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Application Proof of

Star CM Holdings Limited

星空華文控股有限公司

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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STAR CM Holdings Limited 星空華文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]
Number of [REDACTED] under : [REDACTED] Shares (subject to the
the [REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to
adjustment)
Number of [REDACTED] : [REDACTED] Shares (subject to
adjustment and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED]
plus brokerage of 1.0%, SFC
transaction levy of 0.0027%, Hong
Kong Stock Exchange trading fee of
0.005% and AFRC transaction levy of
0.00015% (payable in full on
application in
Hong Kong dollars, subject to refund)
Nominal value : US\$0.000001 per Share
[REDACTED] : [●]

*Joint Sponsors, [REDACTED], [REDACTED],
[REDACTED] and [REDACTED]*



[REDACTED]

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The [REDACTED] will be not more than HK\$[REDACTED] and is currently expected to be not less than HK\$[REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

The [REDACTED] (for themselves and on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] range below that stated in this document at any time on or prior to the morning of the last day for [REDACTED] under the [REDACTED]. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at starcmgroupp.com not later than the morning of the day which is the last day for [REDACTED] under the [REDACTED]. For further information, please refer to the sections headed “Structure of the [REDACTED]” and “How to apply for [REDACTED]” in this document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See the section headed “[REDACTED]” in this document.

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this document, including the risk factors set out in the section headed “Risk Factors” in this document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be [REDACTED], [REDACTED], pledged or transferred within the United States, except that [REDACTED] may be [REDACTED], [REDACTED] or delivered outside the United States in offshore transactions in reliance on Regulation S.

[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

CONTENTS

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. Moreover, there are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors.” You should read the entire document carefully before you decide to invest in the [REDACTED].

OVERVIEW

Who We Are

According to the F&S Report, 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 people with our original and entertaining content. Bringing enjoyment to people’s everyday lives, we have accumulated an audience base which serves as the basis of our diversified IP-related business.

We have a broad spectrum and a number of popular variety program IPs in diverse genres, including music variety programs, dance variety programs, talent shows, talk shows, outdoor/cultural variety programs and other variety programs. According to the F&S Report, we are one of the few companies that can create and operate variety program IPs in various major program genres. We adhere to the idea that entertainment content should touch on hot issues, people’s livelihoods and their innermost soul, enabling us to produce variety programs which are not only entertaining but also filled with positive energy. Reflecting the sociocultural environment of our time, our variety programs are authentic and can resonate with a broad audience. We uphold the highest standards in our operations and are dedicated to building a team underpinned by operational excellence and social responsibilities.

What We Do

We are dedicated to creating entertainment IPs.

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%. In 2012, we launched “Sing! China” (中國好聲音), one of the most popular singing competition shows in China. With 11 seasons aired, “Sing! China” has set a record by being the longest running seasonal variety program in China. We also created and operated other variety program IPs with long-lasting popularity, such as “Guess the Singer!” (蒙面唱將猜猜猜) “Sing My Song” (中國好歌曲) and “Brilliant Chinese — Path to Glory” (出彩中國人). We cooperated with Youku, one of the Top Three Online Video Platforms in China, and jointly produced “Street Dance of China” (這！就是街舞), a made-for-internet dance competition show. It became an instant hit after its launch in 2018 and topped the rankings for dance variety programs with a total view count of over 1.7 billion in the same year.

SUMMARY

We also produced programs in other genres, such as “The Great Wall” (了不起的長城), a cultural variety program released in 2020, which ranked third in terms of TV viewership among all TV variety programs in its time slot.

We are a music IP creator and operator in China. As of June 30, 2022, we had a music library of 8,549 IPs, consisting of 3,546 live music recordings produced during the creation of our music variety programs, 3,158 songs we produced for our managed artists, and 1,845 lyrics and music compositions. The breadth and diversity of our music library demonstrate our ability to continually create widely popular music IPs.

We own and operate a large library of Chinese film IPs. We believe our extensive IP operation experience will greatly benefit our development in the field of film and drama series production. As of June 30, 2022, we owned 757 popular Chinese films produced in Hong Kong in the past few decades, including many classics such as “The Way of the Dragon” (猛龍過江), “First of Fury” (精武門), “A Chinese Ghost Story” (倩女幽魂) and “Rouge” (胭脂扣). We own the right of rerun of all of our film IPs, as well as the rights of remastering and remake of some of our film IPs, and we are seeking opportunities to present our film IPs in innovative ways, such as creating new film IPs based on the storyline of the existing ones. In addition, in October 2020, we concluded the filming of the drama series “Reading Class” (閱讀課), our first drama series production.

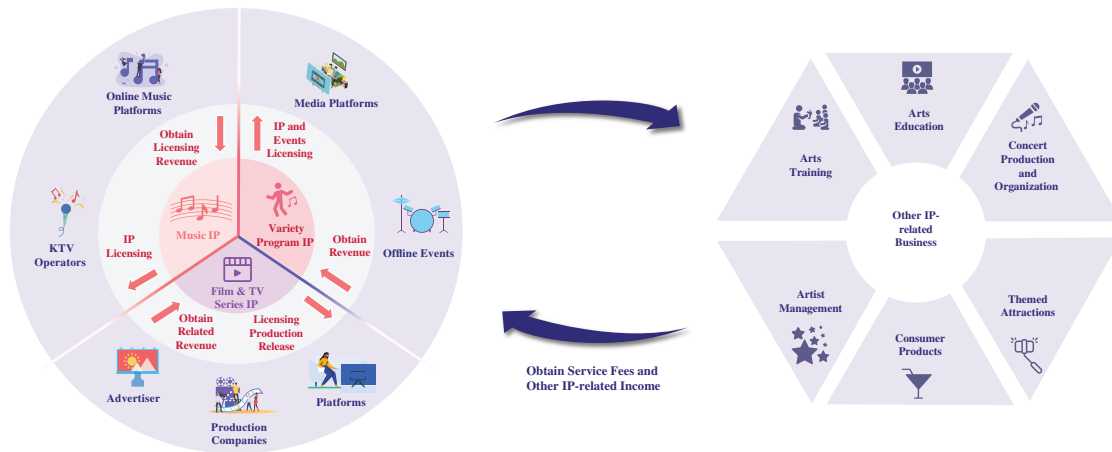
Our IP-centric ecosystem has become an integral part of audience members’ lives, bringing them a spectacular “on-the-air, online and on-the-spot” entertainment experience.

The entertainment IPs that we have created, owned and operated have reached a wide audience through diverse broadcasting channels. As of June 30, 2022, we had close cooperation with four of the Big Five Satellite TV Networks in China, the Top Three Online Video Platforms in China and two major online music platforms in China to distribute our IP content worldwide. During the Track Record Period, a number of our variety programs consistently ranked among the top three in terms of first-run viewership in the same time slot. According to Frost & Sullivan, rankings based on average viewership ratings are commonly used to measure popularity of variety programs in China.

We operate our proprietary mobile app, the “Sing! China” app, and a WeChat mini-app, the “Zongbache” (綜巴車) mini-app, to offer an engaging social network platform for our audience. As of June 30, 2022, there were more than 1.2 million registered users on the “Sing! China” app and more than 68,000 registered users on the “Zongbache” mini-app.

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We have also expanded our footprint in a wide array of IP-related businesses, enabling us to further interact with hundreds of millions of audience members and become an enjoyable part of their lives. We arrange our managed artists to attend various concerts, tours and in-person appearances, where audience members can interact with our managed artists. Through our arts education and training programs, people can improve their singing, dancing and other performance skills. In addition, we license our entertainment IPs to consumer products brands and themed attractions, so that audience members can purchase tie-in merchandise and have fabulous on-site entertainment experiences.

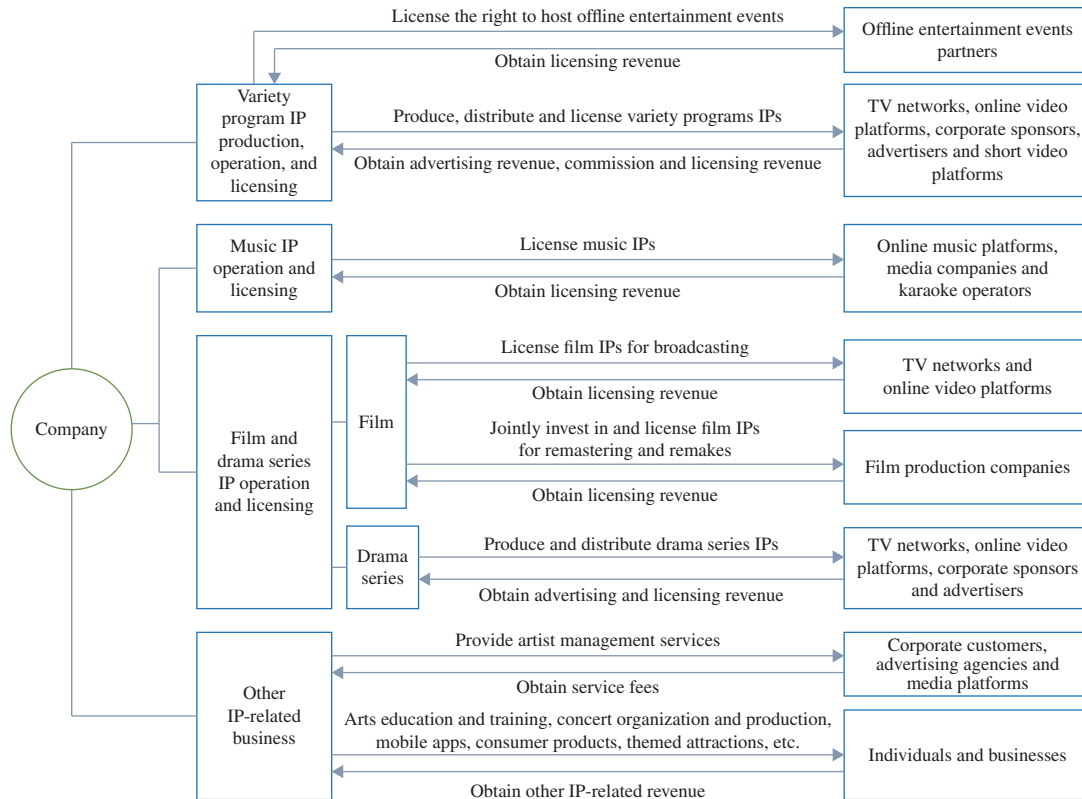


Our revenue decreased from RMB1,806.6 million in 2019 to RMB1,559.9 million in 2020, and decreased to RMB1,126.7 million in 2021. Our revenue was RMB154.6 million and RMB182.6 million for the six months ended June 30, 2021 and 2022, respectively. We had net profit/(loss) of RMB380.2 million, RMB(27.8) 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(0.3) 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 “Financial Information — 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).

SUMMARY

OUR BUSINESS AND REVENUE MODEL

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. Below is an illustration of our business model.



The following table sets out a breakdown of our revenue by business line in both absolute terms and as a percentage of our revenue 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
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										
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 revenue	1,806.6	100.0%	1,559.9	100.0%	1,126.7	100.0%	154.6	100.0%	182.6	100.0%

SUMMARY

The following table sets out 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
	<i>(RMB in millions, except for percentages)</i>				
	<i>(unaudited)</i>				
Gross Profit					
Variety program IP production, operation, and licensing	369.5	203.8	116.2	17.0	29.0
Music IP operation and licensing	201.9	182.8	85.3	27.3	12.5
Film and drama series IP operation and licensing	80.9	157.5	56.0	7.4	8.2
Other IP-related business	52.6	43.3	16.8	5.0	6.8
Total gross profit	704.9	587.4	274.3	56.7	56.5
Gross Profit Margin	39.0%	37.7%	24.3%	36.7%	30.9%
Variety program IP production, operation, and licensing	27.6%	18.7%	13.2%	23.4%	21.2%
Music IP operation and licensing	84.4%	84.1%	72.1%	60.4%	64.1%
Film and drama series IP operation and licensing	70.3%	90.4%	64.8%	33.0%	59.9%
Other IP-related business	47.0%	55.3%	39.5%	34.5%	52.7%

SUMMARY

Variety Program IP Production, Operation, and Licensing

We create and distribute variety programs on various media platforms, consisting of major TV networks and online video platforms. Under the revenue sharing model, we produce and jointly invest in variety programs with media platforms and share the advertising sales with the platforms. Under the commissioned production model, we are engaged by media platforms to produce variety programs for a fixed commission. We generate additional revenues from licensing the broadcasting rights of our variety programs to media platforms for reruns and from licensing the right to host offline entertainment events in association with our variety programs for licensing fees.

The following table sets out a breakdown of our revenue generated from variety program IP production, operation, and licensing by cooperation models for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(RMB in millions, except percentages)</i>									
	<i>(unaudited)</i>									
Revenue Sharing Model	1,137.5	84.9%	665.8	61.1%	704.7	80.1%	56.3	77.7%	36.1	26.4% ⁽¹⁾
Commissioned Production Model	203.0	15.1%	424.3	38.9%	174.8	19.9%	16.2	22.3%	100.4	73.6% ⁽¹⁾
Total	1,340.5	100.0%	1,090.1	100.0%	879.5	100.0%	72.5	100.0%	136.5	100.0%

Note:

- (1) The percentage of our revenue generated during the six months ended June 30, 2022 under the commissioned production model increased and that under the revenue sharing model decreased compared to the same period in 2021, primarily because (i) we recognized revenue of “Great Dance Crew” in the six months ended June 30, 2022, which was produced under the commissioned production model, and (ii) we recognized revenue of “Guess the Singer! 2020” in the same period in 2021, which was produced under the revenue sharing model.

SUMMARY

The following table sets out a breakdown of our gross profit and gross profit margin by cooperation models for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(RMB in millions, except for percentages)</i>				
	<i>(unaudited)</i>				
Gross Profit⁽¹⁾					
Revenue Sharing Model	323.4	113.9	95.0	31.3	12.8
Commissioned Production Model	64.0	108.5	39.4	3.9	16.2
Total gross profit⁽¹⁾	387.4	222.4	134.4	35.2	29.0
Gross Profit Margin⁽¹⁾	28.9%	20.4%	15.3%	48.6%	21.2%
Revenue Sharing Model	28.4%	17.1%	13.5%	55.6%	35.5%
Commissioned Production Model	31.5%	25.6%	22.5%	24.1%	16.1%

Note:

- (1) Gross profits and gross profit margins in this table are calculated excluding equity-settled share award expenses in cost of sales, as equity-settled share award expenses cannot be allocated to a specific cooperation model.

SUMMARY

Fluctuations in Revenue, Gross Profit, and Gross Profit Margin by Program

The following table sets out a breakdown of our revenue generated from variety program IP production, operation, and licensing by programs for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in millions, except for percentages)</i>							
Sing! China (中國好聲音)	490.5	36.6%	324.5	29.8%	256.1	28.6%	-	-
Street Dance of China (這!就是街舞)	184.0	13.7%	210.5	19.3%	239.1	27.2%	-	-
China’s Got Talent 2019 (中國達人秀 2019)	182.9	13.6%	-	-	-	-	-	-
CHUANG (這!就是原創)	140.3	10.5%	-	-	-	-	-	-
Guess the Singer! (蒙面唱將猜猜猜)	132.8	9.9%	65.1 ⁽¹⁾	6.0%	23.8 ⁽¹⁾	2.7%	-	-
Let’s Band (一起樂隊吧)	70.1	5.2%	-	-	-	-	-	-
The Great Wall (了不起的長城)	34.6 ⁽²⁾	2.6%	158.2 ⁽²⁾	14.5%	-	-	-	-
Guess the Dancer! (蒙面舞王)	-	-	80.1	7.3%	79.9	9.1%	-	-
Arrival of the Best-Seller! 2020 (爆款來了2020)	-	-	76.9	7.1%	-	-	-	-
Sing Along the Way (街頭音浪2020)	-	-	54.7	5.0%	-	-	-	-
King Cross 2020 (跨界歌王2020)	-	-	41.5	3.8%	-	-	-	-
Shifu Go Go Go! (出發吧,師傅!)	-	-	23.5	2.2%	-	-	-	-
Likes! Talent (點讚!達人秀)	-	-	-	-	110.3 ⁽³⁾	12.5%	24.1 ⁽³⁾	17.7%
Shine! Super Brothers 2021 (追光吧!2021)	-	-	-	-	68.4 ⁽⁴⁾	7.8%	17.1 ⁽⁴⁾	12.5%
IN China (中國潮音)	-	-	-	-	52.7 ⁽⁵⁾	6.0%	8.8 ⁽⁵⁾	6.5%
Great Dance Crew (了不起!舞社)	-	-	-	-	-	-	53.3	39.0%
Others ⁽⁶⁾	105.3	7.9%	55.1	5.0%	53.7	6.1%	33.2	24.3%
Total	1,340.5	100.0%	1,090.1	100.0%	879.5	100.0%	136.5	100.0%

Notes:

- (1) Representing the revenue we recognized in 2020 and 2021 for “Guess the Singer! 2020” that was broadcast in 2020 and 2021.
- (2) Representing the revenue we recognized in 2019 and 2020 for “The Great Wall” that we started the production process in 2019 and the program was broadcast in 2020.
- (3) Representing the revenue we recognized in 2021 and the six months ended June 30, 2022 for “Likes! Talent” that was broadcast in 2021 and 2022.

SUMMARY

- (4) Representing the revenue we recognized in 2021 and the six months ended June 30, 2022 for “Shine! Super Brothers 2021” that was broadcast in 2021 and 2022.
- (5) Representing the revenue we recognized in 2021 and the six months ended June 30, 2022 for “IN China” that was broadcast in 2021 and 2022.
- (6) For the years ended December 31, 2019, 2020 and 2021, others comprised of variety programs other than our major programs, consisting of non-seasonal variety programs, variety programs of which we only involved in post-production and variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing. For the six months ended June 30, 2022, others comprised of variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing, and variety programs which have not been broadcast as of June 30, 2022.

The following table sets out a breakdown of our gross profit and gross profit margin by variety programs for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾
	(%)		(%)		(%)		(%)	
	<i>(RMB in millions, except for percentages)</i>							
Sing! China (中國好聲音)	228.8	46.6%	54.4	16.8%	5.6	2.2%	-	-
Street Dance of China (這!就是街舞)	38.2	20.8%	58.0	27.6%	83.5	34.9%	-	-
China’s Got Talent 2019 (中國達人秀2019)	35.7	19.5%	-	-	-	-	-	-
CHUANG (這!就是原創)	18.3	13.0%	-	-	-	-	-	-
Guess the Singer! (蒙面唱將猜猜猜) ⁽²⁾	17.9	13.5%	1.2	1.8%	1.5	6.3%	-	-
Let’s Band (一起樂隊吧)	26.6	37.9%	-	-	-	-	-	-
The Great Wall (了不起的長城) ⁽³⁾	-	-	29.1	18.4%	-	-	-	-
Guess the Dancer! (蒙面舞王)	-	-	19.2	24.0%	9.8	12.3%	-	-
Arrival of the Best-Seller! 2020 (爆款來了2020)	-	-	35.6	46.3%	-	-	-	-
Sing Along the Way (街頭音浪2020)	-	-	16.6	30.3%	-	-	-	-
King Cross 2020 (跨界歌王2020)	-	-	6.3	15.2%	-	-	-	-
Shifu Go Go Go! (出發吧,師傅!)	-	-	0.2	0.9%	-	-	-	-
Likes! Talent (點讚!達人秀) ⁽⁴⁾	-	-	-	-	2.0	1.8%	0.4	1.7%

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	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾
	(%)		(%)		(%)		(%)	
	<i>(RMB in millions, except for percentages)</i>							
Shine! Super Brothers 2021 (追光吧!2021) ⁽⁵⁾	-	-	-	-	13.7	20.0%	3.5	20.5%
IN China (中國潮音) ⁽⁶⁾	-	-	-	-	8.9	16.9%	1.5	17.0%
Great Dance Crew (了不起!舞社)	-	-	-	-	-	-	11.3	21.2%
Others ⁽⁷⁾	21.9	20.8%	1.8	3.3%	9.4	17.5%	12.3	37.0%
Total	387.4	28.9%	222.4	20.4%	134.4	15.3%	29.0	21.2%

Notes:

- (1) Gross profits and gross profit margins in this table are calculated excluding equity-settled share award expenses in cost of sales, as equity-settled share award expenses cannot be allocated to a specific program.
- (2) The overall gross profit margin of “Guess the Singer! 2020” was 3.0% after including the revenue generated and cost of sales incurred in 2020 and 2021.
- (3) The overall gross profit margin of “The Great Wall” was 15.1% after including the revenue generated and cost of sales incurred in 2019 and 2020.
- (4) The overall gross profit margin of “Likes! Talent” was 1.8% after including the revenue generated and cost of sales incurred in 2021 and the six months ended June 30, 2022.
- (5) The overall gross profit margin of “Shine! Super Brothers 2021” was 20.1% after including the revenue generated and cost of sales incurred in 2021 and the six months ended June 30, 2022.
- (6) The overall gross profit margin of “IN China” was 16.9% after including the revenue generated and cost of sales incurred in 2021 and the six months ended June 30, 2022.
- (7) For the years ended December 31, 2019, 2020 and 2021, others comprised of variety programs other than our major programs, consisting of non-seasonal variety programs, variety programs of which we only involved in post-production and variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing. For the six months ended June 30, 2022, others comprised of variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing, and variety programs which have not been broadcast as of June 30, 2022.

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The revenue of “Sing! China” program decreased from RMB490.5 million in 2019 to RMB324.5 million in 2020, and further decreased to RMB256.1 million in 2021, and the gross profit margin of “Sing! China” program decreased from 46.6% in 2019 to 16.8% in 2020, and further decreased to 2.2% in 2021, primarily due to (i) a decrease in the advertising budget of corporate customers, reflecting high economic and business uncertainty under the negative impact of COVID-19 pandemic, as well as policy or economic changes that adversely affected certain industries such as after-school tutoring and smartphones, and (ii) a decrease in licensing revenue from online media platforms, also reflecting the negative impact of COVID-19 pandemic on the economic environment.

The revenue of “Street Dance of China” program increased from RMB184.0 million in 2019 to RMB210.5 million in 2020, and further increased to RMB239.1 million in 2021, and the gross profit margin of “Street Dance of China” program increased from 20.8% in 2019 to 27.6% in 2020, and further increased to 34.9% in 2021, primarily because there have been few similar programs focusing on street dance since the launch of “Street Dance of China” as a hit dance competition show in 2018.

