profit or Loss

We had a gain in changes in fair value of financial assets at fair value through profit or loss of RMB17.9 million in 2020, while we had a loss in changes in fair value of financial assets at fair value through profit or loss of RMB1.5 million in 2019, primarily due to fluctuations in the stock price of TME.

Other Expenses

Our other expenses increased by 214.3% to RMB15.4 million in 2020 from RMB4.9 million in 2019, primarily due to an increase in our litigation expenses incurred.

Finance Costs

Our finance costs decreased by 55.3% to RMB6.3 million in 2020 from RMB14.1 million in 2019, primarily due to a decrease in interest on bank loans of RMB6.3 million as a result of our repayment of interest-bearing bank loans.

Share of Profits and Losses of Joint Ventures and Associates

Our share of losses of joint ventures decreased by 84.2% from RMB1.9 million in 2019 to RMB0.3 million in 2020. Our share of losses from associates remained stable, which were RMB0.7 million for the years ended December 31, 2019 and 2020, respectively.

Income Tax Expense

Our income tax expense increased by 5.1% to RMB64.4 million in 2020 from RMB61.3 million in 2019, primarily due to an increase in profit of our subsidiaries which are subject to the statutory income tax rate of 25%.

Profit/(Loss) for the Year

As a result of the foregoing, we recorded net loss of RMB37.9 million in 2020, while we recorded net profit of RMB380.2 million in 2019. We recorded adjusted net profit (non-IFRS measures) of RMB406.2 million in 2019, while we recorded adjusted net loss (non-IFRS measures) of RMB10.4 million in 2020.

DISCUSSION OF CERTAIN BALANCE SHEET ITEMS

The following is a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Non-current assets				
Property, plant and equipment	33.9	21.5	54.4	96.1
Other intangible assets	186.0	163.1	153.3	159.4
Right-of-use assets	12.4	12.9	102.3	116.6
Goodwill	2,256.3	1,851.9	1,465.3	1,478.4
Investments in joint ventures	403.5	403.2	404.0	403.8
Investments in associates	5.9	5.4	422.2	428.9
Financial assets at fair value through profit or loss	27.2	45.1	16.8	13.0
Restricted cash	–	–	43.6	39.1
Prepayments, other receivables and other assets	–	–	–	88.9
Deferred tax assets	53.0	44.9	60.8	60.9
Total non-current assets	**2,978.2**	**2,548.0**	**2,722.7**	**2,885.1**

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Current assets				
Inventories	20.1	23.5	3.3	3.3
Program copyrights	15.5	95.8	109.6	136.5
Trade and notes receivables	1,136.2	1,072.9	859.3	662.0
Prepayment, other receivables and other assets	144.8	147.8	118.6	130.6
Due from related parties	335.6	315.4	183.8	189.1
Cash and cash equivalents	651.7	903.4	547.2	437.9
Total current assets	**2,303.9**	**2,558.8**	**1,821.8**	**1,559.4**
Current liabilities				
Trade payables	252.7	296.7	343.5	221.7
Other payables and accruals	145.0	71.9	96.7	96.6
Interest-bearing bank borrowings	185.0	100.0	–	–
Due to related parties	1.2	–	–	–
Tax payable	30.6	30.3	40.5	28.7
Lease liabilities	6.0	8.7	2.4	8.5
Total current liabilities	**620.5**	**507.6**	**483.1**	**355.5**
Net current assets	**1,683.4**	**2,051.2**	**1,338.7**	**1,203.9**
Non-current liabilities				
Lease liabilities	6.4	5.3	2.3	13.6
Deferred tax liabilities	5.5	4.8	3.7	3.9
Other payables and accruals	4.1	8.2	7.5	49.3
Total non-current liabilities	**16.0**	**18.3**	**13.5**	**66.8**
Net assets	**4,645.6**	**4,580.8**	**4,047.9**	**4,022.1**

Assets

Goodwill

Our goodwill is acquired through business combinations and has been allocated to two individual cash-generating units for impairment testing as follows: (i) MXQY unit, which engages in music IP operation and licensing and other IP-related business; and (ii) Fortune Star Media unit, which engages in drama series and film IP operation and licensing.

We acquired MXQY from its then shareholders, Shanghai Minxing Culture Media Limited Partnership (上海民星文化傳媒合伙企業(有限合伙), a limited partnership controlled by Mr. Tian, and SH Zhouxing in 2016. We paid an aggregate consideration of RMB2.1 billion, which was determined based on an independent valuation of MXQY as of December 31, 2015 as set out in a valuation report issued by a qualified independent valuer. The acquisition was conducted on normal commercial terms.

During the Track Record Period, we recorded goodwill of RMB2,256.3 million, RMB1,851.9 million, RMB1,465.3 million and RMB1,478.4 million as of December 31, 2019, 2020, 2021 and June 30, 2022. The table below sets forth the breakdown of the carrying amount of goodwill as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
MXQY unit	1,983.1	1,596.3	1,215.6	1,215.6
Fortune Star Media unit	273.2	255.6	249.7	262.8
	2,256.3	1,851.9	1,465.3	1,478.4

MXQY Unit

We performed impairment test on goodwill at the end of 2019, 2020 and 2021, and the six months ended June 30, 2022. For MXQY unit, the result indicated that its estimated recoverable amount was less than its carrying amount as of December 31, 2020 and 2021, and exceeds its carrying amount as of December 31, 2019 and June 30, 2022. Therefore, an impairment loss of goodwill of RMB386.8 million and RMB380.7 million for MXQY unit had been recognized in our consolidated statements of profit or loss in 2020 and 2021, respectively.

The impairment of RMB386.8 million for goodwill as of December 31, 2020 was mainly because the recoverable amount of MXQY decreased by RMB544.0 million by comparing the amount as of December 31, 2020 and that as of December 31, 2019, which was resulted from the following reasons:

(i) In conducting our music IP operation and licensing business, we mainly license our selected music catalogues or single songs to leading online music platforms in China, such as Tencent Music Entertainment, and mobile value-added services providers, such as China Mobile and China Unicom. For more details about the key terms of our licensing agreements with online music and audio entertainment platforms, please refer to the section headed "Business — Our Businesses — Music IP Operation and Licensing — Production and Licensing — Licensing to Music Service Providers". In 2018, we signed a music licensing contract with a leading online music and audio entertainment platform in China (the "Cooperating Platform") to grant exclusive licensing of the music recordings that we produced in six variety programs initially broadcast between 2018 and 2020 (the "2018 Licensing Contract"). Under the 2018 Licensing Contract, the license for the music recordings of each variety program had a term of two years starting from the initial broadcast of such program. As all six programs under the 2018 Licensing Contract had been broadcast by the end of 2020, we negotiated with the Cooperating Platform for a new licensing contract to extend the business cooperation. In the negotiation, the Cooperating Platform was not willing to offer a higher or same price for licensing of our music recordings compared to that for the 2018 Licensing Contract. Although such pricing terms were less favorable than we expected, we determined to continue our cooperation with it taking into consideration its market share and business scale. This expected change in the pricing terms in the new licensing contract compared to that in the 2018 Licensing Contract resulted in a reduction in MXQY unit's recoverable amount of approximately RMB323.7 million in our goodwill impairment test in 2020.

(ii) In conducting our variety program IP production, operation, and licensing business, we also license the right to host certain offline entertainment events. In addition, we organize concerts for customers in conducting other IP-related business. Certain offline entertainment events and concerts were cancelled due to the COVID-19 pandemic in 2020. The combination of the foregoing resulted in a reduction of approximately RMB299.5 million in MXQY unit's recoverable amount in the goodwill impairment test in 2020.

(iii) In conducting our other IP-related business, we arrange our managed artists to provide performing services to customers and generate revenue through scheduling concerts, tours, in-person appearances and endorsement deals involving the artists. In the second half of 2020, our contracts with several managed artists expired, which resulted in a reduction of approximately RMB45.4 million in MXQY unit's recoverable amount in the goodwill impairment test in 2020.

(iv) The abovementioned decreases in MXQY unit's recoverable amount were partially offset by expected increases in revenue, including but not limited to (a) a pipeline program featuring electronic music that was initially broadcast in July 2022, which is expected to generate music IPs and music copyright licensing revenue; (b) expected increase in our revenue from licensing music IPs to karaoke operators, which increased stably during the Track Record Period; (c) albums we plan to release for our managed artists; and (d) a new licensing contract we entered in 2021 for hosting offline entertainment events in association with one of our dance variety programs. The combination of the foregoing resulted in an increase of approximately RMB123.9 million in MXQY unit's recoverable amount in the goodwill impairment test in 2020.

(v) Changes in our working capital and discount rate had collectively resulted in an increase in MXQY unit's recoverable amount of approximately RMB0.7 million in our goodwill impairment test in 2020.

The table below sets forth the recoverable amount, carrying amount and impairment of goodwill of MXQY unit as of the dates indicated.

	(RMB in millions)
Recoverable amount of MXQY unit as of December 31, 2019	2,158.0
Changes in recoverable amount of MXQY unit(1)	(544.0)
Recoverable amount of MXQY unit as of December 31, 2020	1,614.0
Carrying amount of MXQY unit as of December 31, 2020(2)	2,000.8
Impairment of goodwill as of December 31, 2020	(386.8)

(1) Please refer to the abovementioned reasons (i) to (v) for the details of changes in the recoverable amount of MXQY unit.

(2) Consisting of carrying amount of goodwill of RMB1,983.1 million (before the impairment of goodwill of RMB386.8 million was made), carrying amount of property, plant and equipment of RMB3.3 million, and carrying amount of other intangible assets of RMB14.4 million as of December 31, 2020.

As of December 31, 2020, the recoverable amount of MXQY was RMB1,614.0 million, lower than its carrying amount of RMB2,000.8 million, and resulted in an impairment of RMB386.8 million for goodwill as of December 31, 2020.

The impairment of RMB380.7 million for goodwill as of December 31, 2021 was mainly because the recoverable amount of MXQY decreased by RMB377.0 million by comparing the amount as of December 31, 2021 and that as of December 31, 2020.

(i) When we were negotiating the new music licensing contract with the Cooperating Platform, Chinese government authorities issued the Anti-trust Control Measures which prohibit online music platforms from entering into exclusive music licensing agreements except under a limited number of special circumstances. For details, see "Business — Compliance Matters — Regulations Relating to Anti-trust Control." We entered into the new music licensing contract with the Cooperating Platform on a non-exclusive basis in September 2021 (the "2021 Licensing Contract"). This new contract has a term of three years for licensing of music recordings produced in a variety program which is initially broadcast in 2021. The aggregate licensing fees under the 2021 Licensing Contract are lower than those of the 2018 Licensing Contract due to the change from exclusive arrangements to non-exclusive arrangements. In addition, the licensing fees under the 2021 Licensing Contract consisted of a fixed portion and a performance-based portion, and the performance-based portion is subject to the market performance of the licensed music recordings to meet certain thresholds. Our licensed music recordings did not meet the thresholds due to the market demand for the licensed music recordings in 2021, and we did not receive the performance-based portion.

Granting non-exclusive licenses would allow us to enter into licensing agreements with more music service providers, expand our customer base and enhance our resilience to changes in the music market in China. But our management does not expect such new non-exclusive licensing contracts to generate as much revenue as the exclusive contract in the past, as the management expects the size of our cooperation with music service providers to remain relatively limited in the foreseeable future due to the shift from exclusive to non-exclusive, which resulted in a reduction of approximately RMB442.8 million in MXQY unit's recoverable amount in the goodwill impairment test in 2021.

(ii) Changes in our expected revenue from licensing the right to host offline entertainment events and organizing and producing concerts, our working capital and discount rate had collectively resulted in an increase in MXQY unit's recoverable amount of approximately RMB65.8 million in our goodwill impairment test in 2021.

The table below sets forth the recoverable amount, carrying amount and impairment of goodwill of MXQY unit as of the dates indicated.

	(RMB in millions)
Recoverable amount of MXQY unit as of December 31, 2020	1,614.0
Changes in recoverable amount of MXQY unit[1]	(377.0)
Recoverable amount of MXQY unit as of December 31, 2021	1,237.0
Carrying amount of MXQY unit as of December 31, 2021[2]	1,617.7
Impairment of goodwill as of December 31, 2021	(380.7)

(1) Please refer to the abovementioned reasons (i) to (ii) for the details of changes in the recoverable amount of MXQY unit.

(2) Consisting of carrying amount of goodwill of RMB1,596.3 million (before the impairment of goodwill of RMB380.7 million was made), carrying amount of property, plant and equipment of RMB2.6 million, and carrying amount of other intangible assets of RMB18.8 million as of December 31, 2021.

As of December 31, 2021, the recoverable amount of MXQY was RMB1,237.0 million, lower than its carrying amount of RMB1,617.7 million, resulting in an impairment of RMB380.7 million for goodwill as of December 31, 2021.

During the Track Record Period and up to the Latest Practicable Date, we had entered into 21 music licensing agreements with online music platforms and mobile value-added services providers in China, among which 19 are non-exclusive music licensing agreements and two are exclusive music licensing agreements. Among them, 11 of the non-exclusive contracts were entered into before February 2021, when the SAMR promulgated the Guidelines to Anti-Monopoly in the Field of Internet Platform. All of the exclusive contracts were entered into before February 2021. Among the 21 music licensing agreements, nine of them had expired as of the Latest Practicable Date, five of them have expiration dates ranging from November 2022 to December 2024, and the remaining will expire in 2025 or thereafter. We expect to grant non-exclusive licenses in our music recordings to three or more online music platforms as well as two or more mobile value-added services providers in China, respectively, in 2023.

We believe that the impairment of goodwill we recorded in 2020 and 2021 have fully reflected the negative impact on our goodwill of (i) the regulatory development relating to anti-trust control, (ii) the COVID-19 pandemic and its resurgence during the Track Record Period and (iii) the expiration of our contracts with certain managed artists. We actively developed our business carried out under MXQY in 2022, with the following developments: (i) as of the Latest Practicable Date, we entered into five non-exclusive music licensing agreements with online music platforms and mobile value-added services providers in 2022;

(ii) we arranged our managed artists to perform the theme songs for several well-known drama series; (iii) we organized various small- and medium-sized offline concerts for customers, and have been actively exploring business opportunities to organize more online concerts, commercial performances, business promotion activities for brands and other events; and (iv) we continued to secure various opportunities for our existing managed artists to perform in variety programs, films, drama series and music works, as well as provide endorsement services for brands; in addition, we had entered into artist management contracts with 15 program participants with outstanding performances in our variety programs. Based on the foregoing and the currently available information concerning COVID-19 pandemic as of the Latest Practicable Date, our Directors are of the view that the estimated recoverable amount for the MXQY unit would exceed its carrying amount as of December 31, 2022 and that no impairment of goodwill will be recorded for the MXQY unit in 2022.

Fortune Start Media Unit

For the Fortune Star Media unit, the recoverable amount based on the value-in-use calculations is higher than its carrying amount as of December 31, 2019, 2020, 2021 and June 30, 2022, and no impairment loss of goodwill was necessary. The carrying amount of the goodwill of the Fortune Star Media unit fluctuated during the Track Record Period because of the fluctuations in the foreign exchange rates, as the assets of Fortune Star Media unit is calculated in US dollars.

Further details of impairment test on goodwill are given in Note 16 to the Accountants' Report included in Appendix I to this document.

Inventory

Our inventories consist primarily of drama series scripts for sale and low-value consumables such as handheld devices used in the production of variety programs. Our inventories remained stable at RMB3.3 million and RMB3.3 million as of December 31, 2021 and June 30, 2022, respectively. Our inventories decreased by 86.0% from RMB23.5 million as of December 31, 2020 to RMB3.3 million as of December 31, 2021, primarily due to the recognition of cost in association with the two drama series scripts we purchased, "Monthly Girls' Nozaki-kun (月刊少女野崎君)" and "When I Get Home, My Wife Always Pretends to Be Dead (每天回家老婆都在裝死)." Our inventories increased by 16.9% from RMB20.1 million as of December 31, 2019 to RMB23.5 million as of December 31, 2020, primarily due to our continued adaptations and improvements of two drama series scripts mentioned above. As of the Latest Practicable Date, none of our inventories as of June 30, 2022, were subsequently consumed or sold.

The tables below set forth the breakdown of our inventories.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Scripts	20.0	23.4	3.2	3.2
Low-value consumables	0.1	0.1	0.1	0.1
	20.1	23.5	3.3	3.3

Program copyrights

Program copyrights represent cost in association with the production of our variety programs and drama series, less accumulated amortization and identified impairment loss. Our program copyrights consist of variety programs under production and drama series. Our program copyrights increased by 518.1% from RMB15.5 million as of December 31, 2019 to RMB95.8 million as of December 31, 2020, and further increased by 14.4% to RMB109.6 million as of December 31, 2021, primarily because of our production of the drama series, "Reading Class," in 2020 and 2021. Our program copyrights increased by 24.5% to RMB136.5 million as of June 30, 2022 from RMB109.6 million as of December 31, 2021, primarily due to an increase of our programs under production, including "E-POP of China," "Guess the Dancer! 2022," "Sing! China 2022," and "Street Dance of China 2022," all of which have been broadcast in July and August 2022.