The revenue of “Guess the Singer!” decreased from RMB132.8 million for “Guess the Singer! 2019” to RMB88.9 million for “Guess the Singer! 2020,” and gross profit margin of “Guess the Singer!” decreased from 13.5% for “Guess the Singer! 2019” to 3.0% for “Guess the Singer! 2020,” primarily due to a decrease in the advertising budget of corporate customers, reflecting high economic and business uncertainty under the negative impact of the COVID-19 pandemic.

The revenue of “Guess the Dancer!” program remained stable at RMB79.9 million in 2021 as compared to RMB80.1 million in 2020. The gross profit margin of “Guess the Dancer!” program decreased from 24.0% in 2020 to 12.3% in 2021, primarily due to an increase in cost of sales of RMB9.2 million as corporate customers required us to increase spending on show setting and guest invitation in 2021.

“Likes! Talent,” a talent show we produced under the revenue sharing model in 2021, recorded a relatively low gross profit margin of 1.8%, primarily because it is a newly launched program and the advertising revenue is relatively modest.

Fluctuations in Financial Performance of Variety Program IP Production, Operation, and Licensing

The revenue and gross profit margin of our variety programs are affected by multiple factors, including but not limited to (i) the cooperation model we adopt for programs, (ii) our negotiation with investing media platforms, (iii) overall economic environment, and (iv) shifts in audience preferences. Therefore, our revenue and gross profit margin vary from program to program. As a result, our financial performance may fluctuate from year to year due to the inherent risk in the business model of our variety program IP production, operation and licensing. For further details, see “Risk Factors — Risks Relating to Our Business and Industries — We may be unable to adapt to changing trends in the entertainment content market in China,” “Risk Factors — Risks Relating to Our Business and Industries — The production

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and distribution of new variety programs and drama series are subject to uncertainties” and “Risk Factors — Risks Relating to Our Business and Industries — Our business depends on the continual release of successful programs and our operating results may be affected by changes in schedule or mix of our program portfolio” in this document.

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenue and results of operations. Being affected by numerous factors, such as viewer’s preferences and broadcasting platforms’ schedules, the broadcasting of our variety programs are subject to seasonal fluctuations. Typically, the level of our variety program development, production and distribution activities starts to increase in the second quarter and peaks in the second half of a year. In general, we expect our revenue, gross profit and net profit to be higher in the second half of a year than in the first half. As a result, it may not be meaningful to project our full year results from our interim results. For details, see “Risk Factors — Risks Relating to Our Business and Industries — Our operating results are subject to seasonal fluctuations” and “Financial Information — Key Factors Affecting Our Results of Operations — Seasonality.”

Music IP Operation and Licensing

We produce music recordings and music compositions during the production of our music variety programs and for our managed artists. We license the music IPs we produced to music service providers such as online music platforms, media companies and karaoke operators for licensing fees and/or royalties.

Film and Drama Series IP Operation and Licensing

As of June 30, 2022, we had a library of 757 films and owned the rights to license all the films in our film IP library for reruns, as well as the rights to produce remakes and remastered copies of some of the films. We generally license our broadcasting rights of the films for a fixed licensing fee during a specified term. We also set up a drama series development team in 2018 and produced “Reading Class” (閱讀課), a drama series based on our original screenplays. We are in the process of negotiating with different media platforms for the licensing of its broadcasting rights.

Other IP-Related Business

We have spanned our business to various IP-related fields, such as artist management, arts education and training, concert organization and production, mobile apps, consumer products and themed attractions. With respect to artist management business, we receive fixed service fees from our customers who engage our artists for concerts, tours, in-person appearances and endorsement deals and share such fees with our managed artists according to the percentages set out in the artist management contracts. We also organize concerts and generate revenue from ticket sales. With respect to arts education, the tuition fee for enrolling in the Pop Music School is set by Shanghai Institute of Visual Arts, or SIVA, an independent third party. With respect to arts training, we typically charge a fixed fee for each course or a fixed monthly fee.

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For audience who take online singing classes on our “Sing! China” app, we generally charge a fixed fee for each course taken. For licensing our IPs to consumer products brands, we usually charge our licensing partners a fixed licensing fee.

OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- Leading creator, owner and operator of entertainment IPs in China;
- Strong IP creation capabilities;
- Vibrant entertainment ecosystem benefited from efficient IP operation;
- Diversified distribution channels centered on IP promotion;
- An audience base attracted by our popular IPs;
- Global entertainment IP presence; and
- Visionary and experienced management team.

For further details, please refer to the section headed “Business — Our Strengths” in this document.

OUR STRATEGIES

We plan to continue to maintain our market leading position and expand our business outreach. To achieve our goals, we plan to execute the following strategies:

- Further strengthen our IP creation and operation capabilities;
- Further expand our audience outreach and brand influence to enhance our monetization capabilities;
- Further expand our business through mergers and acquisitions; and
- Continue to attract talents and build our team.

For further details, please refer to the section headed “Business — Our Strategies” in this document.

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RISK FACTORS

Our business and the [REDACTED] involve certain risks, which are set out in “Risk Factors” in this document. You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks that we face include:

- We may be unable to adapt to changing trends in the entertainment content market in China. If we fail to develop new entertainment contents that effectively meet the evolving needs and preferences of corporate sponsors, viewers and media platforms, our business, financial condition and results of operations could be materially adversely affected;
- The production and distribution of new variety programs are subject to uncertainties. There is no guarantee that the production or distribution of our variety programs can generate profit;
- Our business depends on the continual release of successful programs and our operating results may be affected by changes in schedule or mix of our program portfolio;
- Decline in variety programs viewership would affect our operational and financial performance;
- Information on our pipeline programs may not prove to be accurate or indicative of our future results of operations;
- We rely on the contribution of industry professionals participating in the development, production and promotion of our variety programs and other third-party suppliers of services and products. Our failure to retain the services of such professionals and suppliers, unsatisfied services provided by them or even any negative news about them in the future may materially and adversely affect our business and results of operations;
- Failure to create, operate and protect the intellectual property rights of our IPs could have a negative impact on our business, competitive position and prospects;
- Our operating results are subject to seasonal fluctuations;
- Our business operations and financial performance have been affected by the COVID-19 outbreak;
- The continuous and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services;

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- We are exposed to impairment on goodwill and other intangible assets arising from the changes in the business prospects of our acquisitions, which could adversely affect our results of operations and financial condition;
- The production and distribution of video content programs are extensively regulated in the PRC. Our failure to comply with evolving laws, rules and regulations could materially and adversely affect our business, financial condition and results of operations; and
- Legal disputes or proceedings may expose us to liabilities, divert our management’s attention and adversely affect our reputation.

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), our Ultimate Controlling Shareholders, namely CMC (Shanghai), CMC (Tianjin) (general partner of CMC (Shanghai)), Mr. Tian, Mr. Jin and Mr. Xu, through various intermediary entities, will be interested in and jointly control an aggregate of approximately [REDACTED]% of the total issued Shares held by Unionstars in our Company. In addition, Mr. Tian, our executive Director and chief executive officer, will through Harvest Sky (a company wholly owned by Mr. Tian) be interested in and control the exercise of [REDACTED]% of the total issued Shares held by Harvest Sky in our Company. The Ultimate Controlling Shareholders and their various intermediary entities have entered into the Joint Control Agreement pursuant to which they agree to exercise joint control over the Group. Accordingly, the parties to the Joint Control Agreement constitute a group of Controlling Shareholders under the Listing Rule and will collectively control the exercise of an aggregate of [REDACTED]% of voting rights in our Company upon [REDACTED]. See “Relationship with the Controlling Shareholders” for further details.

[REDACTED] INVESTMENTS

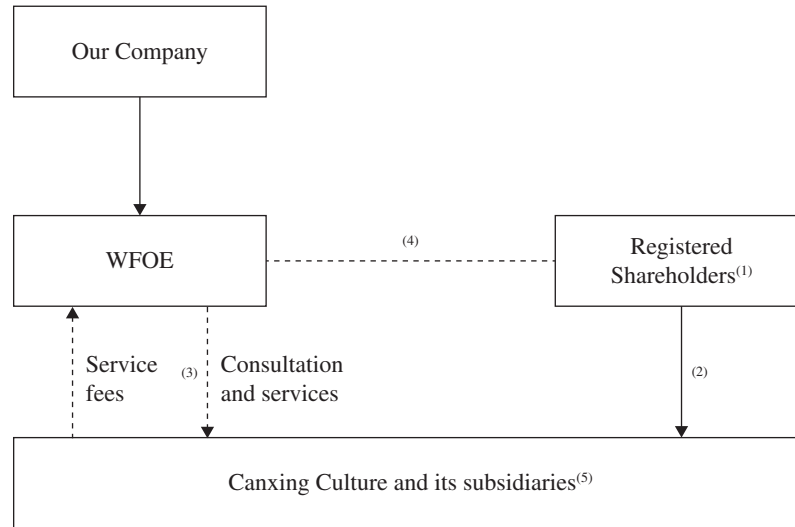
We have undertaken several rounds of [REDACTED] Investments since our establishment to raise funds for the development of our business and to bring in new shareholders. For further details of the identity and background of the [REDACTED] Investors, see “History, Reorganization and Corporate Structure — [REDACTED] Investments — Information about the [REDACTED] Investors.”

CONTRACTUAL ARRANGEMENTS

Certain businesses currently operated by our Consolidated Affiliated Entities, Canxing Culture and its subsidiaries, in the PRC are subject to foreign investment restrictions and license requirements. In order to comply with these laws, we control our Consolidated Affiliated Entities through the Contractual Arrangements. Through the Contractual Arrangements, we would gain effective control over the financial and operational matters of the Consolidated Affiliated Entities and are entitled to all the economic benefits derived from

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the businesses currently operated by our Consolidate Affiliated Entities. See “Contractual Arrangements” for further details. The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements:



Notes:

- (1) The Registered Shareholders refer to the shareholders of Canxing Culture, namely SH Xingtou, SH Zhouxing, Mr. Tian, Mr. Cao Bin and Hanfu Capital, each holding 73.71%, 23.09%, 1.77%, 0.78% and 0.65% of the total issued share capital of Canxing Culture, respectively. For further information about the Registered Shareholders, see “History, Reorganization and Corporate Structure.”
- (2) “→” denotes direct legal and beneficial ownership in the equity interest.
- (3) “-->” denotes the control by WFOE over the business of the Consolidated Affiliated Entities through the Exclusive Consulting and Services Agreements.
- (4) “---” denotes the control by WFOE over the equity interest of the Consolidated Affiliated Entities through the (i) Exclusive Purchase Option Agreements, (ii) Equity Pledge Agreements and (iii) Voting Right Trust Agreements.
- (5) As of the Latest Practicable Date, the subsidiaries of Canxing Culture included Beiyi Culture and Canxing Film. Beiyi Culture was wholly owned by Canxing Culture. Canxing Film was held by Canxing Culture as to 78% and two employees and a director of Canxing Film as to the remaining 22%.

For the risks relating to the Contractual Arrangements, see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document for further details.

IMPAIRMENT OF MXQY GOODWILL

We have conducted impairment test of goodwill on an annual basis during the Track Record Period in accordance with IFRS and recognized an impairment loss of RMB386.8 million in 2020 and an impairment loss of RMB380.7 million in 2021 in connection with the

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MXQY Goodwill resulting from the MXQY Acquisition in 2016, based on our assessment of the operational performance of MXQY at the relevant time. The MXQY Goodwill in an amount of RMB1.97 billion represents the excess of the consideration for the MXQY Acquisition over the acquisition-date fair value of the identifiable net assets acquired. Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. According to the impairment tests conducted on the MXQY Goodwill for the Track Record Period, as the recoverable amount of the cash-generating unit to which the MXQY Goodwill was allocated was lower than its respective carrying amount as at December 31, 2020 and 2021, impairment losses were recognized for the respective periods. For further details of the accounting treatment on the impairment of MXQY Goodwill, see “Financial Information — Critical Accounting Policies and Estimates — Business Combinations and Goodwill” and “Financial Information — Description of Key Statement of Profit or Loss Items — Impairment of Goodwill” and Note 16 of the Accountants’ Report in Appendix I to this document.

During the process of Canxing Culture’s previous A-share Application for listing of its shares on the ChiNext board of the Shenzhen Stock Exchange, Canxing Culture retrospectively recognized an impairment loss of approximately RMB347.6 million as at December 31, 2016 for the MXQY Goodwill in 2020. In reaching such decision, Canxing Culture had considered the results of a goodwill retrospective appraisal report on the MXQY Goodwill prepared by an independent qualified valuer which indicated that an impairment may be required, based on the difference between the estimated results of MXQY projected in the Historical Impairment Tests and MXQY’s actual operation results, its then understanding from rounds of comments on the A-share Application from the relevant regulators that an impairment loss for the MXQY Goodwill may be required and with a view to providing better protection for minority shareholders. In February 2021, the Shenzhen Stock Exchange issued a termination notice in relation to Canxing Culture’s A-share application on the grounds that, among the others, the retrospective accounting adjustment applied by Canxing Culture with respect to the goodwill resulting from the MXQY Acquisition did not reflect the actual financial position of Canxing Culture at the relevant time.

In preparation for the [REDACTED], we have engaged an independent internal control consultant to perform internal control assessment procedures in connection with our internal control of various processes which covered, among others, controls in connection with financial reporting process and intangible asset management process. The internal control consultant performed procedures in March 2021 on our overall internal control system and follow-up procedures in July 2021 with regard to the Group’s implementation of the remedial actions recommended by the internal control consultant. Having completed these procedures, the internal control consultant did not identify any material deficiencies in the internal control system of the Group. In addition, the termination of Canxing Culture’s A-share Application by the Shenzhen Stock Exchange did not imply any internal control deficiency in Canxing Culture’s financial reporting process or deviation from the relevant PRC accounting standards. Based on the above, the Directors considered that they have fulfilled their fiduciary duties and duties of skill, care and diligence and there are no matters which may affect their suitability under Rules 3.08 and 3.09 of the Listing Rules in relation to the above incident, and were not aware of any material internal control deficiency in the Company’s financial reporting process

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or any matters relating to the A-share Application which may affect the Company’s suitability for the [REDACTED]. See “History, Reorganization and Corporate Structure – Previous Listing Attempt – Previous A-share Listing Attempt – Goodwill resulting from the MXQY Acquisition” for further details.

As our consolidated financial statements have been prepared in accordance with IFRS for the [REDACTED], our Directors believe that the above issue with respect to the MXQY Goodwill is no longer applicable or subsisting. The retrospective recognition of impairment loss of RMB347.6 million for the MXQY Goodwill in 2016 was only made during Canxing Culture’s previous A-share Application under the then relevant circumstances as set out in “History, Reorganization and Corporate Structure — Previous Listing Attempt — Previous A-share Listing Attempt — Goodwill resulting from the MXQY Acquisition.” The recognition of the impairment loss of RMB386.8 million in 2020 and the impairment loss of RMB380.7 million in 2021 for the MXQY Goodwill were based on our annual impairment test on goodwill conducted for the Track Record Period in compliance with IFRS, in carrying out which we had adjusted the expected revenue generated from MXQY due to several factors including, among others, the expected decrease in market price for music copyright licensing, COVID-19 pandemic and its adverse impact on certain offline entertainment events hosted by us, expiry of contracts with certain artists we managed and change in our settlement and licensing arrangements with certain online music platforms. For further details of our annual impairment tests on goodwill conducted for the Track Record Period, see “Financial Information — Discussion of Certain Balance Sheet Items — Assets — Goodwill” in this document and Note 16 to the Accountants’ Report included in Appendix I to this document.

Our Reporting Accountants conducted their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the purposes of expressing an opinion on the Historical Financial Information as a whole, which is prepared based on the underlying financial statements of the Group for the Track Record Period. The underlying financial statements were prepared by the directors of the Company in accordance with IFRS.

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KEY OPERATING DATA

The number of our variety program IPs was 60, 70, 80 and 84 as of December 31, 2019, 2020, 2021 and June 30, 2022; the number of our music IPs was 7,070, 7,652, 8,522 and 8,549 as of December 31, 2019, 2020 and 2021, and June 30, 2022; the number of our film and drama series IP remained stable at 757 as of December 31, 2019 and 2020, respectively, increased to 758 after we concluded the production of our first drama series, “Reading Class,” as of December 31, 2021 and remained stable at 758 as of June 30, 2022.

The table below sets forth the average viewership ratings of our major TV variety programs released during the Track Record Period.

No.	Year of release	Program Name	Average viewership rating
1.	2019	Sing! China 2019 (中國好聲音2019)	1.75%
2.	2019	China’s Got Talent 2019 (中國達人秀2019)	1.3%
3.	2019	Guess the Singer! 2019 (蒙面唱將猜猜猜2019)	1.20%
4.	2019	“A Class” (同一堂課)	0.25%
5.	2020	Sing! China 2020 (中國好聲音2020)	2.52%
6.	2020	Guess the Singer! 2020 (蒙面唱將猜猜猜2020)	1.45%
7.	2020	The Great Wall 2020 (了不起的長城 2020)	1.16%
8.	2020	King Cross 2020 (跨界歌王 2020)	1.02%
9.	2020	Guess the Dancer! 2020 (蒙面舞王2020)	0.86%
10.	2021	Sing! China 2021 (中國好聲音2021)	2.32%
11.	2021	Guess the Dancer! 2021 (蒙面舞王2021)	1.42%

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document. The summary of consolidated financial data set forth below should be read together with the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

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Summary of Key Statements 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
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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%
Impairment of goodwill	-	-	(386.8)	(24.8%)	(380.7)	(33.8%)	-	-	-	-
Profit/(loss) before tax	441.5	24.4%	38.4	2.5%	(327.4)	(29.1%)	(18.2)	(11.8%)	(12.3)	(6.7%)
Income tax expense	(61.3)	(3.4%)	(66.2)	(4.2%)	(24.3)	(2.2%)	(7.2)	(4.7%)	(1.1)	(0.6%)
Profit/(loss) for the year/period	<u>380.2</u>	<u>21.0%</u>	<u>(27.8)</u>	<u>(1.8%)</u>	<u>(351.7)</u>	<u>(31.2%)</u>	<u>(25.4)</u>	<u>(16.4%)</u>	<u>(13.4)</u>	<u>(7.3%)</u>
Attributable to:										
Owners of the parent	323.4	17.9%	(8.1)	(0.5%)	(345.0)	(30.6%)	(21.8)	(11.9%)	(11.9)	(6.5%)
Non-controlling interests	56.8	3.1%	(19.7)	(1.3%)	(6.8)	(0.6%)	(3.6)	(2.0%)	(1.5)	(0.8%)
	<u>380.2</u>	<u>21.0%</u>	<u>(27.8)</u>	<u>(1.8%)</u>	<u>(351.7)</u>	<u>(31.2%)</u>	<u>(25.4)</u>	<u>(13.9%)</u>	<u>(13.4)</u>	<u>(7.3%)</u>

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.

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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
	<i>(RMB in millions, except for percentages)</i>				
	<i>(unaudited)</i>				
Profit/(loss) for the year/period	380.2	(27.8)	(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	(0.3)	(304.3)	11.2	(6.3)
Adjusted net profit/(loss) margin (non-IFRS measures)	22.48%	(0.02%)	(27.01%)	7.24%	(3.45%)

We recorded adjusted net profit (non-IFRS measures) of RMB11.2 million for the six months ended June 30, 2021, after adjusting for equity-settled share award expense of RMB27.4 million, reflecting the recognition of equity-settled share award expenses during the six months ended June 30, 2021 associated with our Canxing ESOP Plan which was terminated in May 2021. We recorded adjusted net loss (non-IFRS measures) of RMB6.3 million for the six months ended June 30, 2022, primarily due to our net losses of RMB13.4 million in the period, mainly because we incurred administrative expenses of RMB51.5 million and selling and distribution expenses of RMB9.2 million in the six months ended June 30, 2022, while most of our revenue is recognized in the second half of each year, resulting from the seasonal factors affecting the entertainment industry. See “Financial Information — Key Factors Affecting Our Results of Operations — Seasonality.”

Our adjusted net loss (non-IFRS measures) increased from RMB0.3 million in 2020 to RMB304.3 million in 2021, primarily because (i) our revenue decreased by 27.8% from RMB1,559.9 million in 2020 to RMB1,126.7 million in 2021, mainly due to a decrease in revenue generated from variety program IP production, operation, and licensing; and (ii) 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.

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We recorded adjusted net profit (non-IFRS measures) of RMB406.2 million in 2019, while we recorded adjusted net loss (non-IFRS measures) of RMB0.3 million in 2020, primarily because (i) our revenue decreased by 13.7% from RMB1,806.6 million in 2019 to RMB1,559.9 million in 2020, mainly attributable to the negative impact of COVID-19 on our variety program production; and (ii) we recorded impairment of goodwill of RMB386.8 million in 2020 in connection with our acquisitions of MXQY based on our annual assessment of its operational performance.

We recorded adjusted net profit margin (non-IFRS measures) of 7.24% for the six months ended June 30, 2021 and adjusted net loss margin (non-IFRS measures) of 3.45% for the six months ended June 30, 2022, primarily because we have adjusted net profit (non-IFRS measures) of RMB11.2 million for the six months ended June 30, 2021 and adjusted net loss (non-IFRS measures) of RMB6.3 million for the same period in 2022. Our adjusted net loss margin (non-IFRS measures) increased from 0.02% in 2020 to 27.01% in 2021, primarily due to an increase in our adjusted net loss (non-IFRS measures) from RMB0.3 million in 2020 to RMB304.3 million in 2021. We recorded adjusted net profit margin (non-IFRS measures) of 22.48% in 2019 and adjusted net loss margin (non-IFRS measures) of 0.02% in 2020, primarily because we had adjusted net profit (non-IFRS measures) of RMB406.2 million in 2019 and adjusted net loss (non-IFRS measures) of RMB0.3 million in 2020.