The table below set forth the breakdown of our program copyrights as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Program under production	11.2	5.5	16.2	43.0
Drama series	4.3	90.3	93.4	93.5
	15.5	95.8	109.6	136.5

As of the Latest Practicable Date, 25.6%, or RMB35.0 million, of our program copyrights as of June 30, 2022, were subsequently consumed or sold. Of the program copyrights not yet consumed or sold as of the Latest Practicable Date, 91.8% were in relation to "Reading Class" and the remaining 8.2% were in relation to our variety programs under production. We believe there is no material recoverability issue for our program copyrights, primarily because (i) we have been actively seeking distribution platforms for "Reading Class" and it is an industry norm for a drama series to take two years or longer between the conclusion of filming and initial broadcasting, and (ii) the rest of the program copyrights that had not been utilized as of June 30, 2022 are mainly variety programs that were at the production or post-production stage within normal development and production cycles. As of December 31, 2019, 2020, 2021 and June 30, 2022, we recorded impairment of program copyrights of RMB16.3 million, RMB8.0 million, nil and nil, which we believe were sufficient as of the end of each period during the Track Record Period.

We calculate the turnover days of our stock, which is the aggregate of our inventory and program copyrights, using the average of the aggregated opening and ending balances of inventory and program copyrights for the period, divided by cost of sales for the relevant period, multiplied by 365 days for 2019, 2020 and 2021, and 180 days for the six months ended June 30, 2022. In 2019, 2020 and 2021, our stock turnover days were 15 days, 29 days and 50 days, respectively. Our stock turnover days increased between 2019 and 2021 primarily due to (i) our production of a drama series, "Reading Class" in 2020 and 2021, and (ii) a decrease in our cost of sales in 2020 and 2021. Our stock turnover days for the six months ended June 30, 2022 were 180 days, which were significantly higher than our stock turnover days for a full year, primarily due to the seasonal factors affecting the entertainment industry and as a result, most of our cost of sales is recognized in the second half of each year, which is in line with our revenue recognition. See "— Key Factors Affecting Our Results of Operations — Seasonality."

Trade and Notes Receivables

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

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Trade receivables	1,258.9	1,067.8	1,011.2	783.4
Notes receivable	59.2	162.2	12.2	52.0
Less: Impairment of trade receivables	(181.9)	(157.1)	(164.1)	(173.4)
	1,136.2	1,072.9	859.3	662.0

Trade Receivables

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

The table below sets forth a breakdown of our trade receivables by business line as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in million)			
Variety program IP production, operation, and licensing	1,130.5	798.3	855.0	612.5
Music IP operation and licensing	65.4	206.9	97.8	107.7
Film and drama series IP operation and licensing	39.4	28.4	20.5	21.8
Other IP-related business	23.6	34.2	37.9	41.4
Total	1,258.9	1,067.8	1,011.2	783.4

Our trade receivables decreased by 22.5% to RMB783.4 million as of June 30, 2022 from RMB1,011.2 million as of December 31, 2021, primarily due to the collection of trade receivables of variety programs produced in 2021. As of the Latest Practicable Date, RMB611.7 million, or 60.5% of the gross amount of our trade receivables outstanding as of December 31, 2021, or 72.2% of the net amount of our trade receivables (after deducting the loss allowance) as of December 31, 2021, had been settled. As of the Latest Practicable Date, approximately RMB296.2 million, or 37.8% of the gross amount of our trade receivables outstanding as of June 30, 2022, or 48.6% of the net amount of our trade receivables (after deducting the loss allowance) as of June 30, 2022, had been subsequently settled.

Our trade receivables decreased by 5.3% to RMB1,011.2 million as of December 31, 2021 from RMB1,067.8 million as of December 31, 2020, primarily due to (i) the collection of trade receivables of variety programs produced in 2020 (ii) the initial broadcast of "Guess the Singer! 2020," a variety program we produced in 2020, started in 2020 and ended in 2021, creating trade receivables as the payment settlement process with the investing media platform continued until 2021. As of the Latest Practicable Date, RMB847.6 million, or 79.4% of the gross amount of our trade receivables outstanding as of December 31, 2020, or 93.1% of the net amount of our trade receivables (after deducting the loss allowance) as of December 31, 2020, had been settled.

Our trade receivables decreased by 15.2% to RMB1,067.8 million as of December 31, 2020 from RMB1,258.9 million as of December 31, 2019, primarily due to the collection of trade receivables of variety programs produced in the second half of 2019, including "Sing! China 2019," "Guess the Singer! 2019" and "Street Dance of China 2019." As of the Latest Practicable Date, RMB1,072.4 million, or 85.2% of the gross amount of our trade receivables outstanding as of December 31, 2019, or 99.6% of the net amount of our trade receivables (after deducting the loss allowance) as of December 31, 2019, had been settled.

The table below sets forth the aging analysis of the net amount of trade receivables (after deducting the loss allowance) at the end of the relevant periods, based on the transaction dates:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Within 3 months	438.9	719.4	386.1	142.7
3 to 6 months	456.0	16.3	276.4	14.3
6 to 12 months	58.9	21.7	47.1	257.6
1 to 2 years	93.4	143.2	111.1	120.3
2 to 3 years	29.8	10.1	19.9	67.9
Over 3 years	–	–	6.5	7.2
	1,077.0	910.7	847.1	610.0

Our trading terms with our customers are mainly on credit. The credit period is generally 30 days from the date of billing to our customers. We do not hold any collateral or other credit enhancements over its trade receivable balances. Overdue balances are reviewed regularly by senior management.

As of December 31, 2019, 2020, 2021 and June 30, 2022, approximately 97.2%, 98.9%, 96.9% and 87.7% of our trade receivables (after deducting the loss allowance) were aged less than two years, respectively. Our trade receivables aged less than two years at the end of period during the Track Record Period were mainly receivables from major satellite TV networks and leading online video platforms in China. These customers, being state-owned entities or market leaders in their respective industries, generally have good payment ability. While the revenue allocation process for the variety programs produced under revenue sharing model may prolong the turnover days for our trade receivables, we believe the risk of not being able to recover the relevant trade receivables aged less than two years is relatively low based on our evaluation of the credit records of and our long-term business relationships with these customers.

We performed an impairment analysis with regard to the balance of our trade receivables at the end of each of the period within the Track Record Period. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had loss allowance for impairment of trade receivables of RMB181.9 million, RMB157.1 million, RMB164.1 million and RMB173.4 million, respectively. For our gross trade receivables aged two to three years of RMB76.0 million as of June 30, 2022, we made provision of RMB8.1 million as of June 30, 2022, based on our bad debt level and impairment analysis. We believe sufficient provisions have been made for the trade receivables aged between two to three years as of June 30, 2022 and that there is no material recoverability issue with respect to the remaining trade receivables aged between two to three years as of June 30, 2022, primarily because (i) we closely monitor the outstanding trade receivables, review on a regular basis the credit records of and make active communications with the relevant customers, (ii) there were continuous settlements from our customers of the outstanding trade receivables aged over two years that had not been settled as of June 30, 2022, and (iii) a majority of these remaining outstanding trade receivables (net of loss allowance) is expected to be collected within the next one year based on our constant communications with the relevant customers and our previous experience of collection of trade receivables with those customers. For our gross trade defaulted receivables aged over three years from customers as of June 30, 2022, we made provision of RMB147.8 million based on our assessment of their recoverability and impairment analysis using a provision matrix to measure their expected credit losses, a majority of which was made in 2019. We believe sufficient provisions have been made for the trade receivables aged over three years as of June 30, 2022 and that there is no material recoverability issue with respect to our outstanding trade receivables (net of loss allowance) aged over three years of RMB7.2 million as of June 30, 2022.

The following table sets forth a breakdown of our trade receivables turnover days by business line for the periods indicated. Trade receivables turnover days for each period equals the average of the beginning and ending balances of accounts receivables (without giving effect to allowance we made for accounts receivables) for that period divided by revenue for the period and multiplied by the number of days in that period.

	For the year ended December 31,			For the six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade receivables turnover days for variety program IP production, operation, and licensing	283	323	343	967
Trade receivables turnover days for music IP operation and licensing	85	229	470	948

	For the year ended December 31,			For the six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade receivables turnover days for film and drama series IP operation and licensing	132	71	103	277
Trade receivables turnover days for other IP-related business	67	135	310	554
Trade receivables turnover days	**234**	**272**	**337**	**885**

Trade receivables turnover days increased from 337 days in 2021 to 885 days for the six months ended June 30, 2022, primarily attributable to the recognition of most of the revenue in the second half of each year due to the seasonal factors affecting the entertainment industry. As the level of variety program development, production and distribution activities increases in the second quarter and continues to increase in the second half of the calendar year, historically, our revenue and gross profit were significantly higher in the second half of the year than in the first half. See "— Key Factors Affecting Our Results of Operations — Seasonality." In particular, our trade receivables turnover days for variety program IP production, operation, and licensing increased from 343 days in 2021 to 967 days in the six months ended June 30, 2022, primarily because, due to the seasonality of our variety program IP production, operation and licensing business, most of our variety programs were produced and broadcast in the second half of 2021, and our trade receivables and turnover days built up in the six months ended June 30, 2022 due to the relatively long settlement and billing process with our customers under the revenue sharing model.

Trade receivables turnover days increased from 272 days in 2020 to 337 days in 2021, primarily because (i) our trade receivables turnover days for music IP operation and licensing significantly increased from 229 days to 470 days, primarily because (a) we entered into a multi-year music IP licensing agreement with a major online music platform in 2020 and recognized licensing revenue of approximately RMB18.8 million in the same year, while the settlement and payment schedule had not yet started as of December 31, 2021 and (b) the settlement and payment with a karaoke operator were delayed due to the prolonged settlement and payment process between the karaoke operator and its customers under the negative impact of COVID-19 pandemic, (ii) our trade receivables turnover days for other IP-related business increased from 135 days to 310 days due to an increase in our trade receivables in relation to the licensing of our variety program IPs for various products and services, such as consumer products and pop-up stores, where the settlement and payment took longer due to the numerosity of the licensees, and (iii) our trade receivables turnover days for variety program IP production, operation, and licensing increased from 323 days in 2020 to 343 days in 2021, primarily because the initial broadcast of three of our variety programs started in the end of 2020 and lasted until 2021, resulting in delayed payment and settlement schedules.

Trade receivables turnover days increased from 234 days in 2019 to 272 days in 2020, primarily because (i) our trade receivables turnover days for variety program IP production, operation, and licensing increased from 283 days in 2019 to 323 days in 2020, and our trade receivables turnover days for music IP operation and licensing significantly increased from 85 days in 2019 to 229 days in 2020, both primarily due to our delayed broadcasting schedule of "Sing! China 2020" and "Guess the Singer! 2020" under the negative impact of COVID-19, resulting in delayed settlement schedules with our customers, and (ii) our trade receivables turnover days for other IP-related business increased from 67 days in 2019 to 135 days in 2020, primarily due to our increased trade receivables in relation to the licensing of our variety program IPs for various products and services, such as consumer products and pop-up stores, where the settlement and payment took longer due to the numerosity of the licensees. Such increase was partially offset by a decrease in our trade receivables turnover days for film and drama series IP operation and licensing, primarily because we recognized half of the total licensing revenue for a multi-year film IP licensing contract in 2020, and the corresponding payment under the contract was made in the same year.

We seek to maintain strict control over our outstanding trade receivables to minimize credit risk. Our accounting team is responsible for monitoring outstanding trade receivables on an ongoing basis and send regular reminders to customers to collect overdue balances. Our business team and our sales and marketing staff also participate in our collecting efforts.

Notes Receivables

Notes receivables consist primarily of the bank acceptance bills that we receive from our customers for their payments to us. Our notes receivable were all aged within one year and none of them was past due or impaired during the Track Record Period.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our notes receivables were RMB59.2 million, RMB162.2 million, RMB12.2 million and RMB52.0 million, respectively. The increase and decreases of our notes receivables are mainly due to the increase and the settlements of the notes receivables from a major TV network in connection with their payments for our variety programs. As of the Latest Practicable Date, all of our notes receivables as of June 30, 2022, were subsequently settled.

Investments in Associates

Our investments in associates primarily represent our investments in entities which we do not have a controlling interest. Our investments in associates as of December 31, 2019 and 2020 represent our investments in Guangdong Pumpkin, Shanghai Hongying and Hangzhou Canhui Culture & Media Co., Ltd. (杭州燦輝文化傳媒有限公司). Our investments in associates as of June 30, 2022 and December 31, 2021 represent our investments in Shuolan and Yuanlv.

Our investments in associates remained stable at RMB422.2 million and RMB428.9 million as of December 31, 2021 and June 30, 2022. Our investments in associates increased significantly from RMB5.4 million as of December 31, 2020 to RMB422.2 million as of December 31, 2021, in connection with our transfer of the land-use rights of land parcels in Xi'an, Shaanxi to Shuolan and Yuanlv, in exchange for our equity interests in them. Our investments in associates remained stable at RMB5.9 million and RMB5.4 million as of December 31, 2019 and 2020, respectively.

In line with our growth strategies, we are actively searching for opportunities to diversify our distribution channels and offer attractive on-site entertainment experience. During our production of variety programs, we noticed that Xi'an has a deep cultural heritage, large talent pool and favorable policies for the development of pan-entertainment businesses. We believe that Xi'an would provide us with a base to reach a wider audience in central and western China and have established a subsidiary in Xi'an since 2014 to identify potential opportunities to expand our business.

In May 2021, we noted that the local government of Xixian New Area in Shaanxi Province had initiated a bidding process for land-use rights of two adjacent land parcels in Xi'an (the "Xi'an Land Parcels"). The local government of Xixian New Area required the successful bidder of either land parcel must (i) develop office buildings, community and other ancillary facilities for a cultural innovative industrial park (the "Industrial Park") on the land parcels, and (ii) successfully bring a regional headquarters of one international media company into the Industrial Park. We also noted that Xixian New Area had already built a film studio and planned to further develop the entertainment and culture related industry. We thought it was a good opportunity to take part in this trend since we would be able to adopt an asset-light model to operate a large-scale entertainment complex (such as an industrial park) in Xi'an with other partner(s), so as to strengthen our brand in central and western China without investing substantial capital.

Because real property development and operation are not our core business, we decided to cooperate with an experienced real property developer (the "Developer") to develop the Xi'an Land Parcels. Our wholly-owned subsidiary, Qinhan New City, and the Developer entered into a cooperation agreement for developing the Xi'an Land Parcels in June 2021 (the "June 2021 Agreement").

Pursuant to the June 2021 Agreement, Qinhan New City was responsible for 50% of the payment for the land-use rights, which was RMB418.3 million. The Developer was responsible for the remaining 50% of the payment, which was due in September 2021, as well as the construction costs of the Xi'an Land Parcels. The local government entered into an agreement with Qinhan New City to assign it the land-use rights of Xi'an Land Parcels in June 2021 and Qinhan New City paid 50% of the total payment for the land-use rights.

In July 2021, Qinhan New City established Xixian New Area Qinhan Xincheng Shenlan Real Estate Co., Ltd (西咸新區秦漢新城深藍置業有限公司, or "Qinhan Shenlan") and Xixian New Area Qinhan Xincheng Yuanlv Real Estate Co., Ltd (西咸新區秦漢新城原綠置業有限公司, or "Qinhan Yuanlv"), as the project companies that would directly own the land-use rights of the land parcels. Qinhan New City assigned its rights and obligations regarding the land-use rights of the Xi'an Land Parcels to Qinhan Shenlan and Qinhan Yuanlv after they were established. Qinhan New City also jointly established Shuolan and Yuanlv with the Developer, which were set up as the joint ventures. In July 2021, Qinhan New City transferred its equity interests in Qinhan Shenlan and Qinhan Yuanlv to Shuolan and Yuanlv, which were co-owned by Qinhan New City and the Developer.

Our planned cooperation with the Developer came to an end in September 2021, as the Developer failed to pay the remaining 50% of the payment for the land-use rights of RMB418.3 million. Qinhan New City and the Developer entered into an agreement to terminate the June 2021 Agreement, pursuant to which the Developer transferred all of its interest in Shuolan and Yuanlv to Qinhan New City. After the completion of the transfer, Qinhan New City owned all the interest in both Shuolan and Yuanlv.

The end of cooperation with the Developer left us little time to find another business partner who could provide the funds before the outstanding payment is due. As a result, we involved SH Zhouxing, a company wholly owned by Mr. Tian, which provided the necessary financing and the purchase of the land-use rights was successfully completed in September 2021. Qinhan New City and SH Zhouxing entered into a cooperation agreement in September 2021 (the "September 2021 Agreement"), pursuant to which SH Zhouxing became a shareholder of Shuolan and Yuanlv in the same month. SH Zhouxing and Qinhan New City hold 60% and 40% of the equity interest, respectively, in each of Shuolan and Yuanlv as of the Latest Practicable Date. Our transfer of the 60% of the equity interest to SH Zhouxing would constitute a one-off connected transaction for the purpose of the Listing Rules.

The September 2021 cooperation agreement contains terms in relation to, among others, capital contribution, management of operations, future fundings and profit distribution of Shuolan and Yuanlv. Under such agreement, SH Zhouxing is responsible for the management of operations and any future fundings of Shuolan and Yuanlv, and we will be entitled to profit distribution as a joint venture partner in proportion to our interest therein. As of the Latest Practicable Date, we had completed our capital contribution to Shuolan and Yuanlv, and are not required to contribute any further capital under the September 2021 Agreement.

Our payment for the first installment of the land-use rights of RMB418.3 million was recorded as our long-term investments in Shuolan and Yuanlv. Shuolan had net assets of RMB120.0 million as of December 31, 2021 and June 30, 2022, respectively, primarily consisting of the land-use rights. Yuanlv had net assets of RMB928.1 million as of December 31, 2021 and June 30, 2022, respectively, also primarily consisting of the land-use rights.