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, mainly attributable to the increase in the number of episodes of the new variety programs we launched in the six months ended June 30, 2022 as compared to the same period in 2021. Our revenue decreased by 27.8% from RMB1,559.9 million in 2020 to RMB1,126.7 million in 2021, primarily due to (i) a decrease in revenue generated from variety program IP production, operation, and licensing, primarily because the number of super large variety programs we produced decreased from eight in 2020 to seven in 2021, and our revenue generated from “Sing! China” decreased, mainly resulting from a decrease in the advertising budget of corporate customers, primarily due to 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 and smartphones; (ii) a decrease in revenue generated from music IP operation and licensing, primarily because we did not produce any subsequent season for “Guess the Singer!” program in 2021 and therefore produced less music IPs in association with “Guess the Singer!” program in 2021 than in 2020; and (iii) a decrease in revenue generated from film and drama series IP operation and licensing, 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 during the Track Record Period. Our revenue decreased by 13.7% to RMB1,559.9 million in 2020 from RMB1,806.6 million in 2019, mainly due to a decrease in our revenue generated from variety program IP production, operation, and licensing, primarily reflecting the negative effect of COVID-19 and an industry-wide decrease in the size of China’s variety program market. Such decrease is mainly due to (i) our revenue generated from “Sing! China” decreased, mainly due to high economic and business uncertainty under the negative effect of COVID-19; (ii) we did not produce any subsequent season for “China’s Got Talents 2019” or “CHUANG” in 2020, resulting from changes in the investing media platform’s production budget and broadcasting plan and schedules; and (iii) cancellation of offline entertainment events due to the COVID-19 pandemic.

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Profit/(loss) for the year/period

Our net losses decreased from RMB25.4 million for the six months ended June 30, 2021 to RMB13.4 million for the six months ended June 30, 2022, primarily due to the recognition of equity-settled share award expenses during the six months ended June 30, 2021 associated with our Canxing ESOP Plan which was terminated in May 2021. Our net losses increased from RMB27.8 million in 2020 to RMB351.7 million in 2021, primarily due to a decrease in our revenue generated from variety program IP production, operation, and licensing and impairment of goodwill. We recorded net loss of RMB27.8 million in 2020, while we recorded net profit of RMB380.2 million in 2019, primarily due to (i) the impairment of goodwill of RMB386.8 million we recorded in 2020 in connection with our acquisitions of MXQY based on that our assessment of its operational performance, and (ii) a decrease in revenue generated from variety programs under the revenue sharing model from RMB948.2 million in 2019 to RMB571.4 million in 2020, mainly reflecting the negative impact of COVID-19 and an industry-wide decrease in the market size of China’s variety program market.

Other Income and Gains

The table below sets forth a breakdown of our 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
	<i>(RMB in millions)</i>				
	<i>(unaudited)</i>				
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	–	–	–	–	1.6
Others ⁽¹⁾	17.5	1.6	0.2	0.9	0.4
Total	66.4	53.1	39.9	21.6	9.4

Note:

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

SUMMARY

Our other income decreased by 56.5% from RMB21.6 million for the six months ended June 30, 2021 to RMB9.4 million for the six months ended June 30, 2022, primarily due to a decrease in government grants. 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. 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 concluded litigations.

Cost of Sales

The table below sets forth a breakdown of our cost of sales 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	%
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										
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%

Note:

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

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 six months ended June 30, 2022, primarily because 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. Our cost of sales decreased by 12.3% to RMB852.4 million in 2021 from RMB972.5 million in 2020, primarily because (i) 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; (ii) 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; (iii) 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; and (iv) cost

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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. Our cost of sales decreased by 11.7% to RMB972.5 million in 2020 from RMB1,101.7 million in 2019, primarily because (i) 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; (ii) 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; (iii) 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; and (iv) 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.

We incurred a higher selling and distribution expenses and administration expenses as a percentage of revenue in the six months ended June 30, 2021 and 2022, mainly due to the seasonal factors affecting the entertainment industry and as a result, most of our revenue is recognized in the second half of each year. See “Financial Information — Key Factors Affecting Our Results of Operations — Seasonality.”

Selected Consolidated Balance Sheet Items

The following table sets forth selected information from our consolidated balance sheet as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>(RMB in millions)</i>			
Total non-current assets	2,978.2	2,546.2	2,720.9	2,883.3
Total current assets ⁽¹⁾	2,303.9	2,558.8	1,821.8	1,559.4
Total assets	5,282.1	5,105.0	4,542.7	4,442.7
Total non-current liabilities	16.0	18.3	13.5	66.8
Total current liabilities	620.5	495.7	471.2	343.6
Total liabilities	636.5	514.0	484.7	410.4
Equity attributable to owners of the parent	3,936.1	3,899.5	3,999.2	4,012.0
Non-controlling interests	709.5	691.5	58.8	20.3
Total equity	4,645.6	4,591.0	4,058.0	4,032.3
Net current assets	1,683.4	2,063.1	1,350.6	1,215.8

SUMMARY

Note:

- (1) Including the amount due from related parties of RMB335.6 million, RMB315.4 million, RMB183.8 million and RMB189.1 million as of December 31, 2019, 2020, 2021 and June 30, 2022. The amount due from related parties as of June 30, 2022 comprises solely of our amount due from 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”), which is the portion of our investment in Mengxiang Qi’an that is surplus to its registered capital. We do not plan to settle this amount due from Mengxiang Qi’an prior to or upon the [REDACTED]. For more details about our material related party transactions, see “Financial Information — Material Related Party Transactions” and Note 38 to the Accountants’ Report included in Appendix I to this document.

See “Financial Information — Discussion of Certain Balance Sheet Items” for further details.

Our net current assets slightly decreased from RMB1,350.6 million as of December 31, 2021 to approximately RMB1,215.8 million as of June 30, 2022, mainly due to (i) a decrease in trade and notes receivables primarily resulting from the collection of trade receivables of variety programs produced in 2021, and (ii) a decrease in our cash and cash equivalents.

Our net current assets decreased from approximately RMB2,063.1 million as of December 31, 2020 to approximately RMB1,350.6 million as of December 31, 2021, mainly 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 approximately RMB1,683.4 million as of December 31, 2019 to approximately RMB2,063.1 million as of December 31, 2020, mainly due to (i) an increase in cash and cash equivalents of approximately RMB251.7 million, (ii) a decrease in interest-bearing bank borrowings of approximately RMB85.0 million, and (iii) a decrease in other payables and accruals of approximately RMB85.0 million.

Our net assets slightly decreased from RMB4,058.0 million as of December 31, 2021 to RMB4,032.2 million as of June 30, 2022, mainly due to our capital reduction by non-controlling shareholders of RMB19.6 million in the six months ended June 30, 2022. Our net assets decreased from RMB4,591.0 million as of December 31, 2020 to RMB4,058.0 million as of December 31, 2021, mainly due to our total comprehensive loss of RMB364.3 million in 2021 and our dividends declared to the then shareholders of a subsidiary of RMB194.8 million in 2021. Our net assets decreased from RMB4,645.7 million as of December 31, 2019 to RMB4,591.0 million as of December 31, 2020, primarily due to our total comprehensive loss of RMB83.9 million in 2020.

SUMMARY

Summary of Consolidated Statements of 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
	<i>(RMB in millions)</i>				
	<i>(unaudited)</i>				
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 the 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 the end of the year/period	<u>651.7</u>	<u>903.4</u>	<u>547.2</u>	<u>493.4</u>	<u>437.9</u>

We recorded net operating cash inflows of RMB516.3 million, RMB398.2 million and RMB409.2 million in 2019, 2020 and 2021, respectively, and RMB231.0 million and RMB80.1 million for the six months ended June 30, 2021 and 2022, respectively. See “Financial Information — Liquidity and Capital Resources — Cash Flows” for further details of our cash flows.

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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
	<i>(unaudited)</i>				
Profitability ratios					
Gross profit margin	39.0%	37.7%	24.3%	36.7%	30.9%
Net profit/(loss) margin	21.0%	(1.8%)	(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	5.2	3.9	4.5
Quick ratio ⁽²⁾		3.7	4.9	3.6	4.1
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%

Notes:

- (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%.

SUMMARY

OUR CUSTOMERS AND SUPPLIERS

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) advertisers seeking to promote their products and services through product placements or TV commercials; (iii) music service providers that license our music IPs; (iv) TV networks and online video platforms that license our films or engage us to produce and distribute drama series; (v) corporate customers, advertising agencies and media platforms that engage us and our managed artists for concerts, tours, and in-person appearances; (vi) students who enroll in our arts education program or attend our arts training classes; and (vii) 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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
TV networks ⁽¹⁾	686.0	38.0%	568.4	36.4%	259.8	23.1%	24.7	16.0%	2.2	1.2%
Online video platforms ⁽²⁾	577.7	32.0%	493.2	31.6%	569.2	50.5%	16.0	10.4%	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%

Notes:

- (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.

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For the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, our revenues attributable to our five largest customers in each year/period during the Track Record Period were RMB1,366.1 million, RMB1,087.9 million, RMB867.1 million and RMB142.4 million, respectively, which accounted for approximately 75.6%, 69.7%, 77.0% and 78.0% of our total revenue for the corresponding periods, respectively. For details, see “Business — Our Customers.”

During the Track Record Period, our suppliers primarily consisted of (i) media platforms and advertising agencies that provide us with time slots for commercials; (ii) third-party service providers providing production services for our variety programs; (iii) talent coordination companies or media platforms for program casting; and (iv) composers and lyricists who license their rights to us. For the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, our purchases attributable to our five largest suppliers in each year/period during the Track Record Period were RMB172.3 million, RMB176.3 million, RMB174.8 million and RMB40.0 million, respectively, which accounted for approximately 16.3%, 18.4%, 22.1% and 32.4% of our total purchase for the corresponding periods, respectively. For details, see “Business — Our Suppliers.”

IMPACT OF COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. Since early 2020, mainland China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, governments have implemented, among other measures, restrictions on mobility and travel and cancellation of public activities, to contain the spread of the virus. Such measures resulted in a decline of the global entertainment market as well as the movie market in China in 2020. The global entertainment market experienced growth with a CAGR of 5.8% between 2017 and 2019, reaching US\$370.7 billion in 2019. In 2020, global entertainment market decreased by 9.7% to US\$334.6 billion due to the negative influence of COVID-19. The number of movie audience recorded considerable growth between 2017 and 2019, resulting in an increase of market size from RMB61.1 billion in 2017 to RMB75.7 billion in 2019. Due to the COVID-19 pandemic, especially social distancing measures such as temporary closure of theaters, the movie market in China plummeted in 2020 with a market size of RMB33.2 billion and increased in 2021 with a market size of RMB58.3 billion. 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, please see “Industry Overview — Global Entertainment Market and China Pan-Entertainment Market” and “Industry Overview — Drama Series and Movie Market in China.”

During the first outbreak of the COVID-19 pandemic, various strict restrictions were implemented to halt the outbreak. As social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities where our offices and facilities were located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent that onsite services of our employees were required. The ongoing business and travel restrictions

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have also significantly impacted the availability of participants of our variety programs, the uncertainty of which in turn affected the production and broadcasting schedules of pipeline programs and programs under production. As a result of the foregoing, several of our popular variety programs, such as “Sing! China” and “Street Dance of China,” experienced a delay ranging from one to two months in their production and broadcasting schedules in 2020 and 2021, 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.

In response to the outbreak, we took a series of measures to protect our employees and program participants, which incurred additional production cost. For example, we incurred additional cost in providing COVID-19 testing and paying for quarantine expenses for program participants as well as some of our employees during the production of several of our variety programs, including “Street Dance of China 2020” and “Sing! China 2020.” Government measures on travel and closure of facilities prevented certain guest actors and actresses from attending the production process as well as the unavailability of 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.

In addition, 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 from variety program IP production, operation, and licensing. 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, please see “Financial Information — Discussion of Certain Balance Sheet Items — Assets — Goodwill” in this document. Our revenue decreased by 13.7% to RMB1,559.9 million in 2020 from RMB1,806.6 million in 2019, 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. For details, please see “Financial Information — Period to Period Comparison of Results of Operations” in this document.

Furthermore, the travel restrictions resulted in the reduction in size or even cancellation of our concerts and offline events. For example, in 2020, we canceled a series of concerts 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, which resulted in a decrease in our revenue in 2020. As a result of the foregoing, 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 “Financial Information — Period to Period Comparison of Results of Operations” in this document.

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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, because of the resurgence of COVID-19 cases in Shanghai and its vicinity, where we plan to film for six of our variety programs, we had to find and rent production studios in cities located further from where we operate. In addition, our employees had to be quarantined when they traveled from Shanghai to the replacement production studios. Despite our efforts, the production and broadcasting schedules for at least five of our pipeline variety programs have been 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 further development as a global pandemic. Should there be a resurgence of the virus, China may again take emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions. Such measures may have a long-term impact on our program production and schedules. In addition, bleak economic outlooks under the continuous impact of COVID-19 may also affect the confidence of corporate customers and may affect the advertising sales of our variety programs. Therefore, 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.”

COMPLIANCE AND LITIGATION

We may be subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time.

Ongoing Litigations

As of the Latest Practicable Date, we were the defendant in two material pending litigations with an aggregate claim amount of approximately RMB127.0 million.

The ongoing litigation with MBC initiated in July 2020

In February 2016, we entered into an agreement with MBC (the “February 2016 Agreement”), under which MBC agreed to provide program licensing services in exchange for a program licensing fee of US\$2.8 million per season to jointly produce seasons two to four

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of a variety program, “King of Mask Singer (蒙面歌王),” with us. Under the February 2016 Agreement, MBC shall license the program format of “King of Mask Sing” to us. We shall have the exclusive right to use the original program format to produce a Chinese version of “King of Mask Singer” seasons two to four, which is scheduled to be made in 2016, 2017 and 2018, respectively. MBC agreed to send a team of its production professionals, including directors, lighting designers, cinematographers and production designers, to China to provide consulting services to us during our program production and participate in the program production. We were entitled to up to 12 on-site consultations with MBC’s directors during the term of the contract, and the other professionals were obligated to participate in the production of all episodes of the three programs. The fee for the license of the program format and for the production consulting services was US\$2.8 million per season. We paid MBC a down payment of US\$4.2 million. We would co-own the copyrights and neighboring rights of “King of Mask Singer” seasons two to four with MBC.

In June 2016, the NRTA issued a notice that limited the number of programs based on foreign program format that can be broadcast on satellite TV networks to one per year. This limitation also applies to programs co-developed with foreign parties in which the Chinese party does not own the intellectual property rights in the program. Against this background, we and MBC entered into a supplemental agreement in October 2016 (the “Supplemental Agreement”). Under the Supplemental Agreement, parties clarified that the service to be provided under the February 2016 Agreement was production consulting services and parties agreed to co-develop a music variety program in 2016, as well as two subsequent seasons. The fee that MBC is entitled to was lowered to US\$1.6 million for the program to be produced in 2016. MBC agreed to return the remaining US\$2.6 million of our down payment, which was used to settle our down payment for “Outdoor Reality Show (戶外真人秀).” The copyright of the program to be produced in 2016 would belong to us, including but not limited to the program format, logo and program name. The Supplemental Agreement provided that the obligations for both parties would not apply to any subsequent seasons of the music variety program if we could not obtain the written approval from competent government authorities approving joint development of variety programs by Chinese companies and Korean companies. As such written approval was not obtained in 2017 or 2018, we did not produce any subsequent seasons or pay production consulting services fee to MBC in this regard. Despite the signing of the Supplemental Agreement and the down payment of US\$1.6 million we paid, MBC failed to provide the production consulting services for the music variety program as agreed.

From 2016 to 2018, we developed and produced “Guess the Singer! 2016,” “Guess the Singer! 2017” and “Guess the Singer! 2018” without the involvement of MBC. In July 2020, MBC brought a lawsuit against us to the Primary People’s Court of Xuhui District of Shanghai Municipality for breach of contract, claiming an aggregate amount of approximately RMB110.0 million from us, consisting of (i) program licensing fee, (ii) revenues generated from the licensing of broadcasting rights, advertising sales, and licensing of tie-in merchandise in relation to “Guess the Singer! 2016,” “Guess the Singer! 2017” and “Guess the Singer! 2018” which we produced, and (iii) damages for breach of contract, liquidated damages for late payment and litigation expenses. In January 2021, we filed a counterclaim against MBC,

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requesting MBC to return the US\$1.6 million we paid as part of the down payment and to pay us US\$480,000 in damages for breach of contract. As of the Latest Practicable Date, the lawsuit was in the first instance and the court did not render judgment on this case. As advised by our litigation counsel, the court is expected to enter into judgment in 2022.

Our Directors are of the view that this ongoing lawsuit would not have a material impact on our operations or financial condition because as advised by our PRC Legal Advisor and our litigation counsel, (i) the claims of MBC are without merits; (ii) the claims of MBC only involve disputes regarding contract payments under the “February 2016 Agreement” and the “Supplemental Agreement,” and do not involve our ownership of intellectual property rights in “Guess the Singer! 2016,” “Guess the Singer! 2017,” or “Guess the Singer! 2018;” (iii) we independently produced “Guess the Singer! 2016,” “Guess the Singer! 2017,” and “Guess the Singer! 2018,” which are our original variety programs, and have the copyright in the trademarks, program scripts, and program settings in association with such programs; (iv) the aggregate amount demanded by MBC in the “King of Mask Singer” case is approximately RMB110.0 million; even if the courts award any damages to MBC in the final judgment, we would have sufficient resources to pay any damages related to the lawsuit considering our sizable revenue and sufficient cash on hand; (v) in our past contract disputes with MBC, MBC had consistently claimed a much higher amount than what was awarded in the final settlement or judgment; for example, in our concluded contract dispute with MBC in 2020 regarding the first season of “King of Mask Singer,” MBC’s initial claim is more than six times the amount awarded to it by China International Economic and Trade Arbitration Commission (CIETAC), and in our concluded contract dispute with MBC in 2019 regarding “Great Challenge (了不起的挑戰),” MBC’s initial claim is more than six times the amount awarded by the First Intermediate People’s Court of Shanghai Municipality; and in our concluded contract dispute with MBC in 2022 regarding “Outdoor Reality Show,” MBC’s initial claim is more than four times the amount awarded by the First Intermediate People’s Court of Shanghai Municipality and the Shanghai High People’s Court; (vi) we do not have on-going cooperation arrangements with MBC since November 2016; and (vii) SH Xingtou, SH Zhouxing and Mr. Tian have provided an undertaking to jointly and severally indemnify us, in proportion to their respective shareholding percentage in Canxing Culture, against any losses arising from this ongoing litigation with MBC to the extent of the amount awarded in the final judgment or settlement of this litigation.

Because MBC’s claims are without merits, and the amount claimed by MBC is unreasonably high and groundless, our litigation counsel has advised us that the possibility that the competent court will support such amount in full is remote. Based on the foregoing, we did not make provision for this ongoing lawsuit.

The ongoing litigation with Hummingbird Music Ltd. (蜂鳥音樂有限公司, or “Hummingbird”)

In 2016, an artist participated in the production of three episodes of “Heroes of Remix (蓋世英雄)”. In July 2022, the artist’s then management company, Hummingbird, brought a lawsuit against us at the Primary People’s Court of Changning District of Shanghai, claiming

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performance service fee of RMB16.3 million and attorney’s fee of RMB200,000. We are actively defending ourselves against Hummingbird’s claims based on the argument that the parties did not reach an agreement and enter into a legally-binding contract. As of the Latest Practicable Date, the lawsuit was in the first instance and the court did not render judgment on this case.

We did not pay the artist as the artist had not asserted the right to payment for performance. We have maintained a good cooperative relationship with the artist, who participated in two variety programs we produced in 2021 and 2022 after “Heroes of Remix.” For both programs, we paid the performance fees to the artist’s current management company without any disputes.

As advised by our litigation counsel, the claims by Hummingbird are without merits, on the basis that, (i) Hummingbird’s claims are time-barred; (ii) there was no effective performance contract between Hummingbird and us; and (iii) Hummingbird does not have the right to receive performance service fee on behalf of the artist, as its management contract with the artist had terminated several years before Hummingbird brought this lawsuit. Our litigation counsel further advised us that the amount claimed by Hummingbird in the lawsuit is unreasonably high and groundless, and the likelihood that the competent court will support such amount in full is remote. Based on the foregoing, we did not and will not make provision for this ongoing litigation.

Our Directors are of the view that this ongoing lawsuit would not have a material adverse impact on our operations or financial condition, because (i) as advised by our litigation counsel, the claims of Hummingbird are without merits; (ii) the claims of Hummingbird only involve dispute regarding contract payment and do not involve our ownership of intellectual property rights in the relevant variety program; (iii) even if the court awards any damages to Hummingbird in the final judgment, we would have sufficient resources to pay any damages related to the lawsuit considering our sizable revenue and sufficient cash on hand; (iv) we had not have on-going cooperation arrangements with Hummingbird since 2016; and (v) SH Xingtou, SH Zhouxing and Mr. Tian have provided an undertaking to jointly and severally indemnify us, in proportion to their respective shareholding percentage in Canxing Culture, against any losses arising from this ongoing litigation with Hummingbird to the extent of the amount awarded in the final judgment or settlement of this litigation.

Concluded Litigations and Arbitration

During the Track Record Period and up to the Latest Practicable Date, we were involved in the following concluded material litigations and arbitration.

The litigation with MBC concluded in August 2022

In October 2016, we entered into an agreement with MBC, under which MBC agreed to jointly develop a variety program, “Outdoor Reality Show (戶外真人秀),” with us (the “October 2016 Agreement”). Under the Agreement, we are the sole owner of the copyrights in

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“Outdoor Reality Show.” In the Supplemental Agreement we entered into with MBC in the same month, we and MBC agreed that RMB2.6 million of our down payment to MBC under the February 2016 Agreement was used to settle our payment to MBC under the October 2016 Agreement. However, MBC did not collaborate with us to develop “Outdoor Reality Show” or render us production consulting services as agreed after signing the agreements.

We initiated a lawsuit against MBC in April 2019 at the First Intermediate People’s Court of Shanghai Municipality for a judgment ordering MBC to return us the production consulting services fee of US\$2.6 million and pay the damages for breach of contract of US\$520,000. In July 2020, MBC filed a counterclaim against us, claiming that it participated in the production of “Awesome Challenge — Amazing (我們的挑戰),” a variety program developed and produced by us. MBC claimed an aggregate amount of approximately RMB47.5 million from us, primarily covering production fee, penalty for breach of contract, and accrued interests for overdue payment. In September 2021, the First Intermediate People’s Court of Shanghai Municipality, in its capacity as the court of first instance, ruled that MBC had partially participated in the production of the variety program “Awesome Challenge — Amazing.” The court ordered us to pay production consulting services fee of RMB10.0 million and accrued interest for overdue payment to MBC. The court overruled other claims of MBC and ours. We had appealed against the judgment of the first instance on October 11, 2021. On November 11, 2021, we were notified that MBC had appealed against the judgment of the first instance on October 13, 2021. The Shanghai High People’s Court, which is the court of the second instance, affirmed the ruling of the court of the first instance in August 2022. SH Xingtou, SH Zhouxing and Mr. Tian have provided an undertaking to jointly and severally indemnify us, in proportion to their respective shareholding percentage in Canxing Culture, against any losses arising from this litigation to the extent of the difference between the amount awarded in the final judgment of this litigation and the provision of RMB10.0 million, which we had made for this litigation as of the date of the undertaking. As of the Latest Practicable Date, we had not paid the RMB10.0 million awarded by the court, as we were awaiting MBC to provide us with its account information.