The following table illustrates the summarised financial information in respect of Shuolan adjusted for any differences in accounting policies and reconciled to its carrying amount:

	As of December 31, 2021	As of June 30, 2022
	(RMB in thousands)	
Cash and cash equivalents	9	240
Other current assets	5	5
Non-current assets	132,995	133,161
Current liabilities	(13,009)	(13,411)
Net assets	120,000	119,995
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	40%	40%
Group's share of net assets of the associate:	48,000	47,998
Revenue	–	–
Loss for the year/period	(1)	(5)
Total comprehensive loss for the year/period	(1)	(5)

The following table illustrates the summarised financial information in respect of Yuanlv adjusted for any differences in accounting policies and reconciled to its carrying amount:

	As of December 31, 2021	As of June 30, 2022
	(RMB in thousands)	
Cash and cash equivalents	142	189
Other current assets	194,362	193,814
Non-current assets	734,415	736,127
Current liabilities	(817)	(2,035)
Net assets	928,102	928,095

	As of December 31, 2021	As of June 30, 2022
	(RMB in thousands)	
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	40%	40%
Group's share of net assets of the associate	371,241	371,238
Revenue	–	–
Profit/(loss) for the year/period	2,322	(7)
Total comprehensive income/(loss) for the year/period	2,322	(7)

For more details about the summarized financial information of Shuolan and Yuanlv, see Note 18 to the Accountants' Report included in Appendix I to this document.

We believe the transfer of the land-use rights to Shuolan and Yuanlv in exchange for equity interests in such entities was fair and reasonable to us, because (i) Shuolan and Yuanlv are the project companies we established to involve in the development of the land parcels, and we invested in them through the first installment we made for the land-use rights; (ii) we expect that we will no longer invest any money in Shuolan and Yuanlv other than the first installment we made for the land-use rights; SH Zhouxing had paid the remaining installment of RMB418.3 million and relevant taxes for the purchase of the land-use rights, and are responsible for the construction costs for the park before we identify and involve suitable business partner(s); (iii) based on our projection, the total cost to be borne by SH Zhouxing and us would correspond to 60% and 40%, respectively; and (iv) pursuant to a cooperation agreement we entered into with SH Zhouxing in September 2021, the investment percentages of SH Zhouxing and us in each of Shuolan and Yuanlv are 60% and 40%, respectively.

As mentioned above, our initial intention is to take part in the operation of the Industrial Park through an asset-light model when we were pursuing the opportunities to expand our presence in Xi'an. Our long-term plan remained the same under our cooperation with SH Zhouxing, namely taking part in operating the Industrial Park with an asset-light model focused on utilizing our entertainment IPs, rather than investing substantial capital. In addition, we also considered the uncertainties arising from the downward trend of the Chinese real estate market in 2022. Therefore, we started to seek a business partner who will purchase our equity interests in Shuolan and Yuanlv. Once we found the suitable business partner(s), we plan to cash out our investment in Shuolan and Yuanlv, and the consideration for our investment will be based on market conditions and results of our commercial negotiation with the business partner(s).

Although we will not remain a shareholder of Shuolan or Yuanlv upon the sale, we would carry out our plan to participate in the operation of the Industrial Park in the form of organizing offline entertainment activities, displaying our entertainment IPs and providing arts training to visitors. The actual plan of the development is subject to our negotiation with the potential business partner(s). Given that the Xi'an Land Parcels will be developed into the Industrial Park as planned by the local government with a focus on entertainment and music industries, we believe that our expertise in creating and operating entertainment IPs, producing popular music works, and our relationship with the business partner(s) in the entertainment industry would provide value to future operations of the Industrial Park. In the event that we engage in any of the above activities in the Industrial Park such as leasing of premises in the Industrial Park to host offline entertainment activities, such transactions may constitute connected transactions of our Group under Chapter 14A of the Listing Rules, assuming Mr. Tian remains as a shareholder of Shuolan and Yuanlv through SH Zhouxing at the relevant future time, and we will comply with the relevant Listing Rule requirements with respect to such transactions after the [**REDACTED**].

In choosing business partner(s), we will consider a number of factors, including (i) their expertise and industry rankings in the real estate industry, (ii) their financial conditions and their past financial performance, (iii) their past and/or current business operation in Xi'an, (iv) their experience in planning, constructing and operating cultural industrial parks, and (v) their experience working with companies in cultural or entertainment industries.

We are of the view that the operation of the land parcels will not have any material operational or financial impact on us, as we do not expect to incur additional expenses on the construction of the cultural industrial park, and we expect that our business expansion in Xi'an and the additional channels to display our entertainment IPs will benefit our business operation and financial performance in the long run.

Prepayment, Other Receivables and Other Assets

Our prepayment, other receivables and other assets primarily include our other receivables, prepaid [**REDACTED**] expenses, loan receivable, prepayments and other current assets. Our prepayment, other receivables and other assets increased by 85.1% from RMB118.6 million as of December 31, 2021 to RMB219.5 million as of June 30, 2022, primarily resulting from the first installment we paid in exchange for equity interest in a company established for the development of a music themed commercial complex. Our prepayment, other receivables and other assets decreased by 19.8% from RMB147.8 million as of December 31, 2020 to RMB118.6 million as of December 31, 2021, primarily resulting from a decrease in other current assets of RMB22.9 million due to a decrease in our prepayment of taxes. Our prepayment, other receivables and other assets remained stable at RMB144.8 million and RMB147.8 million as of December 31, 2019 and 2020, respectively.

The table below set forth the breakdown of our prepayment, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Other receivables	22.6	16.4	14.8	15.6
Prepaid [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Loan receivable[1]	–	10.3	11.3	3.3
Prepayments	117.1	86.6	76.9	175.6
Other current assets	16.2	40.0	17.1	25.6
Impairment allowance	(11.1)	(5.5)	(6.1)	(6.7)
	144.8	147.8	118.6	219.5

(1) Our loan receivable during the Track Record Period represents our financial investment in a drama series provided to a third party. As we are entitled to a fixed investment return from the third party, this investment is treated as a loan receivable which is repayable by December 31, 2021. For details, see Note 24 to the Accountants' Report included in Appendix I to this document. The outstanding amount of the loan was nil, RMB10.0 million, RMB10.0 million and RMB2.0 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. Based on our close communication with the third party, we do not expect any material difficulty in recovering the outstanding amount of the loan.

Right-of-use Assets

We have lease contracts for office premises and land used in our operations. Leases of office premises generally range from three years to six years. Our right-of-use assets increased to RMB116.6 million as of June 30, 2022 from RMB102.3 million as of December 2021, primarily due to the renewal of our lease agreements. Our right-of-use assets increased from RMB12.9 million as of December 31, 2020 to RMB102.3 million as of December 31, 2021, primarily due to our purchase of the land-use right of a land parcel in Songjiang, Shanghai, where we plan to build our Songjiang Base. Our right-of-use assets increased from RMB12.4 million as of December 31, 2019 to RMB12.9 million as of December 31, 2020, primarily due to (i) the depreciation of office premises during each year, and (ii) the addition of office premises, respectively.

Cash and Cash Equivalents

Our cash and cash equivalents consist of cash on hand and demand deposits we had in bank accounts. As of December 31, 2019, 2020, 2021 and June 30, 2022, our cash and cash equivalents amounted to RMB651.7 million, RMB903.4 million, RMB547.2 million and RMB437.9 million, respectively. Our cash deposited with banks earns interest at floating rates based on market interest rates.

Other Intangible Assets

Other intangible assets represent identifiable intangible assets including software, trademarks, film rights and music copyrights. Our other intangible assets slightly increased from RMB153.3 million as of December 31, 2021 to RMB159.4 million as of June 30, 2022, primarily due to an increase in the number of our music IPs. Our other intangible assets were RMB186.0 million, RMB163.1 million and RMB153.3 million as of December 31, 2019, 2020 and 2021, respectively. The decreases are primarily due to the amortization of our film rights.

The table below sets forth the breakdown of our other intangible assets as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Film rights	152.6	131.6	118.8	122.5
Trademarks	17.9	15.8	14.5	14.7
Music copyrights	13.9	14.3	18.8	21.1
Software	1.6	1.4	1.2	1.1
	186.0	163.1	153.3	159.4

Liabilities

Trade Payables

Trade payables consist primarily of payables by us to our suppliers for their services rendered in connection with the production of our variety programs, musical works and drama series.

Our trade payables decreased by 35.5% from RMB343.5 million as of December 31, 2021 to RMB221.7 million as of June 30, 2022, primarily due to the settlement of trade payables incurred in relation to our variety programs produced and initially broadcast in 2021. As of the Latest Practicable Date, 45.2%, or RMB100.1 million, of our trade payables as of June 30, 2022, were subsequently settled.

Our trade payables increased by 15.8% from RMB296.7 million as of December 31, 2020 to RMB343.5 million as of December 31, 2021, primarily because we produced several variety programs whose initial broadcast started in 2021 and ended in 2022, and the trade payables we incurred in association with these programs will be settled in 2022 pursuant to contracts with our suppliers.

Our trade payables increased by 17.4% from RMB252.7 million as of December 31, 2019 to RMB296.7 million as of December 31, 2020, primarily due to the delayed production and broadcasting of our variety programs in 2020 under the impact of COVID-19 which affected our payment schedules with the suppliers.