The arbitration with MBC concluded in April 2020

In May 2015, we entered into an agreement with MBC, under which we licensed the program format from MBC to produce “King of Mask Singer (蒙面歌王)” season one and entered into two supplemental agreements in the same month (collectively, the “May 2015 Agreement”). Under the May 2015 Agreement, we shall pay MBC a licensing fee for the program format and share with MBC the revenue of the program from advertising sales and broadcasting right licensing, after deducting costs in association with program production. We and MBC had disputes regarding how much MBC is entitled to with respect to the revenue generated from advertising sales of the program. In March 2019, the CIETAC accepted MBC’s submission to arbitration for breach of the May 2015 Agreement. MBC claimed an aggregated amount of RMB35.0 million. In April 2020, the CIETAC awarded RMB5.8 million to MBC, which is less than one sixth of the amount claimed by MBC, and the arbitration was subsequently concluded.

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The litigation with MBC concluded in June 2021

In June 2015, we entered into an agreement with MBC, under which we licensed the program format from MBC to produce “Great Challenge (了不起的挑戰),” and one supplemental agreement in May 2016 (collectively, the “June 2015 Agreement”). Under the June 2015 Agreement, we shall pay MBC a licensing fee for the program format and a production service fee, and share with MBC the revenue of the program from advertising sales and licensing of broadcasting rights, after deducting costs in association with program production. We and MBC had disputes regarding how much MBC is entitled to with respect to the revenue generated from advertising sales and broadcasting rights licensing of the program. In January 2019, MBC initiated a lawsuit against CCTV Creative Media Co., Ltd. (央視 創造傳媒有限公司) and us for breach of the June 2015 Agreement, with respect to the allocation of revenue from advertising sales and broadcasting right licensing of the program at the First Intermediate People’s Court of Shanghai Municipality. MBC claimed an aggregate amount of RMB49.3 million. In June 2021, the First Intermediate People’s Court of Shanghai Municipality awarded an aggregate amount of RMB8.1 million to MBC and the litigation was subsequently concluded.

We implemented internal control policy to better standardize our contracting process and to prevent the recurrence of similar disputes in 2016. Pursuant to the policy, (i) our legal team shall participate in whole process of contract negotiation and to identify potential legal risks; and (ii) our management shall oversee the performance and fulfillment of the contracts, and address potential problems in a timely manner. During the Track Record Period and up to the Latest Practicable Date, we did not enter any contracts which resulted in similar disputes in relation to program production.

RECENT DEVELOPMENTS AND 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 our financial or operational positions or prospects 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.

After June 30, 2022 and until the Latest Practicable Date, five variety programs were initially broadcast, which are “E-POP of China (超感星電音),” “Guess the Dancer! 2022,” “Sing! China 2022,” “Street Dance of China 2022” and “HAHA A Day (百川可逗鎮).” We released “E-POP of China” in July 2022 on Youku, which is a music variety program featuring electronic music, with 11 episodes. “Guess the Dancer! 2022,” our dance variety program which is the third season of its series, was released in July 2022 on Jiangsu Satellite TV. “Sing! China 2022,” our music competition show for singers and the eleventh season of its series, was released in August 2022 on Zhejiang Satellite TV. “Street Dance of China 2022,” our street dance competition show and the fifth season of its series, was also released in August 2022 on Youku. “HAHA A Day” was released in late August 2022 on Douyin, which is a variety

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program featuring the search by program participants for ways to relieve stress in their daily life. During the same period in 2021, five variety programs were initially broadcast, which were “Let’s Dance! 2021 (師父!我要跳舞了2021),” “Sing! China 2021,” “Guess the Dancer! 2021,” “Street Dance of China 2021,” and “Likes! Talent.”

We have 12 variety programs released or to be released subsequent to the Track Record Period, including the first season of six new variety programs and the new season of six existing variety programs. Among them, ten are super large variety programs. The table below sets forth the details of the five variety programs released and the seven variety programs to be released.

Genre	Program	Format	Frequency	Release time/ Expected release time	Primary broadcasting platform/ Planned primary broadcasting platform	Expected cooperation model
<i>Music Variety Program</i>						
1.	E-POP of China (超感星電音)	Music variety program featuring electronic music	Seasonal	July 2022	Youku	Revenue sharing model
2.	Remember Me (百 川樂時空)	Music variety program featuring singers	Seasonal	4th quarter 2022	A top online video platform	Commissioned production model
3.	Guess the Singer! 2023	Guess the singer challenge	Seasonal	1st quarter 2023 or after	A leading satellite TV network	Revenue sharing model
4.	Sing! China 2022	Music competition show for singers	Seasonal	August 2022	Zhejiang Satellite TV	Revenue sharing model
5.	Program A	Outdoor music and culture variety program	Seasonal	4th quarter 2022	A top online video platform	Commissioned production model
<i>Dance Variety Program</i>						
6.	Guess the Dancer! 2022	Guess the dancer challenge	Seasonal	July 2022	Jiangsu Satellite TV	Revenue sharing model
7.	Street Dance of China 2022	Street dance competition show	Seasonal	August 2022	Youku	Revenue sharing model
8.	Great Dance Crew 2023	Dance variety program	Seasonal	1st quarter 2023	A top online video platform	Revenue sharing model

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Genre	Program	Format	Frequency	Release time/ Expected release time	Primary broadcasting platform/ Planned primary broadcasting platform	Expected cooperation model
<i>Talent Show</i>						
9.	China's Got Talent 2023	Talent show	Seasonal	1st quarter 2023	A leading satellite TV network	Revenue sharing model
10.	HAHA A Day (百川可逗鎮)	Variety program featuring talents	Seasonal	August 2022	Douyin	Commissioned production model
11.	Program B	Outdoor variety program featuring talents	Seasonal	1st quarter 2023 or after	A top online video platform	Commissioned production model
<i>Talk Show</i>						
12.	Program C	Talk show	Seasonal	4th quarter 2022 or 1st quarter 2023	A leading satellite TV network or a top online video platform	Revenue sharing model

Recent Regulatory Developments

Regulations Relating to Cultural and Entertainment Content

In 2021, the government authorities issued several notices and circulars to further strengthen the management of cultural and entertainment programs and entertainment industry, including Notice on Further Strengthening the Regulation on Chaos in the “Fan Circle” (《關於進一步加強“飯圈”亂象治理的通知》) issued by the Office of the Central Cyberspace Affairs Commission in August 2021, and the Circular on Further Strengthening the Management of Cultural and Entertainment Programs and Industry Participants (《關於進一步加強文藝節目及其人員管理的通知》) issued by the National Radio and Television Administration in September 2021. For details, see “Regulations – Regulations in Relation to Production and Distribution of Television Programs – Content Review and Regulation.” To the best knowledge and belief of our Directors, after the release of the circulars and notices and up to the Latest Practicable Date, our variety programs did not include any mechanisms which allow audience to purchase vote or encourage audience to spend money in shopping merchandise or subscribe membership to obtain votes, nor did our variety programs present any harmful information.

To better comply with the latest content and format requirement, we have taken a combination of measures, including: (i) keeping our director’s team and technical team informed of the latest regulatory development so that they can all comply with the recent regulatory changes in the pre-production, production and post-production stages of the programs; (ii) conducting a thorough review of our pipeline programs to identify and remove any content that has potential non-compliance issues; (iii) regularly reviewing the marketing

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and promotional materials for our variety programs to identify and avoid any potential non-compliance issues; (iv) implementing internal policies to avoid potential issues related to “fan circle” and other activities prohibited by the recent notices; (v) keeping abreast of the development of the regulations and policies and keeping our artist management team informed of the latest regulatory development to identify and avoid potential issues related to “fan circle” in relation to their artist management activities; and (vi) instructing our legal team to pay special attention to the recent regulatory development in reviewing contracts, to identify and avoid potential non-compliance.

To comply with the above-mentioned regulatory requirements and policies, we canceled our plan to enter into the contract for a planned variety program. As we had not started the production process, we did not incur any loss for the canceled planned program. Our Directors believe that other than this canceled plan, all the variety programs in our program pipeline were in compliance with the recently published regulations, and we did not cancel or materially modify any other variety programs in our pipeline due to the regulatory developments as of June 30, 2022 and up to the Latest Practicable Date.

Our Directors, as advised by our PRC Legal Advisor, believe that the recent regulatory developments have not and will not materially affect our Group’s operation and financial performance, because (i) other than the canceled plan mentioned above, the programs in our program pipeline did not fall under one of the categories that were prohibited under the recent regulatory developments; (ii) we did not incur loss for the canceled plan; and (iii) none of the variety programs we produced during the Track Record Period fall under one of the categories that were prohibited under the recent regulatory developments.

Based on the confirmation of our Company and the public search, our PRC Legal Advisor is of view that we had substantially complied with each of the above regulations and policies since they were implemented and up to the Latest Practicable Date.

Having taking into account the grounds as set out above and based on the due diligence work conducted by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

Regulations Relating to Restriction of Wages

On October 31, 2018, the NRTA issued the Notice on Further Strengthening the Administration of Radio, Television and Online Audio-Visual Cultural and Art Programs (《關於進一步加強廣播電視和網路視聽文藝節目管理的通知》) (the “Maximum Wage Order”), which requires media platforms and content production companies to strictly enforce the requirement on the allocation of production cost such that the total remuneration of all actors and actresses for each variety program shall not exceed 40% of the total production cost, and the remuneration of the major actors and actresses shall not exceed 70% of the total

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remuneration of the actors and actresses. Content production companies and broadcasting platforms of variety programs shall submit reports disclosing the payments to all actors and principal actors to the competent authorities for review before the programs being launched.

We had been in compliance with the Maximum Wage Order since its implementation and the reports have been submitted in due course before the programs we produced are launched. Our legal department is responsible for reviewing the contracts with actors to ensure their compliance with the Maximum Wage Order. Our Directors, as advised by our PRC Legal Advisor, are of the view that the Maximum Wage Order has no material adverse impact on our operation and financial performance. During the Track Record Period and up to the Latest Practicable Date, we had not been subject of any review, inquiry, or investigation by any PRC regulatory authority pursuant to the Maximum Wage Order. Based on the above, we and our managed artists and their related entities had complied with the Maximum Wage Order in all material aspects during the Track Record Period.

Having taken into account the grounds as set out above and based on the due diligence work conducted by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

As advised by our PRC Legal Advisor, according to the Legislative Law of the PRC, which provides that unless otherwise provided for relevant prescribed purposes, PRC laws, administrative regulations, local regulations, autonomous regulations, special regulations, administrative rules or local rules do not have retrospective effect, the above regulations and rules in relation to cultural and entertainment content and restriction of wages shall have no retrospective effect.

Regulations Relating to Artists Management

On May 20, 2022, the NRTA issued the Administrative Measures for Performance Agencies in the Field of Radio, Television and Online Audiovisual Platforms (《廣播電視和網絡視聽領域經紀機構管理辦法》). For details, see “Regulations – Regulations in Relation to Production and Distribution of Television Programs – Artists Management.”

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge and belief of our Directors, we were in compliance with the requirements under the above-mentioned regulation and had not been the subject of any review, inquiry, investigation or punishment by any PRC regulatory authority pursuant to the above notice, and our Directors believe that this notice has not and will not materially affect our Group’s operation and financial performance.

Having taken into account the grounds as set out above and based on the due diligence work conducted by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

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Regulations Relating to Anti-trust Control

In February 2021, the SAMR promulgated the Guidelines to Anti-Monopoly in the Field of Internet Platforms (《關於平台經濟領域的反壟斷指南》), aiming to improve anti-monopoly administration on online platforms. On July 24, 2021, the SAMR issued an administrative decision to a certain online music platform, requiring it to relinquish its exclusive music licensing contracts held with its suppliers, which encourages distribution of music works on a wider selection of platforms. On January 6, 2022, the National Copyright Administration (“NCAC”) held a regular talk with influential market players in the digital music industry, emphasizing that, among other things, online music platforms shall not sign exclusive music licensing contracts except under a limited number of special circumstances (collectively, with the Guidelines to Anti-Monopoly in the Field of Internet Platforms and the administrative decision issued by SAMR on July 24, 2021, the “Anti-trust Control Measures”).

Our revenue attributable to non-exclusive music licensing agreements accounted for 13.1%, 20.9%, 62.2% and 100.0% of our revenue from music IP operation and licensing in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our revenue attributable to exclusive music licensing agreements accounted for 86.9%, 79.1%, 37.8% and nil of our revenue from music IP operation and licensing in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Since the Anti-trust Control Measures were implemented and up to the Latest Practicable Date, we had not been subject of any inquiries, comments, instructions, guidance, notices, warnings, sanctions, or investigations by any PRC regulatory authority pursuant to the Anti-trust Control Measures and were not identified as an online music platform. Based on the confirmation of our Company, our PRC Legal Advisor is of the view that we had substantially complied with the Anti-trust Control Measures since they were implemented and up to the Latest Practicable Date.

In light of the Anti-Trust Control Measures, we entered into a non-exclusive music licensing contract with a leading online music platform in China in September 2021, while we previously entered into an exclusive music licensing contract with this online music platform in 2018. The aggregate licensing fees under the new non-exclusive licensing contract are lower than those of the previous exclusive licensing contract, which was a factor that we considered when we determined a reduction in MXQY unit’s recoverable amount in the goodwill impairment in 2021. For more details, see “Financial Information — Discussion of Certain Balance Sheet Items — Assets — Goodwill.” Our Directors expect that granting non-exclusive licenses would allow us to enter into licensing contracts with more music service providers to expand our customer base and enhance our resilience to changes in the music market in China in the long term. In the short term, we do not expect such new non-exclusive licensing contracts to generate as much revenue as the exclusive contract in the past, as we expect 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.

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Having taken into account the grounds as set out above and based on the due diligence work conducted by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

Regulations Relating to Overseas Listing

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)), and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行上市備案管理辦法(徵求意見稿)) (the “Draft Overseas Listing Filing Measures”, collectively, the “Draft Regulations on Listing”). As of the Latest Practicable Date, the Draft Regulations on Listing were in draft form and had not come into effect.

The Draft Regulations on Listing, if adopted in its current form, will require that, among other things, domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information with the CSRC. The issuer must submit to the CSRC filing documents within three working days after an application for initial public offering to competent overseas regulators is submitted.

At the press conference held for the Draft Regulations on Listing on December 24, 2021, officials from the CSRC clarified that implementation of the Draft Regulations on Listing will follow a non-retrospective approach, which indicates that only new initial public offerings and refinancing by existing overseas-listed Chinese companies will be required to go through the filing process to start with. In addition, the new regulations and rules will allow a proper transition period for other existing overseas-listed Chinese companies. Further, the officials from the CSRC confirmed that companies with VIE structure that comply with the applicable PRC laws and regulations can still conduct overseas offering and listing upon the completion of the requisite procedures.

Pursuant to the Draft Regulations on Listing, an overseas offering and listing of a PRC company is prohibited under any of the following circumstances, if (i) it is prohibited by PRC laws and regulations, (ii) it may constitute a threat to or endanger national security as determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese domestic companies and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council. As advised by our PRC Legal Advisors, as of the Latest Practicable Date, there are no explicit PRC laws and regulations currently in effect which prohibit us from [REDACTED] and [REDACTED] in an overseas stock exchange.

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Furthermore, based on public search against our subsidiaries and Consolidated Affiliated Entities, their controlling shareholders and actual controllers, and their directors, supervisors and senior executives in the PRC conducted by our PRC Legal Advisor and to the best of our knowledge, as of the Latest Practicable Date, our subsidiaries and Consolidated Affiliated Entities, their controlling shareholders and actual controllers, as well as their respective directors, supervisors and senior executives in the PRC have not been involved in relevant criminal offences or administrative penalties that would prohibit us from conducting overseas [REDACTED] under the Draft Regulations on Listing.

According to our PRC Legal Advisor, as of the Latest Practicable Date, there are no laws, regulations or regulatory documents cited by the CSRC in effect that would explicitly subject us to filing procedures for our [REDACTED] in Hong Kong. NDRC clarified in a press conference held on January 18, 2022 that the scope of application of Article 6 of the Special Administrative Measures (Negative List) for Foreign Investment Market Access, 2021 Version (外商投資准入特別管理措施(負面清單)2021年版) (the “Negative List 2021”) is limited to the direct overseas listing of domestic enterprises engaged in business in the areas of investment. According to the definition in the Draft Regulations on Listing, our proposed [REDACTED] is an indirect overseas issuance. In addition, during the Track Record Period, there have not been any material non-compliance incidents of our Company discovered from the review of the compliance status in relation to foreign investment, cybersecurity, and data security in all material aspects and we have duly performed our duty of safeguarding national security. As of the Latest Practicable Date, we had not received any inquiries, comments, instructions, guidance, notices, warnings, sanctions or other concerns regarding the overseas [REDACTED] plan or our Contractual Arrangements from the CSRC or any other PRC government authorities in terms of our compliance with the proposed filing requirement under the Draft Regulations on Listing.

Once the Draft Regulations on Listing are promulgated and implemented, we will, if necessary, immediately comply with the filing procedures in effect. Considering the above, our Directors, as advised by our PRC Legal Advisor, are of the view that the Draft Regulations on Listing will not have a material and adverse impact on our business operations and the [REDACTED] if they are implemented in their current forms, and our Contractual Arrangements will not constitute a legal obstacle to [REDACTED] under the Draft Regulations on Listing. For further details, see “Regulations – Regulations in Relation to Overseas Listing” in this document.

Having taken into account the grounds as set out above and based on the due diligence work conducted by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

Regulations in Relation to Data Privacy and Protection Regulation

On December 28, 2021, the Cyberspace Administration of China (the “CAC”) jointly issued the Cybersecurity Review Measures with other government authorities, which became effective on February 15, 2022 (“Review Measures”). The Review Measures provide that a

SUMMARY

critical information infrastructure operator purchasing network products and services, and network platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. It also provides that a network platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. However, the Review Measures do not provide the standard of “affect or may affect national security.” As of the Latest Practicable Date, we were not identified as a “critical information infrastructure operator” by any governmental authorities.

On November 14, 2021, the CAC issued the “Regulations on the Administration of Cyber Data Security (Draft for Comments)” (“Draft Regulations”) for public comment, which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. For details, see “Regulations – Regulations in Relation to Data Privacy and Protection.” As of the Latest Practicable Date, the Draft Regulations have not yet been formally promulgated and therefore not become effective.

We are committed to protecting the personal information and privacy of our registered users. Our IT department is responsible for the execution of cybersecurity and data protection measures and procedures. We have established a cybersecurity and data protection system pursuant to the Cybersecurity Law of the PRC, the Data Security Law of the PRC, the Personal Information Protection Law of the PRC and other relevant regulations laws. We require any access to or processing of personal information to go through a strict assessment and approval procedures and relevant personnel must sign confidentiality agreements in order to assure that only valid and legitimate requests are executed. In addition, we have implemented internal policies, such as internal policies on IT backup and recovery management system to keep the information safe and internal IT-related emergency response plan to prevent potential incidents or emergent accidents and make preparation and responses ahead.

During the Track Record Period and up to the Latest Practicable Date, our Company had not received any data security related enquiries and has not been subject to any notices, warnings, or sanctions imposed by any regulatory authorities due to cybersecurity concerns.

The Company’s PRC Legal Advisor and the PRC legal advisors of the Joint Sponsors jointly conducted a phone consultation with the China Cybersecurity Review Technology and Certification Center (the “Center”). During the consultation, the Center confirmed that (i) it is an authorized department by CAC to conduct consultation for cybersecurity review-related issues, (ii) its responses are authorized by CAC and are allowed to be disclosed that the Company can refer to the consultation for implementations, (iii) the Draft Regulations are only draft for comments at present without legal effect, and (iv) the Company is not required to apply for a cybersecurity review in respect of its [REDACTED] in Hong Kong according to the Review Measures.

SUMMARY

As such, our Directors, as advised by our PRC Legal Advisor, are of the view that the Company would be able to comply with the Review Measures and the Draft Regulations in all material aspects, and the Review Measures and the Draft Regulations will not have material adverse impact on the Company’s operation and financial performance, assuming they are implemented in their current form.

Our PRC Legal Advisor has also advised us that, the scope of and threshold for determining what “affects or may affect national security” is still subject to uncertainty and further elaboration under the current effective PRC laws and regulations, and the PRC regulatory authorities have discretion in interpreting the regulations. We will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, and adjust and enhance our data practices in a timely manner to ensure compliance once the regulations come into effect.

[REDACTED]

SUMMARY

[REDACTED]

[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 discretionary incentive fee which may be payable by us) for the [REDACTED] are approximately RMB[REDACTED] million, representing [REDACTED]% of the [REDACTED]. The estimated total [REDACTED] expenses consist of (i) [REDACTED]-related expenses of RMB[REDACTED] million (approximately HK\$[REDACTED] million), including [REDACTED] of RMB[REDACTED] million (approximately HK\$[REDACTED] million) and sponsors fee of RMB[REDACTED] million (approximately HK\$[REDACTED] million), and (ii) [REDACTED]-related expenses of RMB[REDACTED] million (approximately HK\$[REDACTED] million), of which the professional fees paid to legal advisors and the Reporting Accountants amounted to RMB[REDACTED] million (approximately HK\$[REDACTED] million) and other fees and expenses amounted to RMB[REDACTED] million (approximately HK\$[REDACTED] million). During the Track Record Period, we incurred [REDACTED] expenses of RMB[REDACTED] million 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

SUMMARY

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 issue 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.

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 Culture & Media Co., Ltd. (currently known as Shanghai Heilai Music Co., Ltd.), 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. For further details of our dividend policy, please refer to the section headed “Financial Information — Dividend Policy” in this document.

USE OF [REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED], after deducting estimated [REDACTED], fees and expenses payable by us in connection with the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share, and assuming the [REDACTED] is not exercised. We currently intend to apply the [REDACTED] from the [REDACTED] for the following purposes:

- approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our IP production and operation. In particular,
 - (i) approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our variety program IP creation and operation;
 - (ii) approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our music IP production and operation;

SUMMARY

- (iii) approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our film and drama series IP production and operation; and
 - (iv) Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund the purchase and upgrade of equipment, hardware and software for our technical team, production team and short-video team.
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to expand our audience reach to provide better customer service and build on our established entertainment IP industry value chain. In particular,
 - (i) approximately [REDACTED]%, or HK\$[REDACTED], will be used in the construction of one “Star Movie Digital Interactive Experience Hall” featuring our film IPs, one “Canxing Music Digital Interactive Experience Hall” featuring our music IPs, one electronic music and street dance center and one live streaming center, to provide audience with onsite experience in a range of venues underpinned by our IPs;
 - (ii) approximately [REDACTED]%, or HK\$[REDACTED] of [REDACTED] will be used to continue to invest in establishing Canxing bootcamp and academy to provide online and offline art trainings services to a wide coverage of recipients, including but not limited to trainings on music and dance;
 - (iii) approximately [REDACTED]%, or HK\$[REDACTED], will be used in the field of consumer products, including the design and commercialization of fashion items featuring our IPs, and the operation of Canxing live house and music-themed bookstore; and
 - (iv) approximately [REDACTED]%, or HK\$[REDACTED], will be used in investing and operating offline activities, such as music festivals, multi-media content centers and music plazas.

For further details, see “Future Plans and Use of [REDACTED].”

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this document.

“Accountants’ Report”	the accountants’ report of our Company, the text of which is set out in Appendix I to this document
“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	the Accounting and Financial Reporting Council of Hong Kong
“Articles” or “Articles of Association”	the articles of association of our Company adopted on [●] which shall become effective on the [REDACTED] and as amended from time to time, a summary of which is set out in “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law” to this document
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Beamingstars”	Beamingstars Investment Holdings Limited, a business company incorporated under the laws of the BVI on March 16, 2021 and owned as to 51.99% by SH Zhihua and 48.01% by Harvest Sky, being one of our Controlling Shareholders
“Beijing Langma”	Beijing Langma Yongan Investment Management Co., Ltd. (北京朗瑪永安投資管理股份公司), a company incorporated in the PRC on August 3, 2015 and one of our [REDACTED] Investors
“Beiyi Culture”	Shanghai Beiyi Culture & Media Co., Ltd. (上海北燿文化傳媒有限公司), a limited liability company established in the PRC on June 12, 2020 and a wholly-owned subsidiary of Canxing Culture, being one of our Consolidated Affiliated Entities

DEFINITIONS

“Board” or “Board of Directors”	the board of directors of our Company
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Canxing Culture”	Shanghai CanXing Culture & Media Co., Ltd. (上海燦星文化傳媒股份有限公司), a limited liability company established in the PRC on March 24, 2006 and is one of our Consolidated Affiliated Entities controlled by virtue of the Contractual Arrangements
“Canxing Film”	Shanghai Canxing Film & Culture Co., Ltd. (上海燦星影視文化有限公司), a limited liability company established in the PRC on August 1, 2018 and a non-wholly owned subsidiary of Canxing Culture, being one of our Consolidated Affiliated Entities
“Cayman Companies Act” or “Companies Act”	The Companies Act (As Revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

[REDACTED]

“China,” “mainland China” or the “PRC”	People’s Republic of China, excluding, for the purpose of this document and for geographical reference only and except where the context requires otherwise, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Chinese Culture”	CMC (Shanghai) and CMC (Tianjin)
“close associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“CMC Asia”	CMC Asia Group Holdings Ltd., a business company incorporated in the BVI on September 12, 2006 and controlled by our Ultimate Controlling Shareholders
“CMC (Shanghai)”	Chinese Culture (Shanghai) Equity Investment Center (L.P.) (華人文化產業股權投資(上海)中心(有限合夥)), a limited partnership incorporated in the PRC on December 31, 2009 and one of our Ultimate Controlling Shareholders
“CMC (Tianjin)”	Chinese Culture (Tianjin) Investment Management Co., Ltd. (華人文化(天津)投資管理有限公司), a company incorporated in the PRC on November 11, 2008, the general partner of CMC (Shanghai) and one of our Ultimate Controlling Shareholders
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company,” “our Company,” or “the Company”	STAR CM Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on March 29, 2021
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, being Canxing Culture and its subsidiaries, namely Beiyi Culture and Canxing Film, details of which are described in “Contractual Arrangements” in this document
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, our Consolidated Affiliated Entities and the Registered Shareholders, as applicable, details of which are described in “Contractual Arrangements” in this document

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Chinese Culture, Mr. Tian, Mr. Jin, Mr. Xu, SH Zhihua, East Brothers, Goldenbroad, Beamingstars, Harvest Sky and Unionstars. See “Relationship with the Controlling Shareholders” in this document
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Dream Radius”	Dream Radius Investment Holdings Limited, a BVI business company incorporated under the laws of the BVI on March 10, 2021 wholly owned by Mr. Cao Bin, being one of our [REDACTED] Investors
“East Brothers”	East Brothers Investment Holdings Limited, a business company incorporated under the laws of the BVI on March 10, 2021 and owned as to 81.76% by Mr. Tian, 6.22% by Mr. Jin and 12.02% by Mr. Xu, being one of our Controlling Shareholders
“Exchange Participant”	has the meaning ascribed to it under the Listing Rules
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Foreign Investment Law”	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), adopted by the NPC on March 15, 2019, and became effective on January 1, 2020
“Fortune Star Media”	Fortune Star Media Limited, a private company limited by shares established in Hong Kong on May 31, 2010 and one of our wholly-owned subsidiaries in the Hong Kong
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant commissioned by us

DEFINITIONS

“F&S Report” the market research report prepared by Frost & Sullivan for the purpose of this document

[REDACTED]

“Goldenbroad” Goldenbroad Investment Holdings Limited, a business company incorporated under the laws of the BVI on March 10, 2021 and wholly owned by Mr. Jin, being one of our Controlling Shareholders

[REDACTED]

“Group,” “our Group,” “the Group,” “we,” “us,” or “our” our Company and our subsidiaries and Consolidated Affiliated Entities at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries or the Consolidated Affiliated Entities, the business operated by such subsidiaries or the Consolidated Affiliated Entities or their predecessors (as the case may be)

“Guangxi Hexian” Guangxi Hexian Investment Management Co., Ltd. (廣西褐弦投資管理有限公司) (formerly known as Xizang Qiming Music Co., Ltd. (西藏齊鳴音樂有限公司)), a limited liability company established in the PRC on February 8, 2018

“Hanfor International” Hanfor International Limited, a business company incorporated under the laws of the BVI and one of our [REDACTED] Investors

“Hanfu Capital” Hanfu (Beijing) Capital Management Co., Ltd. (漢富(北京)資本管理有限公司), a company established in the PRC on November 26, 2010 and one of the Registered Shareholders of Canxing Culture

“Hangzhou Alibaba” Hangzhou Alibaba Venture Capital Management Co., Ltd. (杭州阿里巴巴創業投資管理有限公司), a company established in the PRC on April 27, 2018

DEFINITIONS

“Harvest Sky” Harvest Sky Investment Holdings Limited, a business company incorporated under the laws of the BVI on March 10, 2021 and wholly owned by Mr. Tian, being one of our Controlling Shareholders

[REDACTED]

“Hong Kong” or “HK” the Hong Kong Special Administrative Region of the PRC

“Hong Kong dollars” or “HK\$” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

DEFINITIONS

[REDACTED]

“IFRS” International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board

“Independent Third Party(ies)” party or parties that, to the best of our Directors’ knowledge, information and belief, is or are not a connected person(s) of our Company within the meaning of the Listing Rules

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors” China International Capital Corporation Hong Kong Securities Limited and China Securities (International) Corporate Finance Company Limited

“Jundu Derui” Jundu Derui Equity Investment Management Center of Ningbo Meishan Free Trade Port (L.P.) (寧波梅山保稅港區君度德瑞股權投資管理中心(有限合夥)), a limited partnership established in the PRC on October 20, 2016 and one of our [REDACTED] Investors

“Latest Practicable Date” November 7, 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication

“License for Production and Distribution of Radio or Television Programs” the License for Production and Distribution of Radio or Television Programs (《廣播電視節目製作經營許可證》) issued by provincial counterpart of NRTA, permitting institutions to produce and distribute radio and television programs or engage in the activities of production and distribution of radio and television programs

[REDACTED]

“Listing Committee” the Listing Committee of the Stock Exchange

DEFINITIONS

[REDACTED]

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company adopted on [●] which shall become effective on the [REDACTED] and as amended from time to time, a summary of which is set out in “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law” to this document
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Jin”	Mr. Jin Lei (金磊), an executive Director and one of our Ultimate Controlling Shareholders
“Mr. Tian”	Mr. Tian Ming (田明), an executive Director, chairman of the Board, chief executive officer of our Company, one of our Ultimate Controlling Shareholders, and one of the Registered Shareholders of Canxing Culture
“Mr. Xu”	Mr. Xu Xiangdong (徐向東), an executive Director and one of our Ultimate Controlling Shareholders
“MXDR”	Mengxiangdangran Music Culture & Communication Co., Ltd. (夢響當然音樂文化傳播(上海)有限公司), a limited liability company established in the PRC on November 25, 2014 and one of our non-wholly owned subsidiaries in the PRC

DEFINITIONS

“MXQY”	Mengxiang Qiangyin Culture Broadcast (Shanghai) Company Ltd. (夢響強音文化傳播(上海)有限公司), a limited liability company established in the PRC on December 6, 2012 and one of our wholly-owned subsidiaries in the PRC
“MXQY Acquisition”	Acquisition of MXQY by Canxing Culture in March 2016, details of which are set out in “History, Reorganization and Corporate Structure” in this document
“MXQY Goodwill”	Goodwill resulting from the MXQY Acquisition, details of which are set out in “History, Reorganization and Corporate Structure” in this document
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Negative List”	Special Management Measures for Access of Foreign Investment (2021 Edition) (《外商投資准入特別管理措施(負面清單)》(2021年版))
“Ningbo Fanghua”	Ningbo Fanghua Investment Centre (Limited Partnership) (寧波芳華投資中心(有限合夥)), a limited partnership established in the PRC on March 29, 2016 and one of our [REDACTED] Investors
“Ningbo Fengcai”	Ningbo Meishan Free Trade Port Fengcai Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區豐財投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on May 18, 2017 and one of our [REDACTED] Investors
“Nomination Committee”	the nomination committee of the Board
“NPC”	the National People’s Congress (全國人民代表大會)
“NRTA”	the National Radio and Television Administration (中華人民共和國國家廣播電視總局)

DEFINITIONS

[REDACTED]

“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pingtan Fenghuai”	Pingtian Fenghuai Investment Management LLP (平潭豐淮投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on January 18, 2016 and one of our [REDACTED] Investors
“PRC Legal Advisor”	Zhong Lun Law Firm, our legal advisor as to PRC laws

DEFINITIONS

“[REDACTED] Investment(s)”	the [REDACTED] investments in our Group undertaken by the [REDACTED] Investors, details of which are set out in “History, Reorganization and Corporate Structure” in this document
“[REDACTED] Investor(s)”	the investors of the [REDACTED] Investments, details of which are described in “History, Reorganization and Corporate Structure — [REDACTED] Investments — Information about the [REDACTED] Investors”
“Premier Asia”	Premier Asia Holdings Limited, a business company incorporated under the laws of the BVI and one of our [REDACTED] Investors

[REDACTED]

“Registered Shareholder(s)”	the current registered shareholders of Canxing Culture, namely SH Xingtou, SH Zhouxing, Mr. Tian, Mr. Cao Bin and Hanfu Capital
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	remuneration committee of the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the corporate reorganization of our Group in preparation for the [REDACTED], particulars of which are set out in “History, Reorganization and Corporate Structure” in this document

DEFINITIONS

“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAPPRFT”	the State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), predecessor of NRTA
“SARFT”	the State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局), predecessor of SAPPRFT
“SCML”	Star China Media Limited (星空華文中國傳媒有限公司), a private company limited by shares established in Hong Kong on May 31, 2010 and a wholly-owned subsidiary of CMC Asia
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“SH Xingtou”	Shanghai Xingtou Investment Co., Ltd. (上海星投投資有限公司), a company incorporated in the PRC on June 18, 2010 and controlled by our Ultimate Controlling Shareholders and one of the Registered Shareholders of Canxing Culture
“SH Zhihua”	Shanghai Zhihua Enterprise Management Partnership (Limited Partnership) (上海至驊企業管理合夥企業(有限合夥)), a limited partnership incorporated in the PRC on March 23, 2021 and owned as to 1% by CMC (Tianjin) as its general partner and 99% by CMC (Shanghai) as its limited partner, being one of our Controlling Shareholders
“SH Zhouxing”	Shanghai Zhouxing Investment Co., Ltd. (上海晝星投資有限公司), a company wholly owned by Mr. Tian and one of the Registered Shareholders of Canxing Culture

DEFINITIONS

“Shanghai Aoxia”	Shanghai Aoxia Management Partnership (Limited Partnership) (上海奧遐企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on March 31, 2021 and one of our [REDACTED] Investors
“Shanghai Fengpu”	Shanghai Fengpu Investment Management LLP (上海豐浦投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on January 19, 2016 and one of our [REDACTED] Investors. It was formerly known as Pingtan Investment Management LLP (平潭豐浦投資管理合夥企業(有限合夥)) before its name change in February 2020
“Shanghai Jiuwu Yisheng” or “WFOE”	Shanghai Jiuwu Yisheng Culture & Media Co., Ltd. (上海九吾一生文化傳媒有限公司), a limited liability company established in the PRC on June 16, 2020 and one of our wholly-owned subsidiaries in the PRC
“Shanghai Yanheng”	Shanghai Yanheng Investment Management Partnership (Limited Partnership) (上海岩衡投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on April 30, 2015 and one of our [REDACTED] Investors
“Share(s)”	ordinary share(s) in the share capital of our Company with a par value of US\$0.000001 each
“Shareholder(s)”	holder(s) of our Share(s)
	[REDACTED]
“Star International”	Star China International Media Co., Ltd. (星空華文國際傳媒有限公司), a limited liability company established in the PRC on April 26, 2012 and one of our principal subsidiaries in the PRC
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Suzhou Haikun” Suzhou Haikun Yujie Investment Center (Limited Partnership) (蘇州海鯤譽捷投資中心(有限合夥)), a limited partnership established in the PRC on July 4, 2017 and one of our [REDACTED] investors

[REDACTED]

“Takeovers Code” The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

“Taobao China” Taobao China Holding Limited, a company incorporated under the laws of Hong Kong on March 26, 2003 and an indirect wholly-owned subsidiary of Alibaba Group Holding Limited, and one of our [REDACTED] Investors

“Tibet Yuanhe” Tibet Yuanhe Enterprise Management Co., Ltd. (西藏源合企業管理有限公司), a company established in the PRC on August 31, 2015 and one of our [REDACTED] Investors

“Track Record Period” the period comprising the three financial years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022

“Ultimate Controlling Shareholders” Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu

[REDACTED]

“Unionstars” Unionstars Investment Holdings Limited, a business company incorporated under the laws of the BVI on March 26, 2021 and owned as to 40.65% by Harvest Sky, 17.64% by Goldenbroad, 7.53% by East Brothers and 34.18% by Beamingstars, being one of our Controlling Shareholders

“U.S.” or “United States” the United States of America, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. persons”	U.S. persons as defined in Regulation S
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“VIE” or “VIEs”	variable interest entity or variable interest entities
“Xinyu Haikun”	Xinyu Haikun Chongwei Investment Partnership (Limited Partnership) (新余海鯤重偉投資合夥企業(有限合夥)), a limited partnership established in the PRC on June 22, 2017 and one of our [REDACTED] Investors

The English translation and/or transliteration of the names of PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations included in this document is included for identification purposes only. In the event of any inconsistency between the English translation and/or transliteration and the Chinese versions, the Chinese versions shall prevail.

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the [REDACTED] assume that the [REDACTED] is not exercised.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

In this document, unless the context otherwise requires, explanations and definitions of certain terms used in this document in connection with our Group and our business shall have the meanings set out below. The terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

“app”	application software designed to run on smartphones and other mobile devices
“average viewership rating”	an index used in the F&S Report which indicates the audience size of TV programs during their first run, refers to the number of audience members of a particular program as a percentage of the total estimated number of audience members during the same time slot; the average viewership rating is calculated by CSM Media Research (the “CSM”), a research company dedicated to TV and radio audience measurement research, whose TV audience measurement network provides data that represents the viewing of over 1.28 billion people in mainland China and 6.49 million people in Hong Kong SAR. CSM calculates average viewership ratings through a stratified multi-stage, “probability proportional to size” random sampling method to get the household samples and set up a representative panel, and gather viewership data through methods such as the diary method, which uses diary cards to gather information on TV viewing, and the people meter method, which uses people meter device to gather information on TV viewing for all household members aged four or above in panel homes. Rankings based on average viewership ratings are commonly used to measure popularity of variety programs
“Beijing Satellite TV”	Beijing Satellite TV (北京衛視), a TV network broadcast from Beijing
“Big Five Satellite TV Networks in China”	the top five non-CCTV satellite TV networks in China in terms of ratings during the Track Record Period, namely, Jiangsu Satellite TV, Zhejiang Satellite TV, Dragon Satellite TV, Hunan Satellite TV and Beijing Satellite TV

GLOSSARY OF TECHNICAL TERMS

“broadcasting right(s)”	refers to (i) the right of broadcasting (廣播權), in terms of variety programs, films and drama series broadcast via TV networks; and (ii) the right to network dissemination of information (信息網絡傳播權), in terms of variety programs, films and drama series broadcast via online video platforms or short video platforms, for the purpose of this document
“ByteDance”	ByteDance (字節跳動), a leading short video platform in the PRC
“CCTV”	China Central Television (中國中央電視台), the predominant state TV network in the PRC
“COVID-19”	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
“Douyin”	Douyin (抖音), a leading social media short-form video app for creating and sharing short lip-sync, comedy, and talent videos
“Dragon Satellite TV”	Dragon Satellite TV (東方衛視), a TV network of Shanghai Media Group (上海文廣新聞傳媒集團), broadcast from Shanghai
“first run” or “first-run”	the first round broadcast of a variety program, film or drama series
“IP(s)”	refers to intellectual properties such as existing variety programs, music works films, drama series or other literary or artistic works, concepts, stories and expressions that can be used or considered, entirely or partially, to create and/or produce new variety programs, music works drama series or films
“iQIYI”	iQIYI (愛奇藝), a leading online video platform based in Beijing
“Jiangsu Satellite TV”	Jiangsu Satellite TV (江蘇衛視), a TV network broadcast from Nanjing, Jiangsu Province

GLOSSARY OF TECHNICAL TERMS

“major program(s)”	variety program(s) we produced whose revenue contribution is 2% or more of our total revenue generated from variety program IP production, operation, and licensing in the year it was initially broadcast
“master tape”	the final tape of a program that is delivered to the media platform for broadcast
“NetEase Cloud Music”	NetEase Cloud Music (網易雲音樂), a leading online music platform based in Hangzhou, Zhejiang Province
“primetime”	refers to the block of time when audience viewership peaks for programming during a defined period of time. For PRC TV networks, primetime usually means the 19:00 to 23:00 time slot
“remastering”	refers to the process of changing the quality of the image, usually for higher resolution, or the quality of the sound, or both, of previously created films, for the purpose of this document
“remake”	refers to a film that is based upon and retells the story of an earlier film, for the purpose of this document
“rerun”	the rebroadcast of a variety program, film or drama series that has previously been broadcast
“satellite TV networks”	refers to non-CCTV satellite TV networks in China
“Shanghai Institute of Visual Arts” or “SIVA”	Shanghai Institute of Visual Arts (上海視覺藝術學院), an institute founded in Shanghai providing arts education and an independent third party
“super large variety program”	refers to a seasonal or weekly variety program with ten or more episodes. which is broadcast on the Big Five TV Networks in China or the Top Three Online Video Platforms in China
“Tencent Video”	Tencent Video (騰訊視頻), a leading online video platform based in Shenzhen, Guangdong Province

GLOSSARY OF TECHNICAL TERMS

“TME”	Tencent Music Entertainment Group, a company incorporated under the laws of the Cayman Islands and its American depositary shares are listed on the New York Stock Exchange (NYSE: TME)
“tie-in merchandise”	products based on existing IPs and are authorized by the owners of the existing IPs as a form of cross-promotion, used primarily to generate additional income from the existing IPs and to promote their visibility
“Top Three Online Video Platforms in China”	the top three online video platforms in China in terms of market share during the Track Record Period, namely Youku, iQIYI and Tencent Video
“Total view count”	an index of the aggregate number of views of a variety program that is intentionally initiated by an audience member on the Top Three Video Platforms in China, Mango TV, TV.Sohu.COM, Le.com or Xigua Video, and lasts for at least five minutes, used in the F&S Report.
“Toutiao”	Toutiao (頭條), a leading social media short-form video app for creating and sharing short lip-sync, comedy, and talent videos
“TV”	Television
“variety program”	a type of interactive audio-visual video content that can incorporate art forms such as musical and dance performance, sketch comedy and storytelling
“Xigua Video”	Xigua Video (西瓜視頻), a leading online video platform owned by ByteDance
“Youku”	Youku (優酷), a leading online video platform based in Beijing
“Zhejiang Satellite TV”	Zhejiang Satellite TV (浙江衛視), a TV network under Zhejiang Radio and Television Group (浙江廣播電視集團), broadcast from Hangzhou, Zhejiang Province

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as “will,” “expect,” “anticipate,” “estimate,” “believe,” “going forward,” “ought to,” “may,” “seek,” “should,” “intend,” “plan,” “projection,” “could,” “vision,” “goals,” “aim,” “aspire,” “objective,” “target,” “schedules,” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our future business development, financial condition and results of operations;
- our business strategies and plans to carry out these strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with our customers and other business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section in this headed “Risk Factors” in this document.

FORWARD-LOOKING STATEMENTS

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

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An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the section headed “Financial Information” of this document, before deciding to invest in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial conditions, results of operations and prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-Looking Statements” of this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRIES

We may be unable to adapt to changing trends in the entertainment content market in China. If we fail to develop new entertainment contents that effectively meet the evolving needs and preferences of corporate sponsors, viewers and media platforms, our business, financial condition and results of operations could be materially adversely affected.