The following table sets forth our trade payables turnover days for the periods indicated. Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by costs of principle activities for the relevant period and multiplied by the number of days in the relevant period.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Trade payables turnover days	72	103	137	403

Our trade payables turnover days increased from 72 days in 2019 to 103 days in 2020, primarily due to the impact of COVID-19 which affected our payment schedules with the suppliers, and further increased to 137 days in 2021, primarily because we produced several variety programs whose initial broadcast ended in 2022, and the trade payables we incurred in association with which will be settled in 2022. Our trade payables turnover days increased to 403 days for the six months ended June 30, 2022, primarily because we usually recognized most of our cost of sales in the second half of each year due to the seasonal factors affecting the entertainment industry, which is in line with our revenue recognition. As the level of variety program development, production and distribution activities increases in the second quarter and continues to increase in the second half of the calendar year, historically, our revenue, cost of sales and gross profit were significantly higher in the second half of the year than in the first half. See "— Key Factors Affecting Our Results of Operations — Seasonality."

During the Track Record Period, our trade payables were non-interest-bearing and were normally settled within one year. The table below sets forth an aging analysis of our trade payables, based on the invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Within 1 year	170.5	145.5	299.7	177.1
1 to 2 years	29.7	89.6	7.8	8.5
2 to 3 years	37.7	27.1	7.6	6.5
Over 3 years	14.8	34.5	28.4	29.6
Total	252.7	296.7	343.5	221.7

Other Payables and Accruals

Other payables and accrual consist primarily of (i) contract liabilities consisting primarily of short-term advances that we receive from media platforms and customers, (ii) other payables consisting primarily of legal costs in relation to our copyright enforcement efforts and [**REDACTED**] expenses payable, (iii) payroll payable, and (iv) dividend payable.

The table below sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Deferred income	9.5	8.9	9.9	11.2
Contract liabilities	100.7	17.0	19.7	71.5
Other payables	11.5	28.0	43.6	51.4
Payroll payable	11.1	10.9	7.1	2.9
Taxes payable other than corporate income tax	16.3	15.3	23.9	8.9
	149.1	80.1	104.2	145.9

Our other payables and accruals increased by 40.0% to RMB145.9 million as of June 30, 2022 from RMB104.2 million as of December 31, 2021, primarily due to an increase in prepayments we received from customers in relation to film IP operation and licensing.

Our other payables and accruals increased by 30.1% to RMB104.2 million as of December 31, 2021 from RMB80.1 million as of December 31, 2020, primarily due to an increase in our other payables in connection with the construction work of our Songjiang Base.

Our other payables and accruals decreased by 46.3% to RMB80.1 million as of December 31, 2020 from RMB149.1 million as of December 31, 2019, primarily due to a decrease in contract liabilities because we had a large amount of advance for a variety program, "The Great Wall," as of December 31, 2019. We received payments from our customer for "The Great Wall" in 2019, while we recognized the corresponding revenue in 2020 as the program was released in 2020.

The table below sets forth the breakdown of our contract liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Variety program IP production, operation, and licensing	88.4	5.7	7.9	1.9
Music IP operation and licensing	2.7	–	1.5	2.5
Film and drama series IP operation and licensing	5.5	7.0	5.9	58.5
Other IP related business	4.1	4.3	4.4	8.6
Total contract liabilities	100.7	17.0	19.7	71.5

Interest-bearing Bank Borrowings

The table below sets forth the breakdown of our interest-bearing bank borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Bank loans – unsecured	180.0	100.0	–	–
Bank loans – secured	5.0	–	–	–
Total	185.0	100.0	–	–

As of December 31, 2019 and 2020, we had interest-bearing bank borrowings of RMB185.0 million and RMB100.0 million, respectively. We have repaid all the balances of our interest-bearing bank borrowings and our bank borrowings were nil and nil as of December 31, 2021 and June 30, 2022, respectively.

The effective interest rates of our bank borrowings ranged from 4.35% to 5.00% during the Track Record Period, with a general term of no more than one year.

Amount Due to Related Parties

The table below sets forth the breakdown of amount due to related parties as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Amount due to related parties:				
SH Zhouxing Investment Co., Ltd.	–	–	–	–
CMC Asia	1.2	–	–	–
SCML	–	–	–	–
Total	1.2	–	–	–

Amount due to CMC Asia represented our borrowings from CMC Asia, consisting primarily of payments of utilities and rental fees that CMC Asia paid on our behalf. As of December 31, 2019, 2020, 2021 and June 30, 2022, amount due to CMC Asia was RMB1.2 million, nil, nil and nil, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including costs for variety program production, costs for music IPs production, and other working capital requirements. Historically, we financed our capital expenditure and working capital requirements mainly through equity financing, bank borrowings and the retained earnings of our Group. In the foreseeable future, we believe that our liquidity requirements will be satisfied with a combination of cash flow generated from our operating activities, the [**REDACTED**] received from the [**REDACTED**], and other funds raised from the capital markets from time to time. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had cash and cash equivalents of RMB651.7 million, RMB903.4 million, RMB547.2 million and RMB437.9 million, respectively.

Cash Flows

The table below sets forth a summary of our cash flows for the Track Record Period:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
			(RMB in millions)		
				(unaudited)	
Profit/(loss) before tax	441.5	26.5	(327.4)	(18.2)	(12.3)
Adjustments	181.7	444.8	494.0	50.4	32.8
Change in working capital	(41.3)	(25.2)	247.9	217.1	68.9
Income tax paid	(71.2)	(57.0)	(13.5)	(23.4)	(13.0)
Interest received	5.6	9.1	8.2	5.1	3.7
Net cash flows from operating activities	516.3	398.2	409.2	231.0	80.1
Net cash flows used in investing activities	(43.9)	(16.0)	(584.8)	(556.1)	(167.9)
Net cash flows used in financing activities	(98.3)	(100.3)	(176.9)	(84.6)	(24.1)
Net increase/(decrease) in cash and cash equivalents	374.1	281.9	(352.5)	(409.7)	(111.9)
Cash and cash equivalents at beginning of the year	275.1	651.7	903.4	903.4	547.2
Effect of foreign exchange rate changes, net	2.5	(30.2)	(3.7)	(0.3)	2.6
Cash and cash equivalents at end of the year/period	651.7	903.4	547.2	493.4	437.9

Net Cash Flows from Operating Activities

During the Track Record Period, we derived our cash inflows from operating activities primarily through the receipt of proceeds from licensing and operating our variety program IPs, music IPs, film and drama series IPs and conducting other IP-related business. Cash outflows from operating activities primarily comprises costs incurred in production and distribution of our variety programs, music works and drama series. Our cash from operating activities reflects our profit before tax as adjusted by non-cash and non-operating items and movements in working capital.

Our net cash generated from operating activities was approximately RMB80.1 million for the six months ended June 30, 2022. This net cash inflow was primarily due to (i) a decrease in trade and notes receivables of RMB188.0 million, reflecting that we received payments for our variety programs which we delivered in 2021, and (ii) an increase in other payables and accruals of RMB45.6 million, primarily attributable to an increase in contract liabilities, reflecting an increase in the advances we received from our customers. The cash inflows were partially offset by (i) a decrease in trade payables of RMB121.8 million in connection with our settlement of trade payables incurred in relation to the variety programs we produced in 2021, and (ii) an increase in program copyrights of RMB26.9 million, resulting from an increase of our programs under production.

Our net cash generated from operating activities was approximately RMB409.2 million for the year ended December 31, 2021. This net cash inflow was primarily due to (i) the adjustments of non-cash items, consisting primarily of impairment of goodwill of RMB380.7 million, (ii) a decrease in trade and notes receivables of RMB202.6 million, reflecting that we received payments for our variety programs which we delivered in 2020, (iii) an increase in trade payables of RMB46.8 million, reflecting the trade payables we incurred in connection with variety programs whose initial broadcast started in 2021 and ended in 2022, and (iv) changes in fair value of financial assets at fair value through profit or loss of RMB27.6 million. The cash inflows were partially offset by (i) loss before tax of RMB327.4 million, (ii) an increase in restricted cash of RMB28.1 million, primarily due to amounts frozen for legal disputes with MBC as of December 31, 2021, and for purchase of our leasehold land in Songjiang, Shanghai, and (iii) an increase in program copyrights of RMB13.8 million, primarily due to our production of the drama series, "Reading Class."

Our net cash generated from operating activities was approximately RMB398.2 million for the year ended December 31, 2020. This net cash inflow was primarily attributable to (i) the adjustments of non-cash items, consisting primarily of impairment of goodwill of RMB386.8 million, equity-settled share award expense of RMB27.5 million, and depreciation and amortization, (ii) a decrease in trade and notes receivables of RMB77.0 million, reflecting that we received payments for our variety programs which we delivered in 2019, and (iii) an increase in trade payables of RMB44.1 million, primarily due to the impact of COVID-19 which delayed our production and broadcasting schedules and thus affected our payment schedules with the suppliers. The cash inflows were partially offset by (i) an increase in program copyrights of RMB88.3 million, reflecting the production of our TV drama series, "Reading Class," in progress, (ii) a decrease in other payables and accruals of RMB67.5 million attributable to a decrease in contract liabilities, reflecting the changes in the balance amount of advances that we received from customers, and (iii) income tax of RMB57.0 million that we paid.