The continued success of our business depends on our ability to accurately anticipate and meet the taste and preferences of viewers and audiences, and identify the needs of corporate sponsors and media platforms. We have built a track record in anticipating the preferences of viewers by focusing our resources on building our experience and capabilities in developing and operating variety programs and enlarging our library of musical works and movies. We cannot guarantee that we will be able to continue to do so in the future despite our efforts to conduct in-depth market research to design programs for our corporate sponsors and to anticipate the trends of the pan-entertainment content market in the near future considering the evolving trend of the industry including increasing prevalence of online short-form videos and thriving development of niche markets. And our programs with successful proven track may not be able to continue its success going forward. For example, our corporate sponsors may adjust or change their marketing activities based on their needs, and we cannot guarantee that we will be able to offer attractive programs and services that meet these ever-changing needs. As such, corporate sponsors may reduce the advertising budget allocated to certain types of programs, dramas and movies. In addition to audience acceptance, the availability of alternative forms of entertainment and leisure activities, macro-economic conditions and other factors affect viewer ratings and the success of content produced by us. If we fail to develop new entertainment contents that effectively meet the evolving needs and preferences of corporate sponsors, viewers and media platforms, we may experience reduced demand or fail

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to compete effectively, and we may be required to incur additional costs to hire new directors or other creative personnel and related operating teams in order to develop and deliver programs, dramas series, movies and musical products in demand, which would have a material adverse effect on our business, financial condition and results of operations.

The production and distribution of new variety programs and drama series are subject to uncertainties. There is no guarantee that the production or distribution of our variety programs and drama series can generate profit.

Unforeseen circumstances during production, such as accidents, equipment damage or malfunction, damages to cassettes (or digital files thereof), unavailability of filming locations, delay in obtaining the requisite permits or licenses, natural disasters, the outbreak of epidemics, such as COVID-19 and unavailability of producers, directors or artists due to injuries or health issues, other engagement or a negative publicity as a result of their personal behavior, may disrupt the production progress of new variety programs and drama series. The distribution of our variety programs and drama series may also be delayed due to the changes in production schedule or failure to obtain the relevant distribution licenses, leading to the delay in the initial broadcasting of our variety programs and drama series. Any delay or adjustment in production or distribution schedule may increase the production or distribution cost. For example, due to the outbreak of COVID-19 and the continuous measures to combat COVID-19, such as travel restrictions and mandatory quarantines, we experienced slight delay in the production and broadcasting of some of our variety programs for one to two months in 2020 and 2021, comparing 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.

In addition, a delay in production or distribution schedule may cause a breach of agreements with our customers and enable them to terminate the agreements or demand compensation, which would materially and adversely affect our business, financial condition and results of operations. In circumstances where the production cost of a variety program and drama series significantly exceeds its budget, we and other co-investors may be required to contribute additional financial resources, which may result in significant decrease in the profitability of the program. Failure to obtain additional financial resources for a variety program and drama series may result in substantial delay in production progress. In addition, when we are providing production services, we may need to bear the overrun costs pursuant to the relevant agreements, unless otherwise provided in the relevant agreements. Even if our new programs and drama series can be produced and distributed upon schedule, we cannot guarantee that new programs can generate profits to us. In particular, we cannot assure you the successful launch of “Reading Class,” which is the first drama series we produced, as we have no proven track record in developing drama series. Any of the above circumstances may materially and adversely affect our business, financial condition and results of operations.

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We may not be able to recover production costs incurred, or achieve our target profit margin for the variety programs we produced, which may affect our business, financial condition and results of operations.

We sometimes enter into contracts with the broadcasting platforms based on the different stages of a variety program produced by us to facilitate the internal process of the platforms and we may agree to stage payments for the variety program under these agreements. Under such arrangements, some installments to be made by the platforms for certain variety programs may be agreed at the time close to, or after, the end of the initial broadcast of the variety programs. During the Track Record Period, no loss was incurred due to such arrangement.

According to Frost & Sullivan, as it is a common industry practice that big platforms usually have a lengthy approval process, production companies sometimes would, based on the nature of the service provided, sign different contracts with the platforms so as to speed up the approval process. Therefore, it is sometimes seen that production companies and broadcasting platforms only enter into formal contract close to or after the end of the initial broadcast of the program. We cannot assure you that we will be able to recover our production costs for all of the variety programs we produce in the future, and failure to recover such production costs or achieve our target profit margin may materially and adversely affect our business, financial condition and results of operations.

Our business depends on the continual release of successful programs and our operating results may be affected by changes in schedule or mix of our program portfolio.

During the Track Record Period, we derived a significant portion of our revenue from certain major programs. In 2019, 2020, 2021 and for the six months ended June 30, 2022, 74.2%, 69.9%, 78.0% and 74.7% of our revenue are generated from the variety program IP production, operation, and licensing, respectively. Due to the nature of our business, we focus our resources on a portion of projects each year or period. For the year ended December 31, 2019, the top three variety programs that we generated most revenue from were Sing! China 2019, Street Dance of China 2019, and China’s Got Talent 2019. For the year ended December 31, 2020, the top three variety programs that we generated most revenue from were Sing! China 2020, Street Dance of China 2020, and the Great Wall. For the year ended December 31, 2021, the top three variety programs that we generated most revenue from were Sing! China 2021, Street Dance of China 2021 and Likes! Talent. See “Business — Our Businesses — Variety Program IP Production, Operation, and Licensing” for more details of the programs we have created during the Track Record Period. However, there is no guarantee that our programs would be broadcast on schedule or would enjoy popularity or would not be canceled, or that the contracts in relation to these programs would not be terminated or materially altered to our detriment.

Delay in broadcasting or cancellation of a program may be due to a number of reasons, many of which are beyond our control, including, among others, pursuant to governmental rule changes or orders from government authorities, implementation of industry policy, adjustment of broadcasting or event schedules by media platforms, and low popularity and viewership of

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the relevant program. For example, to comply with certain recent-issued regulatory requirements and policies, including the Notice on Further Strengthening the Regulation on Chaos in the “Fan Circle,” the Notice on Carrying out Comprehensive Management on Culture and Entertainment and the Circular on Further Strengthening the Management of Cultural and Entertainment Programs and Industry Participants, we changed our plan for certain contemplated variety programs. In addition, we may incur significant upfront costs to introduce new program, which may not be as popular as we expect or generate anticipated returns. If any of the abovementioned situations were to occur, our business, financial condition and results of operations could be adversely affected. Our revenue and profit may therefore be volatile.

We rely on our major variety programs and a potential decline in popularity of these programs may materially and adversely affect our business and results of operations.

Historically, we have focused our resources on variety programs. Variety programs viewership in China may be affected by many factors, many of which are out of our control. In addition, online video platforms have become an important broadcast channel in China for video content programs due to its unlimited geographical coverage and the increase in number of Internet users in China. Eventually, online video platforms are expected to become the dominant broadcast channel and are becoming the preferred choice for audiences. Although we have delivered and will continue to invest resources to deliver popular programs via TV channels and online platforms, we cannot assure you that our variety programs will achieve strong viewership ratings in the future through various channels. If we are unable to achieve strong ratings, it may be difficult for us to secure corporate sponsors or find media platforms for our programs, in which case our operational and financial performance may be negatively affected.

Information on our pipeline programs may not prove to be accurate or indicative of our future results of operations.

We have disclosed our program pipeline in the second half of 2022 with details such as their expected release time and primary broadcasting platforms. See “Business — Our Businesses — Variety Program IP Production, Operation, and Licensing — Program Pipeline.” As of the date of this document, we released five of the 12 pipeline programs. We expect to release the remaining seven programs at their expected release time, however, we cannot guarantee that we will be able to release them or release them on their expected release time.

The program description, expected release date, expected release platform and other information related to our pipeline programs represent our best efforts to describe their status as of the Latest Practicable Date. However, such information may prove to be different from actual outcomes due to a number of factors. For example,

- we may not be able to enter into letters of intent or definitive contracts for programs that have passed internal project approvals;

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- our signed letters of intent may not materialize into definitive contracts with similar terms;
- our signed definitive contracts may not be fully performed in accordance with their terms, or may be amended, modified, altered, terminated, or canceled;
- program content may be subject to change during the production and post-production stages;
- the expected release platform may be subject to change as negotiation advances;
- we may not be able to sell our programs to additional platforms to gain additional revenue; programs that we have completed production may not be delivered on time, or if they are, they may not be broadcast on time, all of which will affect the timing of recognition of revenue;
- our programs may not be completed with the budget or return-on-investment that we anticipated; and
- we may not receive payments on time or at all, even if our programs are broadcast.

Our program pipeline may also be delayed or suspended due to force majeure events, such as the recent coronavirus outbreak in China. As a result, investors are cautioned and not rely on our program pipeline information presented in this document as an accurate indicator of our future earnings.

We rely on the contribution of industry professionals participating in the development, production and promotion of our variety programs and other third-party suppliers of services and products. Our failure to retain the services of such professionals and suppliers, unsatisfied services provided by them or even any negative news about them in the future may materially and adversely affect our business and results of operations.

We rely on the contribution of industry professionals participating in the development, production and promotion of our variety programs, including screenwriters, producers, directors, artists, promotion agencies and other third-party suppliers. For example, we have cultivated and inspired many influential directors, such as Mr. Jin Lei (金磊), Mr. Xu Xiangdong (徐向東), Mr. Lu Wei (陸偉), Ms. Shen Ning (沈寧), Mr. Wu Qunda (吳群達) and Mr. Zhang Li (章驪), who have produced and operated our large variety programs. Although we are dedicated to building a stable talent pipeline to train and promote more talented directors, most of our variety programs are co-directed by a team of experienced directors and we do not place reliance on any particular director to produce a certain variety program, there can be no assurance that they will continue to work with us on acceptable terms or at all, or that the costs associated with attracting alternative talents and/or third-party service providers will be reasonable. Our industry also lacks quality talents, for which producers compete intensively. We cannot assure you that we will be able to acquire and retain suitable quality

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talents and/or other third-party suppliers to develop and operate our IPs and/or provide other services and products. If we fail to acquire and retain highly qualified industry professionals and/or other third-party suppliers on favorable terms or if talents with whom we work lose their current popularity, our revenue and profitability could be adversely affected. In addition, any lawsuits, personal misbehaviors, rumors or negative publicity involving key artists in our variety programs, our management or our business partners could negatively affect the distribution of corresponding programs and may even result in termination of the licensing agreements, co-investment agreements or even termination the broadcast of our programs. For example, Publicity Department of the Communist Party of China published the Notice on Carrying out Comprehensive Management in the Field of Culture and Entertainment in September 2021. The Office of the Central Cyberspace Affairs Commission published Notice on Further Strengthening the Management of Chaos in the “Fan circle” in August 2021. Any misbehaviors of artists or violation of the relevant laws, regulations and polices by us will negatively affect our distribution of our corresponding programs, which will materially and adversely affect our business, financial condition and results of operations.

Failure to create, operate and protect the intellectual property rights of our IPs could have a negative impact on our business, competitive position and prospects.

We operate in an industry that places a premium on creative abilities and artistic talents. Many of our work products resulting from our creative activities are protected by intellectual property rights, on which our business relies to stay competitive in the marketplace. The success of our business depends substantially upon our continued ability to create and use our brand, copyrights, trade names and trademarks to increase brand awareness and to further develop our brand and reputation. The unauthorized reproduction of our trade names or trademarks, the unauthorized copy or production in a similar format of our programs under production and the unauthorized broadcast of our products and contents could diminish the value of our brand and/or the relevant products and contents, competitive advantages or goodwill. Misappropriation or misuse of our intellectual property by third parties may also harm our reputation. Therefore, we face the risk of intellectual property infringement and the development of pan-entertainment industry, especially rise of IPs, objectively increase the risk of intellectual property infringement and disputes.

We rely on a combination of copyrights, trademarks, trade names, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights. Nevertheless, these afford only limited protection, and policing unauthorized use of proprietary information can be difficult and expensive. In addition, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could expose us to substantial risks. Intellectual property laws in China may not protect intellectual property rights to the same extent as other countries, and it may be difficult for us to stop the infringement, misappropriation or other violation of our intellectual property rights. Proceedings to enforce our intellectual property rights could result in substantial costs and divert our efforts and attention from other aspects of our business. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be

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commercially meaningful. Accordingly, our efforts to enforce or protect our intellectual property rights may be ineffective and costly, which could have a material adverse effect on our business, results of operations, reputation and prospects.

Our operating results are subject to seasonal fluctuations.

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenue and results of operations. Being affected numerous factors, such as viewer’s preferences and habits, and broadcasting platform’s schedule, the broadcasting of our programs, dramas and movies are subject to seasonal fluctuations. Usually the level of TV program and online program development and production activities increases from the second quarter to the second half of the calendar year. In addition, there are special primetime slots targeted at young people during their summer break and winter break from school in July and August, and the fourth quarter of the year. Such seasonal fluctuations in the level of TV program and online program development and production activities may affect the level of advertising investments by corporate sponsors. As a result, in general, we expect our revenue, gross profit and net profit to be relatively higher in the second half of the year than in the first half. For example, we generated revenue of RMB412.1 million for the six months ended June 30, 2020, representing only 26.4% of the revenue generated for the full year ended December 31, 2020, which was RMB1,559.9 million. We generated revenue of RMB154.6 million for the six months ended June 30, 2021, representing only 13.7% of the revenue generated for the full year ended December 31, 2021, which was RMB1,126.7 million. It may not be meaningful to project our full year results from our interim results. Any seasonal fluctuations in our revenue and results of operations could result in volatility and cause the price of our shares to fall.

Our business operations and financial performance have been affected by the COVID-19 outbreak.

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. Since early 2020, mainland China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, governments have implemented, among other measures, restrictions on mobility and travel and cancellation of public activities, to contain the spread of the virus. As a result, our operations have to a certain extent been impacted by delays in business activities, commercial transactions and general uncertainties surrounding the duration of the governments’ extended business and travel restrictions. In particular, the travel restrictions resulted in the reduction in scale or even cancellation of our offline events, which temporarily adversely affected our marketing activities. Moreover, the related policies or restrictions keep evolving and changing due to the unpredictable outlook of global COVID-19. Besides, the COVID-19 outbreak had also resulted in regulatory approval delays due to government-imposed lockdowns and workplace closures. Further, during the first outbreak of the COVID-19 pandemic, various strict restrictions were implemented to halt the outbreak. As social and work gatherings were banned, mandatory quarantine requirements were imposed and

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public transportation was suspended in certain cities and countries where our offices and facilities were located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent that onsite services of our employees were required.

During the outbreak of COVID-19, our results of operations in 2020 and 2021 were particularly affected by the (i) postponement in broadcasting schedules, (ii) additional production costs and (iii) delay in offline entertainment events and concerts. As a result, our revenue decreased by 13.7% from RMB1,806.6 million in 2019 to RMB1,559.9 million in 2020 and further decreased by 27.8% to RMB1,126.7 million in 2021.

Moreover, we took 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. In addition, our business operations could be disrupted if any of our employees is suspected of contracting the COVID-19 or any other epidemic disease, since our employees could be quarantined and/or our offices may have to be shut down for disinfection.

While the lock down and various social distancing initiatives adopted by the governments during the outbreak of COVID-19 have caused people to turn to online social and entertainment activities in lieu of physical gatherings, these measures have led to reduction of business activities in general. Furthermore, any increase in demand for online social and entertainment activities as a result of the lock down and various social distancing initiatives associated with the COVID-19 outbreak may be temporary and not sustainable. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. Should there be a resurgence of the virus, China may again take emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions. As a result, we may have to again postpone or even cancel the recording of our programs and/or offline events. We may also have to increase our budget to take protective measures. The extent of the disruption to our business and the related impact on our financial results and outlook cannot be reasonably estimated at this time. The potential downturn brought by and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control. While we believe the impact on our business due to the outbreak of COVID-19 is limited, it is hard for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results.

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The continuous and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services.

Our success depends on the continuous and collaborative efforts of our senior management team and other key employees, including those from production and operation functions, our superior directors and artists, in particular their familiarity with our business operations and their experience, expertise and influence in the entertainment industry in the PRC. In particular, we rely on the expertise, experience and leadership of certain experienced management, such as our Chairman, Mr. Tian, who has approximately 30 years of relevant experience in media industry. We do not maintain key person insurance. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to find suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our key personnel joins a competitor or forms a competing business, we may lose crucial technological know-how, business secrets, customers and other valuable resources. Each of our key personnel has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws.

We are exposed to impairment on goodwill and other intangible assets arising from the changes in the business prospects of our acquisitions, which could adversely affect our results of operations and financial condition.

We recorded net carrying amount of 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, which were in connection with our acquisition of MXQY and film rights business, representing 42.7%, 36.3%, 32.3% and 33.3% of our total assets, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded other intangible assets of RMB186.0 million, RMB163.1 million, RMB153.3 million and RMB159.4 million, respectively, which represented identifiable intangible assets including software, trademarks, film rights and music copyrights. We undertake impairment assessment on goodwill and other intangible assets annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the carrying value of our goodwill or other intangible assets is considered to exceed their recoverable amount and our goodwill or other intangible assets are therefore determined to be impaired in the future, we would be required to write down the carrying value or record a provision of impairment loss on goodwill or other intangible assets in our financial statements during the period in which our goodwill or other intangible assets are determined to be impaired. We face risks of impairment of goodwill and other intangible assets, and any significant impairment of goodwill and other intangible assets will adversely affect our business, financial condition and prospects.

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We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amounts of the cash-generating units to which the goodwill is allocated. Recoverable amount is the higher of fair value less costs of disposal and value in use. Our Directors consider that cash-generating unit’s value in use is higher than its fair value less costs of disposal based on the current available information. 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. Assumptions were used in the value in use calculation of the cash-generating units for the Track Record Period, including but not limited to budgeted gross margins, pre-tax discount rates, growth rates and other factors based on our past experience and external information sources. If any of the assumptions used in our impairment test does not materialize, or if the performance of our business is not consistent with such assumptions, we may be required to have a significant write-off of our goodwill and other intangible assets and record a significant impairment loss, which could in turn adversely affect our financial position and results of operations. We performed impairment test on goodwill at the end of 2019, 2020 and 2021 and first half of 2022, and recognized impairment loss of goodwill of nil, RMB386.8 million, RMB380.7 million and nil in 2019, 2020 and 2021 and first half of 2022, respectively, for MXQY in our consolidated statements of profits or loss. For detail, see “Financial Information — Discussion of Certain Balance Sheet Items — Assets — Goodwill” in this document and Note 16 to the Accountants’ Report included in Appendix I to this document.

We are exposed to the impairment on prepayment, other receivables and other assets, which could adversely affect our results of operations and financial condition.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had prepayments, other receivables and other assets of RMB144.8 million, RMB147.8 million, RMB118.6 million and RMB219.5 million, respectively. In the application of our accounting policies, our management is required to make judgments based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. See Note 24 to the Accountant’s Report in Appendix I to this document. During the Track Record Period, we recorded impairment losses on financial assets included in prepayments, other receivables and other assets of RMB3.3 million, RMB0.6 million and RMB0.6 million in 2019, 2021 and for the six months ended June 30, 2022, while we recorded reversal of impairment losses on financial assets included in prepayments, other receivables and other assets of RMB5.6 million in 2020. We cannot guarantee that we will not expose to the impairment on prepayment, other receivables and other assets in future, which could adversely affect our results of operations and financial condition.

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The entertainment industry in which we operate in is highly competitive. We may not be able to compete effectively, which could materially and adversely affect our business, financial condition, results of operations and prospects, as well as our reputation and brands.

The entertainment industry in China is fragmented and highly competitive. We face fierce competition from other producers of video and music contents. Due to the large production volume of variety programs, drama series and movies in China and the limited available broadcasting channels and screens, we compete with other production companies for the broadcasting of our variety programs and drama series and screening of movies. In particular, if the release schedules of our variety programs, drama series or movies overlap with the release of similar variety programs, drama series or movies by our competitors, the release of our variety programs, drama series or movies may be delayed as it generally takes more time to negotiate with and convince our customers to broadcast our variety programs, drama series or movies instead of the one from our competitors. If the TV stations and online video platforms we are trying to sell our variety programs, drama series or movies to in the end choose to purchase video contents produced by our competitors, our business may be adversely affected. Moreover, the variety programs, drama series or movies production industry themselves are evolving fast. Increasingly more TV stations and online video platforms have started self-producing variety programs, drama series or movies to ensure their exclusive broadcasting rights, and some web series are produced exclusively for online broadcasting. These new changes in the rapidly changing drama series and film production industry intensify the already fierce competition. Therefore, we cannot assure you that we will be able to maintain or increase our market share in the future.

We also face competition from imported drama series and movies. If the current restrictions limiting the number and broadcasting period of foreign drama series and movies are eased or eliminated, the competition may become more intense.

We are exposed to credit risk arising from our large amounts of trade and notes receivables. Failure to collect our trade and notes receivables in a timely manner or at all could have a material and adverse impact on our business, financial condition, liquidity and prospects.

Our cash flows and profitability are subject to the timely settlement of payments by our customers. During the Track Record Period, we generally granted a credit period of 30 days from the date of billing to our customers. In practice, however, 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 because payments under the revenue sharing model are usually made in several installments. 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. As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade receivables were RMB1,258.9 million, RMB1,067.8

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million, RMB1,011.2 million and RMB783.4 million, respectively. In 2019, 2020, 2021 and for the six months ended June 30, 2022, turnover days of our trade receivables were approximately 234 days, 272 days, 337 days and 885 days, respectively.

We cannot assure you that we will be able to collect all or any of our trade and notes receivables or collect the amount for any unbilled work on time, or at all, after meeting the agreed program payment milestones. Our customers may face unexpected circumstances, including, but not limited to, financial difficulties caused by fiscal constraints or changes in fiscal policy of the government. Our customers may delay or even default in their payment obligation. As a result, we may not be able to receive such customers’ payment of uncollected debts in full, or at all, and we may need to make provisions for trade and notes receivables. The occurrence of such events would materially and adversely affect our financial condition and results of operations. As of December 31, 2019, 2021 and June 30, 2022, we recognized impairment loss of trade receivables of RMB41.9 million, RMB9.7 million and RMB9.2 million, respectively. As of December 31, 2020, we recognized reversal of impairment loss of trade receivables of RMB13.3 million.

If we fail to provide the underlying services or products for the prepayments we received from our customers, our results of operations and financial condition may be adversely affected.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded contract liabilities in the amount of RMB100.7 million, RMB17.0 million, RMB19.7 million and RMB71.5 million, respectively. Our contract liabilities mainly represent short-term advances that we receive from media platforms and customers. See “Financial Information – Discussion of Certain Balance Sheet Items – Liabilities – Other Payables and Accruals.” If we fail to fulfill our obligations under our contracts with media platform and customers, we may not be able to recognize such contract liabilities as revenue, and our customers may also require us to refund the advances we have received upfront, which may adversely affect our cash flow and liquidity condition and our ability to meet our working capital requirements and in turn, our results of operations and financial condition. In addition, if we fail to fulfill our obligations under our contracts with media platform and customers, it may also adversely affect our relationship with such media platform and customers, which may in turn affect our reputation and results of operations in the future.

The production and distribution of video content programs are extensively regulated in the PRC. Our failure to comply with evolving laws, rules and regulations could materially and adversely affect our business, financial condition and results of operations.

The PRC government has enacted laws and regulations governing the distribution and broadcast of video content programs through TV networks and Internet. Pursuant to the laws and regulations in the PRC, each TV program need to be registered with the National Radio and Television Administration, or the NRTA, before broadcasting, and NRTA can, at their own discretion, require video program producers to re-edit programs. For example, if any celebrities on our programs are involved in any negative publicity, NRTA may require us to re-edit or to

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reshoot our programs. In some cases, the requirements of NRTA could change rapidly, and the requirements might change quite frequently. Under this circumstance, it has rights to cancel the scheduled broadcast of video contents that do not meet the new requirements. Many of our variety programs are subject to review by the NRTA prior to broadcasting. Moreover, certain PRC government authorities have their own media objectives. Video contents that fail to incorporate these media objectives may not be broadcast as requested by such government agencies. If any of the above-mentioned situations 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.

In addition, there is no assurance that the competent authorities will not impose additional or more stringent laws or regulations on the investment, development, production, distribution and broadcast of video content programs in the future. For example, the Notice on Further Strengthening the Management of Chaos in the “Fans Circle” (《關於進一步加強“飯圈”亂象治理的通知》) was promulgated by Office of the Central Cyberspace Affairs Commission on August 25, 2021. This notice requires the local offices of the Central Cyberspace Affairs Commission to enhance the supervision on “fan circle” culture with specific measures, including, among others, strengthening the regulation on content and format of internet variety programs, and prohibiting any mechanisms in variety programs which allow audience to purchase votes for contestants or encourage audience to spend money in shopping merchandise or subscribing membership to obtain votes for contestants. In September 2021, Publicity Department of the Communist Party of China published the Notice on Carrying Out Comprehensive Management in the Field of Culture and Entertainment (《關於開展文娛領域綜合治理工作的通知》), which requires relevant government agencies to strengthen supervision on cultural and entertainment industry. In addition, the Circular on Further Strengthening the Management of Cultural Programs and Their Personnel (《關於進一步加強文藝節目及其人員管理的通知》) was promulgated by the NRTA on September 2, 2021. Under this circular, broadcast and television institutions and internet video platforms may not broadcast variety programs and reality shows that feature the children of celebrities or idol development programs. Competitive talent shows are required to strictly control the voting mechanisms and may not use arrangements prompting fan’s off-site voting, ranking list and fans support activities. It is strictly prohibited to encourage fans to spend money in shopping merchandise, subscribing membership or other ways of spending to indirectly vote for contestants. In addition, this circular requires that the programs produced or broadcast by radio and television institutions and online audio-visual platforms may not have appearance of persons who have incorrect political views, who act against the core values upheld by the state, or who committed an illegal act or breached the principles of fairness and justice. For more information, see “Summary — Recent Developments and No Material Adverse Change — Recent Regulatory Developments” in this document. The regulatory developments for the PRC entertainment industry may lead to an increase in our compliance costs, delay in or even cancellation of broadcasting our programs, which may adversely affect our business, financial condition and results of operations.

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The PRC government regulates the video content market and Internet industry extensively, and we are subject to laws, regulations and government actions based on the business we operate.

The video content market is regulated extensively in China, and our development, marketing, production and distribution of video content are subject to various PRC laws and regulations. A radio and television programs production company in China must obtain the Permit for Production and Operation of Radio and TV Programs (廣播電視節目製作經營許可證) to produce radio and television programs. In addition, pursuant to the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) and the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), we are required to obtain the Value-added Telecommunications Business Operation License for information services via Internet, or ICP License, and Internet Cultural Business License, or ICB License, for Internet cultural business. After obtaining the ICP License and ICB License, we are required to operate business strictly in accordance with the production and distribution scope approved by relevant PRC laws, regulations and policies. Certain types of content such as those opposing the fundamental principles in the Constitution of the PRC, compromising the state’s solidarity, sovereignty or territorial integrity are strictly prohibited, pursuant to the Regulations on Radio and Television Administration (Revised in 2020) (《廣播電視管理條例(2020年修訂)》) promulgated by the State Council on August 11, 1997 and last amended on November 29, 2020. See “Business — Licenses and Permits” for the permits we hold, and “Regulations” for details on the regulations in the businesses we operate. Any violation of these laws or regulations may result in penalties, including fines, cancelation of permit and even criminal responsibility.

The PRC government also extensively regulates the Internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the Internet industry. These Internet industry-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve uncertainties and are subject to changes. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We have obtained required licenses and permits for our operations. However, if we fail to obtain, maintain or renew any licenses which are required for our operation, or obtain any additional licenses and permits or make any records or filings required by new laws, regulations or executive orders required for our new business in a timely manner or at all, we could be subject to liabilities or penalties, and our operations could be adversely affected.

Our business may also be adversely affected by changes in national or local policies, as well as the laws and regulations relating to our industry, and there can be no assurance that the PRC government will not change the existing laws or regulations, or adopt additional or more stringent laws or regulations applicable to us and our business operations. For example, SAMR promulgated new anti-trust control regulations in 2021, aiming to improve anti-monopoly administration on online platforms. For details, see “Summary — Recent Developments and No Material Adverse Change — Recent Regulatory Development — Regulations relating to anti-trust control.” In light of the recent regulations relating to anti-trust control, we renegotiated the terms and entered into a non-exclusive music licensing contract with a leading online music platform in China in September 2021 with respect to the audio recordings in association with one of our music variety programs. Any changes to such laws and regulations or their interpretation or enforcement may expose us to the risk of non-compliance and may

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require us to conform our activities and operations to comply with such laws and regulations. We cannot predict the nature of such future laws, regulations, interpretations or applications, nor can we predict their impact on our business.

The performance of the advertising market will affect the ability of our customers to pay for our variety programs.

Our customers are mainly TV stations and online video platforms. A significant portion of revenue of our customers is generated from advertisements. Accordingly, the industry policy is implemented and the number of their advertising entities will affect the financial condition of our customers, which will ultimately affect their ability to make timely payments to us. If our customers, including TV stations and online video platforms, fail to retain their advertising entities in the future and/or attract new advertising entities continuously, their financial condition will be adversely and materially affected. In addition, the development of short-form videos has created fundamental changes to the advertising market as short-form videos give creators and advertisers the ability to quickly reach viewers, especially younger audiences. The market share of TV stations and online platforms for long-form videos may be therefore affected, which may lead to a decrease in their advertising income and adversely affect their ability to pay to us, and our financial condition and business operations may be materially and adversely affected.

We are subject to a variety of costs, risks and uncertainties in executing our growth strategies, such as capturing expansion opportunities in existing and new business initiatives. We may not be successful in executing these growth strategies and our results of operations and business prospects could be materially and adversely affected as a result.

We continue to execute a number of growth initiatives, strategies and operating plans designed to diversify our business and unleash the monetization potential of our leading position in China’s entertainment market. We launched certain IP-related businesses in recent years, such as arts education and training, consumer products based on our IPs, and developments and operation of themed attractions. Our business plans and strategies have been formulated based on a number of assumptions and ongoing successful cooperation with our business partners. These business initiatives are still at the early stages of development and haven’t become our major revenue contributors. We cannot assure you that any of these business initiatives will achieve wide market acceptance, increase the penetration of our addressable market or generate revenues or profit. If our efforts fail to enhance our monetization abilities, we may not be able to maintain or increase our revenues or recover any associated costs, and our business and results of operations may be materially and adversely impacted.

Our expansion strategies have also placed, and will continue to place, substantial demands on our managerial, operational, financial and other resources. The following factors are critical to our success:

- our ability to continuously source and create viewer-engaging content;

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- our ability to develop and maintain relationships with TV stations and online platforms;
- our ability to retain and attract well-known and experienced directors, artists, scriptwriters, producers, and operators;
- our ability to identify and ramp up new business in a timely manner;
- our ability to create synergies among all our businesses;
- our ability to obtain relevant governmental permits and approvals;
- our ability to develop and improve our existing administrative and operational systems;
- stringent cost controls and working capital management; and
- effective recruiting, training and retention of our management personnel.

The execution of our growth strategies will incur substantial costs and require substantial resources. We may not be able to manage our current or future operations effectively and efficiently to compete successfully in our existing markets or the new markets that we enter. We may also need to adjust our business plans and growth strategies from time to time, which could involve uncertainties. If our business plans and growth strategies fail to perform as expected, our business, financial condition and results of operations could be materially and adversely affected.

Our financial assets at fair value through profit or loss are subject to uncertainties in accounting estimates. Fluctuations in the changes in fair value of such financial assets would affect our financial results.

In the application of our accounting policies, our management is required to make judgments based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. See Note 20 to the Accountants' Report in Appendix I to this document. As such, we believe that our financial assets at fair value through profit or loss are subject to the accounting estimates and judgments and therefore warrant particular attention.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. See Note 2 to the Accountants' Report in Appendix I to this document. Some of our financial assets are measured at fair value at the end of each reporting period.

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During the Track Record Period, our financial assets at fair value through profit or loss refer to the listed equity investments of Tencent Music Entertainment Group at fair value held by us. The financial assets valuation has been, and will continue to be, subject to uncertainties in accounting estimation beyond our control, which may not reflect actual fair value of these financial assets and result in significant fluctuations in profit or loss from year to year. To the extent we need to revalue these financial assets, any change in fair value and related valuation uncertainty could materially affect our financial condition and results of operations. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded financial assets at fair value through profit or loss in the amount of RMB27.2 million, RMB45.1 million, RMB16.8 million and RMB13.0 million, respectively.

Pandemics and epidemics, natural disasters, terrorist activities, political unrest, and other *force majeure* may disrupt our artists, production, delivery, and operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

In recent years, there have been outbreaks of epidemics globally. In addition to the impact of COVID-19 as described above, our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of other widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, Ebola, or Zika or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of such a disaster or prolonged outbreak of an epidemic illness or other adverse public health developments in the countries and regions we operate in could materially disrupt our business and operations. Such events could also significantly affect our industry and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and prospects. Our operations could be disrupted if any of our employees were suspected of having any of the epidemic illnesses, since this could require us to quarantine some or all of such employees or disinfect the facilities used for our operations. In addition, our revenues and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the Chinese or global economy in general. Our operations could also be severely disrupted if our customers, suppliers or other participants were affected by such natural disasters, health epidemics or other outbreaks.

We may be subject to social and natural catastrophic events that are beyond our control, such as natural disasters, health epidemics, riots, political and military upheavals and other outbreaks in the country or region where we have our operations or where a portion of our audiences are located. Such events could significantly disrupt our operations and negatively impact our business, financial condition, results of operations and prospects.

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If we determine program copyrights to be impaired, our results of operations and financial condition may be adversely affected.

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. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded program copyrights of RMB15.5 million, RMB95.8 million, RMB109.6 million and RMB136.5 million. 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. For more details, see “Financial Information — Critical Accounting Policies and Estimates — Financial Liabilities — Program copyrights.” We cannot guarantee you that in the future we will not record any impairment loss on our program copyrights, which will have a material adverse effect on our business, financial condition and results of operations.

We may be subject to claims by third parties for intellectual property infringement.

We depend to a large extent on our ability to effectively develop and maintain intellectual property rights relating to our business. However, we cannot assure you that third parties will not put forward claims that our business infringes upon or otherwise violates copyrights or other intellectual property rights which they hold, whether valid or otherwise. Creative content such as scripts and music used in our programs may infringe on intellectual property rights of third parties.

In addition, under PRC laws, the copyright in a cinematographic work or in a work created by a process analogous to cinematography shall be enjoyed by the producer of the work, while its scriptwriter, director, cameraman, lyricist, composer and other authors shall own the right of authorship therein and shall be entitled to receive remuneration in accordance with the terms of the agreement concluded between them and the producer. Ownership of the copyright in an audio-visual work other than cinematographic work or television drama work shall be subject to the agreement between the parties concerned. If there is no agreement or the agreement is unclear, the producer of the work shall own the copyright, provided that the author shall have the right of authorship to such work and the right to obtain remuneration therefrom. The authors of the script, the musical works and the other works which are included in a cinematographic work or in a work created by a process analogous to cinematography and which can be exploited separately shall be entitled to exercise their copyright independently. Therefore, the issue of intellectual property rights entitlement may exist among the production parties involved in our video content operation business. These parties provide materials to us, and various script writers, directors, artists, cameramen, lyricists and composers engaged in production of our television and online programs. It might be time-consuming and costly to apply for and maintain those intellectual property rights.

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In addition, we may become involved in litigations and proceedings relating to allegations of infringement of intellectual property rights, defamation and violations of rights of third parties. The validity, enforceability and scope of protection of intellectual property rights, particularly within China, are still evolving. As we face increasing competition and as litigation becomes a more commonly pursued method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources. Further, there is no guarantee that we can obtain favorable final outcomes in all cases. Such intellectual property claims, even if they are frivolous or do not result in liability, may harm our brand and reputation. Any resulting liability or expenses, or required changes to our programs or services to reduce the risk of future liability, may have a material adverse effect on our business, results of operations and prospects.

Any acts of bribery, corrupt practices, money-laundering or other improper conducts of our employees may materially and adversely affect our business, reputation, results of operations and financial condition.

In recent years, the State Council and various PRC government authorities have intensified and stepped up their efforts to combat bribery, corrupt practices, money-laundering and other improper conducts in the PRC. We cannot assure you that our employees will not be engaged in acts of bribery, corruption, money-laundering or other improper conducts. There is also no assurance that our internal control and risk management systems will prevent or detect any improper or illegal acts of our employees. The failure of our employees to comply with the PRC anti-corruption and other related laws and regulations may subject us to substantial financial losses and may have a negative impact on our reputation. In addition, if any of our co-investors are subject to investigations, claims or legal proceedings as a result of such improper or illegal acts, they may be subject to fines and penalties and thus may not be able to contribute their portion of investment funds to our projects on schedule or at all, thereby delaying the project progress. Any of the abovementioned circumstances may materially and adversely affect our business, reputation, results of operations and financial condition.

We may incur share-based compensation expenses in the future, which may result in increased labor costs, and affect our profitability.

Our operations require a sufficient number of qualified employees. We adopted and may adopt in future share incentive arrangements to grant share-based compensation awards to our employees, directors and consultants to incentive their performance and align their interests with us. On November 10, 2016, Canxing Culture adopted an employee share incentive scheme (the “Canxing ESOP Plan,” which was terminated on May 14, 2021 as part of the Reorganization in preparation for the [REDACTED]). During the Track Record Period, we recorded equity-settled share award expenses of RMB26.0 million, RMB27.5 million, RMB27.4 million and nil in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. As part of the Reorganization, East Brothers was established in the BVI, which

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is owned by Mr. Tian as to 81.76%, of which 42.47% interest reflects the equity interests by all the Canxing ESOP Holders. Such interests are reserved for future distribution to eligible participants pursuant to the employee share incentive scheme to be adopted by the Company after [REDACTED]. For more information, see “History, Reorganization and Corporate Structure — Reorganization — Offshore Restructuring.” Our obligation to pay the share-based compensation expenses in the future will increase our labor costs, which may adversely affect our financial condition, and results of operations.

Legal disputes or proceedings may expose us to liabilities, divert our management’s attention and adversely affect our reputation.

We may be involved in claims, disputes or legal proceedings in our ordinary course of business from time to time. These may concern issues relating to, among others, breach of contracts, employment or labor disputes and infringement of intellectual property rights. For example, in April 2019, Canxing Culture initiated a lawsuit against Munhwa Broadcasting Corporation (the “MBC”) for breach of contract in relation to jointly production of a variety program, demanding MBC to return the production consulting services fee of US\$2.6 million and pay the damages for breach of contract of US\$520,000. In July 2020, MBC filed its counter-claims, demanding us to pay an aggregate amount of RMB47.5 million, primarily covering production fee, penalty for breach of contract, and accrued interests for overdue payment. In September 2021, the court ruled that Canxing Culture should pay production consulting services fee of RMB10 million and accrued interest for overdue payment to MBC. We had appealed on October 11, 2021. On November 11, 2021, we were notified that MBC had appealed against the first instance on October 13, 2021. The Shanghai High People’s Court, which is the court of the second instance, affirmed the ruling in August 2022. In July 2020, MBC brought another lawsuit against Canxing Culture for breach of contract in relation to a variety program, demanding us to pay the program licensing fee, revenues generated from the licensing of broadcasting rights, advertising sales, damages and others, with an amount of RMB110 million in total. As of the Latest Practicable Date the lawsuit is in the first instance and the court did not render judgment on this case. In addition, an artist participated in the production of three episodes of one of our variety programs in 2016. There was no formal performance contract between the artist’s then management company, Hummingbird Music Ltd. (“Hummingbird”), and us. In July 2022, Hummingbird brought a lawsuit against us at the Primary People’s Court of Changning District of Shanghai, claiming performance service fee of RMB16.3 million and attorney’s fee of RMB200,000. As of the Latest Practicable Date, the lawsuit was in the first instance and the court did not render judgment on this case. For more information, see “Business — Compliance and Litigation” in this document. As advised by our PRC Legal Advisor, these cases are all disputes regarding contract payments, which do not challenge our intellectual property rights on the two above mentioned variety programs. Taking into account the above legal opinion and financial resources available to our Group, our Directors are of the view that these cases will not have a significant impact on our operation. However, we cannot guarantee you that we can obtain favorable outcome on these cases or our financial results and operations will not be adversely affected.

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In addition, in February 2016, Talpa Global B.V. submitted to Hong Kong International Arbitration Center an intellectual property infringement dispute against SCML and MXQY. The parties involved reached a settlement and the arbitration was subsequently terminated in November 2017. In June 2016, Zhejiang Talent Television & Film Co., Ltd. (浙江唐德影視股份有限公司, or “Zhejiang Talent”) filed a lawsuit against us, claiming infringement of Zhejiang Talent’s trademark and unique name of service. We and Zhejiang Talent reached a settlement and Zhejiang Talent subsequently withdrew the claims in July 2018. Both the arbitration and the litigation were fully settled before the Track Record Period and did not have any material adverse impact on our financial condition and business operation. However, we cannot guarantee that we will not be subject to similar disputes brought by other parties in the future. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may adversely affect our financial condition and results of operations.

Our historical results may fluctuate and may not be indicative of our future performance.

Our financial condition and results of operations may fluctuate due to a number of other factors, many of which are beyond our control, including but not limited to:

- general economic and social conditions and government regulations or actions pertaining to the industries where we operate;
- increased competition and changing market demands;
- financing conditions of capital and debt markets;
- expansion and related costs in a given period; and
- our ability to control our cost of sales and other operating costs, and to enhance our operational efficiency.

In addition, we may not sustain our past growth rates in future periods, and we may not sustain profitability in the future. Our historical results, growth rates and profitability may not be indicative of our future performance. Our Shares could be subject to significant price volatility should our earnings fail to meet the expectations of the investment.

We may fail to recover our deferred tax assets, which could adversely affect our financial positions in the future.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded deferred tax assets of RMB53.0 million, RMB43.1 million, RMB59.0 million and RMB59.1 million, respectively. Under our accounting policies, we periodically assess the probability of the realization of deferred tax assets, using significant judgements and estimates with respect to

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historical operating results, expectations of future earnings, tax planning strategies and other related factors. According to our accounting policy, we recognize deferred tax assets relating to certain temporary differences and tax losses when our management considers it is probable that future taxable profit will be available and as a result, the temporary differences or tax losses can be utilized. However, there is no assurance that our judgements or estimates based on the expectation of future earnings could be accurate due to factors beyond our control, such as general economic conditions and negative development of the regulatory environment, in which case, we may fail to recover our deferred tax assets which thereby could have an adverse effect on our financial positions in the future.

We may need additional capital for our operations and we may not be able to obtain it on acceptable terms or at all, which could adversely affect our liquidity and financial condition.

Our business requires significant capital investment upfront. Historically, we have financed our business activities in part through (i) cash generated from our operations; (ii) proceeds from [REDACTED] investments; and (iii) bank and other borrowings. If our current sources are insufficient to satisfy our cash requirements, we may seek additional debt or equity financing or obtain a credit facility. The issuance of additional equity securities or convertible debt securities could result in dilution to our shareholders. The incurrence of indebtedness could result in increased debt service obligations, increased finance costs and operating and financing covenants that would restrict our operations and liquidity and negatively impact our financial performance.

Our ability to obtain additional capital on acceptable terms is subject to a variety of risks and uncertainties, including:

- investors’ perception of, and demand for, our securities;
- prevailing conditions of the capital markets in which we seek to raise funds;
- investors and/or lenders dynamics and outlook of capital markets;
- our financial performance and gearing ratio;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulations of the video content market in China;
- PRC governmental policies relating to foreign currency; and
- economic, political and other conditions in China.

Any failure by us to raise additional funds that are necessary for our operations on terms favorable to us could have a material adverse effect on our liquidity and financial condition.

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Our strategic alliances, investments or acquisitions or share of results of our joint ventures and associates may have a material adverse effect on our business, reputation, financial condition and results of operations.