Our net cash generated from operating activities was approximately RMB516.3 million for the year ended December 31, 2019. This net cash inflow was primarily attributable to (i) our profit before tax of RMB441.5 million, (ii) the adjustments of non-cash items, consisting primarily of equity-settled share award expense of RMB26.0 million, and depreciation and amortization, and (iii) an increase in other payables and accruals of RMB71.0 million primarily attributable to an increase in contract liabilities, reflecting an increase in the advances we received from customers. The cash inflows were partially offset by (i) an increase in trade and notes receivables of RMB151.8 million primarily attributable to the increased number of variety programs and music works that we delivered, and (ii) income tax of RMB71.2 million that we paid.

Net Cash Flows Used in Investing Activities

During the Track Record Period, our cash used in investing activities consisted primarily of cash inflows or outflows relating to (i) purchases and disposals of property, plant and equipment, (ii) purchase of leasehold land, (iii) equity investment in joint ventures and associates, and (iv) loans to a related party.

Our net cash used in investing activities was approximately RMB167.9 million for the six months ended June 30, 2022, primarily due to (i) the first installment we paid in exchange for equity interest in a company established for the development of a music themed commercial complex, and (ii) our purchase of items of property, plant and equipment of RMB49.7 million.

Our net cash used in investing activities was approximately RMB584.8 million for the year ended December 31, 2021, primarily due to (i) prepayments for leasehold land of RMB418.3 million, and (ii) purchases of our leasehold land in Songjiang, Shanghai in the amount of RMB99.6 million.

Our net cash used in investing activities was approximately RMB16.0 million for the year ended December 31, 2020. This net cash outflow was primarily due to (i) costs in connection with increasing the copyrights in our music library, and (ii) our loans to a third party in association with our investment in a drama series.

Our net cash used in investing activities was approximately RMB43.9 million for the year ended December 31, 2019. This net cash outflow was primarily due to costs in connection with increasing the copyrights in our music library.

Net Cash Flows Used in Financing Activities

During the Track Record Period, our cash inflows from financing activities consisted primarily of proceeds from bank loans, capital contribution from non-controlling shareholders and proceeds of loans from related parties. Our cash outflows in financing activities mainly comprised of repayment of bank loans, dividend paid to the then shareholders, repayment of principal portion of lease liabilities and interest paid.

Our net cash used in financing activities was approximately RMB24.1 million for the six months ended June 30, 2022. This net cash outflow was primarily due to the capital reduction by non-controlling shareholders.

Our net cash used in financing activities was RMB176.9 million for the year ended December 31, 2021. This net cash outflow was primarily due to (i) the repayments of banks loans and loans from related parties, and (ii) the dividend paid to the then shareholders.

Our net cash used in financing activities was RMB100.3 million for the year ended December 31, 2020. This net cash outflow was primarily due to our repayments of bank loans, which were partially offset by the proceeds from new bank loans.

Our net cash used in financing activities was RMB98.3 million for the year ended December 31, 2019. This net cash outflow was primarily due to our repayments of bank loans, which were partially offset by capital contribution from non-controlling shareholders and proceeds from new bank loans.

Net Current Assets

The table below sets forth our current assets, current liabilities and net current assets as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	(RMB in millions)				
					(unaudited)
Current Assets					
Inventories	20.1	23.5	3.3	3.3	3.4
Program copyrights	15.5	95.8	109.6	136.5	101.1
Trade and notes receivables	1,136.2	1,072.9	859.3	662.0	934.7
Prepayment, other receivables and other assets	144.8	147.8	118.6	130.6	130.7
Due from related parties	335.6	315.4	183.8	189.1	189.0
Cash and cash equivalents	651.7	903.4	547.2	437.9	237.3
Total current assets	2,303.9	2,558.8	1,821.8	1,559.4	1,596.2
Current Liabilities					
Trade payables	252.7	296.7	343.5	221.7	467.6
Other payables and accruals	145.0	71.9	96.7	96.6	93.7
Interest-bearing bank borrowings	185.0	100.0	–	–	–
Due to related parties	1.2	–	–	–	–
Tax payable	30.6	30.3	40.5	28.7	8.6
Lease liabilities	6.0	8.7	2.4	8.5	8.7
Total current liabilities	620.5	507.6	483.1	355.5	618.6
Net current assets	1,683.4	2,051.2	1,338.7	1,203.9	979.6

Our net current assets decreased from RMB1,203.9 million as of June 30, 2022 to RMB984.0 million as of October 31, 2022, primarily due to an increase in our current liabilities. Our current liabilities increased from RMB355.5 million as of June 30, 2022 to RMB618.6 million as of October 31, 2022, primarily due to an increase in our trade payables, resulting from the settlement schedule of trade payables incurred in relation to four of our variety programs which were initially broadcast from July 2022 to October 2022.

Our net current assets slightly decreased from RMB1,338.7 million as of December 31, 2021 to RMB1,203.9 million as of June 30, 2022, primarily due to a decrease in our current assets. Our current assets decreased from RMB1,821.8 million as of December 31, 2021 to RMB1,559.4 million as of June 30, 2022, primarily due to (i) a decrease in trade and notes receivables primarily due to the collection of trade receivables of variety programs produced and initially broadcast in 2021, and (ii) a decrease in our cash and cash equivalents.

Our net current assets decreased from RMB2,051.2 million as of December 31, 2020 to RMB1,338.7 million as of December 31, 2021, primarily due to a decrease in our current assets. Our current assets decreased from RMB2,558.8 million as of December 31, 2020 to RMB1,821.8 million as of December 31, 2021, primarily due to (i) a decrease in our cash and cash equivalents, and (ii) a decrease in trade and notes receivables primarily due to the collection of trade receivables of variety programs produced in 2020.

Our net current assets increased from RMB1,683.4 million as of December 31, 2019 to RMB2,051.2 million as of December 31, 2020, primarily due to a combination of an increase in our current assets and a decrease in our current liabilities. Our current assets increased from RMB2,303.9 million as of December 31, 2019 to RMB2,558.8 million as of December 31, 2020, primarily due to an increase in our cash and cash equivalents. Our current liabilities decreased from RMB620.5 million as of December 31, 2019 to RMB507.6 million as of December 31, 2020, primarily attributable to a decrease in other payables and accruals of RMB73.1 million primarily due to a decrease in contract liabilities which reflected the balance amount of advances from our customers.

Working Capital Sufficiency

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

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

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of interest-bearing bank borrowings, due to related parties and lease liabilities.

The table below sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	(RMB in millions)				
					(unaudited)
Interest-bearing bank borrowings	185.0	100.0	–	–	–
Due to related parties	1.2	–	–	–	–
Lease liabilities	12.4	14.0	4.7	22.1	17.0
	198.6	114.0	4.7	22.1	17.0

As of October 31, 2022, our unutilized banking facilities amounted to RMB180.0 million. For details of interest-bearing bank borrowings, amount due to related parties and lease liabilities, see "— Discussion of Certain Balance Sheet Items — Liabilities."

Contingent Liabilities

During the Track Record Period, certain of our subsidiaries were involved in lawsuits. As of June 30, 2022, we had recorded accrued liabilities in connection with certain lawsuits in trade payables or other payables and accruals in our consolidated statements of financial position. For more details, see Note 36 to the Accountants' Report included in Appendix I to this document. As of the Latest Practicable Date, we did not have any material contingent liabilities.

As of June 30, 2022, we accrued liabilities of RMB22.7 million in connection with four lawsuits: (i) our contract dispute with MBC in relation to three variety programs to be produced in 2016, 2017 and 2018, where MBC was awarded RMB11.9 million by the court of first instance in November 2022 and we will have 15 days to appeal since our receipt of the judgment; (ii) our contract dispute with MBC in relation to the variety program "Outdoor Reality Show," where MBC was awarded RMB10.0 million by the court of first instance in 2021; both MBC and us appealed to the court of second instance and the ruling of the court of the first instance was affirmed in August 2022; and (iii) two music IP infringement disputes with one individual with an aggregate claim amount of RMB0.8 million. For details, see "Business — Legal Proceedings."

Our Directors confirm that there has not been any material adverse change in our indebtedness since June 30, 2022, being the latest practicable date for the purpose of our indebtedness statement, to the date of this document. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breach of covenant during the Track Record Period and up to the date of this document. As of the Latest Practicable Date, except for incurring additional bank borrowings, we did not have plans for other material external debt financing.

Except as disclosed above, we did not have, as of June 30, 2022, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on property, plant and equipment and intangible assets. Our capital expenditures were RMB40.8 million, RMB24.6 million, RMB61.7 million and RMB57.3 million for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

We expect that our capital expenditures in 2022 will primarily consist of purchase of property and equipment and other intangible assets, as well as construction cost. We intend to fund our planned capital expenditures through a combination of the [**REDACTED**] from the [**REDACTED**] as well as cash generated from our operations. We may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions. Our Directors are of the view that each of the related party transactions set out in Note 38 to the Accountants' Report included in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

The table below sets forth the outstanding balances with related parties as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Due from related parties (non-trade):				
Mengxiang Qi'an	184.0	181.1	183.8	189.1
CMC Asia	101.2	94.6	–	–
SCML	50.4	39.7	–	–
	335.6	315.4	183.8	189.1
Trade receivables (trade):				
SCML	–	–	0.2	0.0
Due to a related party (non-trade):				
CMC Asia	1.2	–	–	–
	1.2	–	–	–
Trade payable (trade):				
Guangdong Pumpkin Pictures Culture & Communication Co., Ltd.	4.6	1.7	–	–
SCML	9.4	8.5	8.6	8.7
	14.0	10.2	8.6	8.7

We established Mengxiang Qi'an with a joint venture partner, which is an Independent Third Party. Mengxiang Qi'an holds the land-use rights of a land parcel in Xuhui District, Shanghai, which is designed by the government for media, entertainment and comprehensive commercial uses. The land parcel will be developed into an office building that also contains retail and leisure spaces. The office building will host our new headquarters as well as other companies in entertainment related industries. It will also serve other commercial uses, such as hosting music and dance training, live houses and other entertainment experiences. As of the Latest Practicable Date, the construction of the commercial complex had been substantially completed.

The joint venture partner and our Company have invested in Mengxiang Qi'an to finance its business operation in accordance with our respective equity interest in it. The portion of the total investment in Mengxiang Qi'an that is surplus to its registered capital is treated as shareholders' loans from the joint venture partner and us, also in accordance with our respective equity interests in it. Our loans to Mengxiang Qi'an are unsecured and repayable on demand. During the Track Record Period, the total amount of our loans to Mengxiang Qi'an as of December 31, 2019 and 2020 was interest free. A substantial portion of the total amount of our loans to Mengxiang Qi'an as of December 31, 2021 and June 30, 2022 was interest free.

We do not plan to settle this amount due from Mengxiang Qi'an prior to or upon the [**REDACTED**]. To the best knowledge of our Directors, our amount due from Mengxiang Qi'an is not expected to give rise to any implications under the Listing Rules such as financial independence. For more details about our material related party transactions, see Note 38 to the Accountants' Report included in Appendix I to this document.

KEY FINANCIAL RATIOS

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

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
				(unaudited)	
Profitability ratios					
Gross profit margin	39.0%	37.7%	24.3%	36.7%	30.9%
Net profit/(loss) margin	21.0%	(2.4%)	(31.2%)	(16.4%)	(7.3%)

	As of December 31,			As of June 30,
	2019	2020	2021	2022
Liquidity ratios				
Current ratio(1)	3.7	5.0	3.8	4.4
Quick ratio(2)	3.7	4.8	3.5	4.0
Capital adequacy ratio				
Debt to equity ratio(3)	N.A.	N.A.	N.A.	N.A.
Gearing ratio(4)	4.3%	2.5%	0.1%	0.5%

(1) Calculated based on total current assets divided by total current liabilities as of the dates indicated.

(2) Calculated based on total current assets less inventories and program copyrights divided by total current liabilities as of the dates indicated.

(3) Calculated based on net debt (consisting of interest-bearing bank loans, lease liabilities, amount due to related parties deducting restricted cash and cash and cash equivalents) divided by total equity as of the dates indicated multiplied by 100%. We had a net cash position as of December 31, 2019, 2020 and 2021, and June 30, 2022, respectively.

(4) Calculated based on total debt (consisting of interest-bearing bank loans, lease liabilities, and amount due to related parties) divided by total equity as of the dates indicated multiplied by 100%.

FINANCIAL RISKS DISCLOSURE

Our principal financial instruments comprise interest-bearing bank loans and cash. The main purpose of these financial instruments is to raise finance for our operations. We have various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from our operations.

The main risks arising from our financial instruments are foreign currency risk, credit risk and liquidity risk. Our Directors reviews and agrees policies for managing each of these risks and they are summarized below.

Foreign currency risk

We have transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The functional currencies of certain of our overseas subsidiaries are currencies other than RMB. As at the end of each year of 2019, 2020 and 2021, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the year and their profits or losses are translated into RMB at the weighted average exchange rates for the year. At present, we do not intend to hedge our exposure to foreign exchange fluctuation.

See Note 2.4 and Note 41 to the Accountants' Report included in Appendix I to this document for more details about the sensitivity to a reasonably possible change in the USD, HKD, EUR and AUD exchange rate.

Credit Risk

We trade mainly with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Liquidity Risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. We maintain a balance between continuity of funding and flexibility through the use of other borrowings. See Note 41 to the Accountants' Report set out in Appendix I to this document for more details about the maturity profile of our financial liabilities.

DIVIDEND POLICY

In 2021, our subsidiary, Fortune Star Media, declared dividends of US$30.0 million (equivalent to RMB194.8 million) to its then shareholder, CMC Asia, which had been fully paid by December 31, 2021. In the same year, our then subsidiary, Shanghai Canteng (currently known as Shanghai Heilai), declared dividends of RMB1.9 million to its non-controlling shareholders, which had been fully paid by December 31, 2021. See Note 11 to the Accountants' Report set forth in Appendix I to this document. Other than the above, no dividend was proposed, paid or declared by our Company or any of our subsidiaries during the Track Record Period.

According to our Articles of Association and applicable laws and regulations, the decision on whether to pay dividends will be made at the discretion of our Directors and will depend upon, among others, the financial results, cash flows, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, any restrictions on payment of dividends, and other factors that our Directors may consider relevant. We do not have a pre-determined dividend payout ratio. We will evaluate our dividend policy in light of our financial condition and the prevailing economic environment.

Subject to the Cayman Companies Act, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our subsidiaries, including our PRC companies. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. In particular, the dividend distribution by the WFOE is governed by the PRC Company Law, according to which the WFOE may only pay dividends based on the accumulated profits. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Any dividend paid by the WFOE to its parent companies, if any, will be resolved by its board of directors pursuant to the articles of association of the WFOE and the applicable PRC laws and regulations. We may rely on dividends distributed by the WFOE for our cash and financing requirements, including the funds necessary to pay dividends. See "Risk Factors — Risks Relating to Doing Business in the PRC — We may rely on dividends paid by the WFOE to fund cash and financing requirements and our Consolidated Affiliated Entities are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements." In addition to the dividends paid by the WFOE, our Directors also take into consideration, among others, the financial results and cash flows of our offshore subsidiaries, with respect to the decision on whether to pay dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2022, our Company did not have any retained profits under IFRS as reserves available for distribution to our equity shareholders.

[REDACTED] EXPENSES

Our [**REDACTED**] expenses mainly include [**REDACTED**], professional fees paid to legal advisors and the Reporting Accountants for their services and other fees incurred in connection with the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] expenses (based on the mid-point of our indicative [**REDACTED**] range for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, excluding any [**REDACTED**] which may be payable by us) for the [**REDACTED**] are approximately RMB[**REDACTED**], representing [**REDACTED**]% of the [**REDACTED**]. The estimated total [**REDACTED**] expenses consist of (i) [**REDACTED**] expenses of RMB[**REDACTED**] (approximately HK$[**REDACTED**]), including [**REDACTED**] of RMB[**REDACTED**] (approximately HK$[**REDACTED**]) and sponsors fee of RMB[**REDACTED**] (approximately HK$[**REDACTED**]), and (ii) non-[**REDACTED**] expenses of RMB[**REDACTED**] (approximately HK$[**REDACTED**]), of which the professional fees paid to legal advisors and the Reporting Accounts amounted to RMB[**REDACTED**] (approximately HK$[**REDACTED**]) and other fees and expenses amounted to RMB[**REDACTED**] (approximately HK$[**REDACTED**]). During the Track Record Period, we incurred [**REDACTED**] expenses of RMB[**REDACTED**] which was charged to the consolidated statements of profit or loss for the year ended December 31, 2021 and the six months ended June 30, 2022 as administrative expenses. We expect to incur additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] which is expected to be recognized as administrative expenses subsequent to the Track Record Period. Approximately RMB[**REDACTED**] of the estimated [**REDACTED**] expenses is directly attributable to the [**REDACTED**] of Shares and will be recognized as a deduction in equity directly upon the [**REDACTED**]. Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2022.

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this document, other than the continued impact of the COVID-19 pandemic as described above, there has been no material adverse change in financial and trading positions or prospects of our Group since June 30, 2022, being the date on which our latest audited consolidated financial statements were prepared, and there has been no event since June 30, 2022 which would materially affect the information in the Accountants' Report set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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