We have made selected strategic investments and acquisitions, and, from time to time, we may have a number of pending investments and acquisitions that are subject to closing conditions. We expect to continue to evaluate and consider potential strategic transactions as part of our overall business strategy, including business acquisitions, strategic investments, joint ventures and alliances. At any given time, we may be engaged in discussing or negotiating a range of these types of transactions. These transactions also involve significant challenges and risks, including:

- difficulties integrating into our operations with the personnel, operations, products, services, technology, internal controls and financial reporting of companies we acquire;
- disrupting our ongoing business, distracting our management and employees and increasing our expenses;
- losing skilled professionals as well as established client relationships of the businesses we invest in or acquire;
- for investments over which we do not obtain management and operational control, we may lack influence over the controlling partner or shareholder, which may prevent us from achieving our strategic goals in such investment;
- new regulatory requirements and compliance risks that we become subject to as a result of acquisitions in new industries or otherwise;
- actual or alleged misconduct or non-compliance by any company we acquire or invest in (or by its affiliates) that occurred prior to our acquisition or investment, which may lead to negative publicity, government inquiry or investigations against such company or against us;
- unforeseen or hidden liabilities or costs that may adversely affect us following our acquisition of such targets;
- regulatory hurdles including in relation to the anti-monopoly and competition laws, rules and regulations of China and other countries in connection with any proposed investments and acquisitions;
- the risk that any of our pending or other future proposed acquisitions does not close;
- the costs of identifying and consummating investments and acquisitions;

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- the use of substantial amounts of cash and potentially dilutive issuances of equity securities;
- the occurrence of significant goodwill impairment charges and amortization expenses for other intangible assets; and
- challenges in achieving the expected benefits of synergies and growth opportunities in connection with these acquisitions and investments.

In addition, our strategic investments and acquisitions may affect our liquidity, financial condition and results of operation. Any significant cash outflow as a result of such strategic investments and acquisitions can affect our liquidity and our ability to undertake other initiatives to grow our business and ecosystem. Acquired businesses that are loss-making may continue to sustain losses and may not become profitable in the near future or at all. As of December 31, 2019, 2020 and 2021, and June 30, 2022, the carrying amount of investment in joint ventures and associates were RMB409.4 million, RMB408.6 million, RMB826.2 million, and RMB832.7 million, respectively. Even if we recognize share of profits of these joint ventures and associates under equity reporting method, there is no assurance that our invested joint ventures and associates will declare and/or pay any dividends because the declaration, payment and amount of dividends are subject to the discretion of directors of joint ventures and associates, depending on, among other considerations, their operations, earnings, cash flows and financial positions, constitutional documents and applicable laws. Therefore, we cannot assure you that investment in joint ventures and associates are as liquid as other investment products. In addition, if the share of profits of these joint ventures and associates were to fluctuate, our results of operations may be adversely affected. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, we incurred losses in connection with our joint ventures and associates of RMB2.6 million, RMB1.0 million, RMB1.5 million and RMB1.7 million, respectively.

Any above-mentioned situations may have material adverse impact on our business, results of operations and financial conditions.

Our investment in property development is lengthy and capital-intensive, and our capacity to generate cash or obtain financing on favorable terms may be insufficient to meet our anticipated cash requirements.

To provide better support to our production and operation of pan-entertainment IPs and benefit our ecosystem participants, we have invested in developing a movie and television base in Songjiang, Shanghai. We also acquired the right-of-use of land parcels in Xi’an, Shaanxi in 2021, which was subsequently transferred to Shaanxi Star Shuolan Real Estate Co., Ltd. (陝西星空碩藍置業有限公司) and Shaanxi Star Yuanlv Real Estate Co., Ltd. (陝西星空原綠置業有限公司) as investments in September 2021. For more detail, see “Financial Information — Discussion of Certain Balance Sheet Items — Assets — Investments in Associates.” The process of property development may be time-consuming, during which substantial capital expenditures will be required and may affect our cash flows and liquidity. Our net cash used

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in investing activities was approximately RMB584.8 million in 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. In addition, a significant amount of time may elapse between our expenditure incurred and the cash inflow after the development projects put into operation. During the Track Record Period, we utilized cash generated from our operations, capital contributions from Shareholders, and bank borrowings to fund development projects. However, there is no assurance that we will have sufficient cash flows or financial resources to fund these projects. Any delay, suspension or termination of the development may have a material adverse impact on our business, results of operations and financial conditions.

We have indebtedness and may incur additional indebtedness in the future, which may materially and adversely affect our financial condition and results of operations.

We incurred indebtedness during the Track Record Period and expect to incur additional bank borrowing going forward. As of December 31, 2019, 2020 and 2021, and June 30, 2022, our total interest-bearing bank borrowings amounted to approximately RMB185.0 million, RMB100.0 million, nil and nil, respectively. Our gearing ratio, as 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 end of the respective period multiplied by 100%, was approximately 4.3%, 2.5%, 0.1% and 0.5%, respectively.

Our gearing ratio is expected to increase due to the additional bank loans to fund our further operations. Leveraging our IP resources and strong brand effect, we have expanded into the themed attraction business with an asset-light model focused on IP licensing. We have obtained the land-use right of a land parcel in Songjiang, Shanghai to build our “Songjiang Star Variety Program, Film and Drama Series Production Base” (“Songjiang Base”). We expect to further incur approximately RMB58.8 million in the second half of 2022, RMB310.0 million in 2023 and RMB577.0 million after 2023 for the Songjiang Base, and fund approximately RMB831 million by bank loans and the rest by our own funds. For details, see “Business — Our Businesses — Other IP-Related Business — Themed Attractions.”

We have indebtedness and may incur additional indebtedness in the future, and we may not be able to generate sufficient cash to satisfy our existing and future debt obligations. Our indebtedness could have an adverse effect on us, for example, by increasing our vulnerability to adverse developments in general economic or industry conditions, such as significant increases in interest rates; and limiting our flexibility in the planning for, or reacting to, changes in our business or the industry in which we operate. Our ability to generate sufficient cash to satisfy our future debt obligations will depend upon our future operating performance, which will be affected by, among other things, prevailing economic conditions, PRC governmental regulation, the demand for the programs we produced, many of which are beyond our control. As a result, our cash flow, financial condition and results of operations may be materially and adversely affected.

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Our risk management and internal control systems may not fully protect us against various risks inherent in our business.

We have established risk management and internal control systems consisting of the relevant organizational framework policies, risk management policies and risk control procedures to manage our risk exposures, primarily our operational risks, legal risks and financial risks. However, we may not be successful in implementing our risk management and internal control systems. While we seek to continue to enhance such systems from time to time with future expansion of our business, we cannot assure you that our risk management and internal control systems are adequate or effective notwithstanding our efforts, and any failure to address any potential risks and internal control deficiencies could materially and adversely affect our business, financial condition and results of operations.

Since our risk management and internal control systems depend on the implementation by our employees, we cannot assure you that all of our employees will adhere to such policies and procedures, and the implementation of such policies and procedures may involve human errors or mistakes. Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control policies and procedures as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal control policies and procedures, our business, financial condition and results of operations could be materially and adversely affected.

Failure in our information and technology systems could interrupt our business operations.

We implement modern information and technology systems to store market and project data, and our suppliers’, customers’ and partners’ information and to manage our business operations. However, there is no assurance that we have sufficient ability to protect our information and technology systems from all possible damages including acts of nature, telecommunications breakdown, electricity failure or similar unexpected events which are beyond our control. If our information and technology systems do not function properly, or any partial or complete failure occurs to our systems, our business operations could be materially and adversely affected.

Failure to obtain or maintain any of the government grants or preferential tax treatments could adversely affect our financial condition and results of operations.

During the Track Record Period, we received various government grants from local government authorities to reward our support for the development of local economies. Such government grants 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. 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% for a three-year period, which will expire in November 2023. Nevertheless, such government

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grants and preferential tax treatment are non-recurring in nature, and the governmental authorities may decide to reduce or cancel such government grants or preferential tax treatment at any time. The discontinuation, reduction or delay of these government grants or preferential tax treatment could adversely affect our business, financial condition, results of operations and prospects. In addition, we may not be able to successfully or timely obtain the government grants or preferential tax treatment that may become available to us in the future, and such failure could adversely affect our business, financial condition, results of operations and prospects.

Unauthorized disclosures or manipulation of sensitive personal data gathered during our operations, whether through breach of our network security or otherwise, could expose us to litigation or could adversely affect our reputation.

We are subject to a variety of laws and other regulations relating to the security and privacy of data, including restrictions on the collection, usage and storage of personal information and requirements to take steps to prevent personal data from being divulged, stolen or tampered with. In addition, we run the risk that our employees or third parties could misappropriate or illegally disclose confidential information in our possession. As a result, we may be required to expend significant resources to provide additional protection from the threat of these security breaches or to alleviate problems caused by these breaches.

The interpretation and application of laws, regulations and standards relating to data protection and privacy are still uncertain and constantly changing, and these regulations are also affected by different interpretations or significant changes, which lead to uncertainty about the scope of our responsibility in this regard. For instance, on June 10, 2021, the Standing Committee of the National people’s Congress promulgated the Data Security Law of the People’s Republic of China (中華人民共和國數據安全法) (the “Data Security Law,” effective since September 1, 2021). The Data Security Law sets out a number of obligations on data security and privacy undertaken by entities and individuals engaged in data-related activities. It also prohibits any individual or entity in China from providing data stored in China to foreign judicial or law enforcement departments without the approval of the Chinese competent authorities. In accordance with the Data Security Law, the State establishes a system of classified and hierarchical protection of data, strengthens the protection of important data, and implements security review procedures for data activities that may affect national security. Personal Information Protection Law of the People’s Republic of China (中華人民共和國個人信息保護法), (the “Personal Information Law”), was promulgated on August 20, 2021 and shall come into effect on November 1, 2021. The Personal Information Law reiterating the situation in which personal information processors can handle personal information and the requirements for such cases. The personal Information Protection Act defines the scope of application, the definition of personal information and sensitive personal information, the legal basis for the processing of personal information, and the basic requirements for notification and consent.

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On December 28, 2021, the CAC, jointly with other 12 governmental authorities, issued the revised Measures for Cybersecurity Review (《網絡安全審查辦法》) (the “Review Measures”), which became effective on February 15, 2022. According to the Review Measures, a critical information infrastructure operator purchasing network products and services, and network platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. However, the Review Measures do not provide the standard of “affect or may affect national security”. Therefore, there can be no assurance if we are required to follow the cybersecurity review procedures, and if so, whether we would be able to complete the applicable cybersecurity review procedures in a timely manner. In addition, any failure or delay in the completion of the cybersecurity review procedures or any other non-compliance or perceived non-compliance with the PRC Cybersecurity Law or related regulations may prevent us from using or providing certain services, and may result in fines or other penalties such as making certain required rectification, suspending our relates business, taking down our operations and bring actions against us by Chinese regulatory authorities, customers or others.

On July 30, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), which became effective on September 1, 2021. Pursuant to the regulation, a critical information infrastructure refers to important network facilities or information systems in important industries, such as public communication and information service, energy, communications, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people’s livelihood and public interest in case of damage, function loss or data leakage. In addition, competent departments and administration departments of each important industry, or Protection Departments, shall be responsible to formulate determination rules and determine the critical information infrastructure operators in the respective important industry. The result of the determination of critical information infrastructure operators shall be informed to the operators, and notify the Public Security Department of the State Council. We were not determined as a critical information infrastructure operator as of the Latest Practicable Date.

During the Track Record Period, we were not subject to any sanctions or penalties, or engaged in any regulatory talks relating to violations of laws and regulations governing personal information and cybersecurity. However, there can be no assurance that our existing data privacy, cybersecurity and protection systems and technical measures are sufficient to protect us from potential risks and uncertainties. In addition, we do not have full control over the parties we work with. Any failure or perceived failure by us or our partners to comply with any applicable data privacy, cybersecurity and protection laws and regulations, or any failure by our employees to comply with our relevant internal policies and measures, could subject us to legal proceedings, regulatory actions or penalties. Any of these could materially and adversely affect our business, results of operations, financial conditions and prospects.

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Our limited insurance coverage could expose us to significant costs and business disruption. Any uninsured occurrence of business disruption, material litigation or natural disaster could expose us to significant costs, which could have an adverse effect on our results of operations.

While we believe our practice is in line with industry standards, our insurance coverage is limited. For example, we do not maintain business interruption insurance or litigation insurance. Any uninsured occurrence of business disruption, material litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material and adverse effect on our results of operations. The insurance industry in China is still evolving, there are currently limited offerings of business-related insurance products. As a result, we may not be able to insure against certain risks related to our assets or business. If we were to incur substantial losses or liabilities due to fire, explosions, floods or other natural disasters, disruption in our network infrastructure or business operations, or any material litigation, our results of operations could be materially and adversely affected. Our current insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy and package on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or if the compensated amount is significantly less than our actual loss, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may face penalties for the non-registration of our lease agreements in China.

As of the Latest Practicable Date, the lease agreements with respect to some of properties we lease in the PRC for our business operations had not been registered and filed with the relevant PRC government authorities. As advised by our PRC Legal Advisor, failure to register such lease agreements with the relevant PRC government authorities does not affect the validity and enforceability of the relevant lease agreements but the relevant PRC government authorities may order us or the lessors to, within a prescribed time limit, register the lease agreements. Failure to do so with the time limit may subject us to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. During the Track Record Period and as of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant PRC government authorities. For details, please see “Business — Properties” in this document.

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RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC government determines that the agreements establishing the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting business of publishing and production of audio-visual products and production and distribution of radio and television programs and Internet cultural activities. See “Regulations — Regulations in Relation to Foreign Investment.” To comply with the relevant PRC laws and regulations, certain businesses currently operated by us in the PRC is directly conducted by our Consolidated Affiliated Entities, based on a series of Contractual Arrangements by and among our WFOE, our Consolidated Affiliated Entities and the Registered Shareholders, as applicable. As a result of these Contractual Arrangements, we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities and consolidate their results of operations. Our Consolidated Affiliated Entities hold the requisite licenses, permits and approvals required for our business operations. Some of our intellectual property rights, including copyrights and trademarks, are also held by our Consolidated Affiliated Entities. See “Contractual Arrangements.”

Our PRC Legal Advisor has advised us that the corporate structure of Canxing Culture and its subsidiaries and the agreements of Contractual Arrangements are not in violation of application PRC laws and regulations. However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisor. If we are found to be in violation of any PRC laws or regulations or if the agreements of Contractual Arrangements among the WFOE, our Consolidated Affiliated Entities and the Registered Shareholders, as applicable, are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the Contractual Arrangements;
- revoke our business and operating licenses related to our video content operation business and/or Internet cultural activities;
- restrict or prohibit related party transactions between the WFOEs and our Consolidated Affiliated Entities;

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- require us to discontinue or restrict operations related to our video content operation business and/or Internet cultural activities;
- restrict our right to collect revenue generated from our video content operation business and/or Internet cultural activities;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets related to our video content operation business and/or Internet cultural activities; or
- impose additional conditions or requirements with which we may not be able to comply, or take other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in our Consolidated Affiliated Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, the existing PRC laws, rules and regulations are subject to changes or new PRC laws, rules and regulations may be introduced to impose additional requirements, all of which may impose additional challenges to our corporate structure and Contractual Arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of Consolidated Affiliated Entities or the rights to receive their economic benefits, we would no longer be able to consolidate our Consolidated Affiliated Entities, thus adversely affect our results of operations.

Substantial uncertainties exist with respect to whether the control of PRC onshore VIEs by foreign investors via contractual arrangements will be recognized as “foreign investment” and how it may impact the viability of our current corporate structure and operations.

On March 15, 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “FIL”), which came into force on January 1, 2020. The PRC Foreign Investment Law defines “foreign investment” as investment activity in China conducted directly or indirectly by foreign investors in any of the following manners: (i) the foreign investor, by itself or together with other investors, establishes a foreign-invested enterprise in China; (ii) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests in enterprises in China; (iii) the foreign investor, by itself or together with other investors, invests and establishes a new project in

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China; or (iv) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. The PRC Foreign Investment Law is silent on how to define and regulate VIEs, while adding a catch-all clause that “other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council” can fall within the concept of “foreign investment,” which leaves uncertainty as to whether a foreign investor’s control of PRC onshore VIEs via contractual arrangements will be recognized as “foreign investment.” Pursuant to the PRC Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a “negative list,” which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set out in the “negative list,” are allowed to make investments in the industries which are listed as “restricted” in such negative list. With respect to any foreign investor that fails to comply with such negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance, and impose other penalties.

The production and distribution of radio and television programs, Internet cultural activities, production and distribution of television drama series and value-added telecommunications services that we conduct through our Consolidated Affiliated Entities are subject to foreign investment restrictions or prohibitions as set out in the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which was promulgated by the NDRC and the MOFCOM jointly on December 27, 2021 and became effective on January 1, 2022. It is unclear whether any new “negative list” to be issued under the PRC Foreign Investment Law will be different from such existing list.

The PRC Foreign Investment Law leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment. It is therefore uncertain whether our corporate structure will be seen as violating foreign investment rules as we are currently using the Contractual Arrangements to operate certain businesses in which foreign investors are currently prohibited or restricted from investing. Furthermore, if future laws, administrative regulations or provisions of the State Council mandate further actions to be taken by companies with respect to our existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance and business operations could be materially and adversely affected.

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We rely on our Contractual Arrangements for our operations in China, which may not be as effective in providing operational control as direct ownership. Our Consolidated Affiliated Entities and/or their registered shareholders may fail to perform their obligations under our Contractual Arrangements, which may result in us resorting to litigation to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation.

Majority of our revenues are attributed to our Consolidated Affiliated Entities. Due to PRC restrictions on and prohibitions of foreign ownership of certain businesses in China, we operate our business in China through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on our Contractual Arrangements with our Consolidated Affiliated Entities and their registered shareholders to control and operate the businesses of our Consolidated Affiliated Entities. These Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See “Contractual Arrangements” for more details about these Contractual Arrangements. In particular, our ability to control the Consolidated Affiliated Entities is dependent on the power of attorney granted by the Registered Shareholders under the Voting Right Trust Agreements, pursuant to which our WFOE is entitled to vote on all matters requiring shareholder approval with respect to our Consolidated Affiliated Entities.

Although we have been advised by our PRC Legal Advisor that each of the agreements and undertakings under the Contractual Arrangements among our WFOE, our Consolidated Affiliated Entities and their registered shareholders is legal, valid and binding under existing PRC laws and regulations, except that the dispute resolution provisions set forth in the agreements of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts, these Contractual Arrangements may not be as effective in providing operational control over our Consolidated Affiliated Entities and their subsidiaries as direct equity ownership. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our Consolidated Affiliated Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the Contractual Arrangements, as a legal matter, if our Consolidated Affiliated Entities or their registered shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws and regulations, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation. For example, if the shareholders of our Consolidated Affiliated Entities were to refuse to transfer their equity interests in our Consolidated Affiliated Entities to us or our designee when we exercise the call option pursuant to the agreements of the Contractual Arrangements or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. These Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from the Contractual Arrangements will be resolved through arbitration in China. However, the legal

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systems, are in China, particularly as it relates to arbitration proceedings, are different from legal systems in many other jurisdictions. There are very few precedents and little official guidance as to how contractual arrangements in the context of consolidated affiliated entities should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of arbitration, should legal action become necessary. These uncertainties could limit our ability to enforce the Contractual Arrangements. In addition, arbitration awards are final and may only be enforced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. In the event we are unable to enforce the Contractual Arrangements or if we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate the financial results of such entities in our consolidated financial statements, our ability to conduct our business may be negatively affected, and our operations could be severely disrupted, which could materially and adversely affect our business, financial condition, results of operations and prospects.

As some of our Contractual Arrangements may not have fully detailed the parties’ rights and obligations, our remedies for a breach of these arrangements may not be guaranteed.

Our current relationship with our Consolidated Affiliated Entities and their ultimate shareholders is based on a number of contracts, and the Consolidated Affiliated Entities are considered to be our VIEs for accounting purposes. Regardless of our internal control and contract management processes, certain terms of the Contractual Arrangements may be statements of general intent and may not have fully detailed the rights and obligations of the parties. Some of these contracts contain price and payment terms that are subject to quarterly adjustments. These provisions may be subject to different interpretations, particularly in relation to the details of the services to be provided and the price and payment terms. It may be difficult for us to obtain remedies or damages from these affiliated entities or their ultimate shareholders for breaching our agreements. As we rely significantly on these companies for our business, the realization of any of these risks may disrupt our operations or cause degradation in quality and service provided on, or a temporary or permanent shutdown of our platform.

We may not be able to conduct our operations without the services provided by certain of our Consolidated Affiliated Entities.

Our operations are currently dependent upon our commercial relationships with our Consolidated Affiliated Entities, and we derive most of our revenues from these companies. If our Consolidated Affiliated Entities are unwilling or unable to perform the agreements which we have entered into with them, we may not be able to conduct our operations in the manner in which we currently do. In addition, our Consolidated Affiliated Entities may seek to renew these agreements on terms that are disadvantageous to us. Although we have entered into a series of agreements that provide us with substantial ability to control these companies, we may

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not succeed in enforcing our rights under them. If we are unable to renew these agreements on favorable terms, or to enter into similar agreements with other parties, our business may not expand, and our operating expenses may increase.

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

Our Consolidated Affiliated Entities hold assets that are material to our business operations. The Contractual Arrangements with our Consolidated Affiliated Entities contain terms that specifically obligate their registered shareholders to ensure the valid existence of our Consolidated Affiliated Entities and that our Consolidated Affiliated Entities may not be voluntarily liquidated. However, should the shareholders breach this obligation and voluntarily liquidate our Consolidated Affiliated Entities, or should our Consolidated Affiliated Entities declare bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

The registered shareholders of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business.

Our control over the Consolidated Affiliated Entities is based upon the Contractual Arrangements among our Consolidated Affiliated Entities and their registered shareholders. The Registered Shareholders may potentially have conflicts of interest with us and breach their contracts or undertaking if it would further their own interest or if they otherwise act in bad faith. We cannot assure you, however, that when conflicts of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favor. In the event of any such conflicts of interest, these individuals may breach or cause our Consolidated Affiliated Entities to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from our Consolidated Affiliated Entities. If we cannot resolve such conflict of interest or dispute between us and such shareholders of our Consolidated Affiliated Entities should it arise, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements with our Consolidated Affiliated Entities and their registered shareholders. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

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We conduct our business operations in China through the Consolidated Affiliated Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws and regulations.

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and regulations and provided for resolution of disputes through arbitration in China. Accordingly, these agreements would be interpreted in accordance with PRC laws and regulations, and disputes would be resolved in accordance with PRC legal procedures. The uncertainties as to the adoption of evidence and precedent rulings in China’s legal system could limit our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over our Consolidated Affiliated Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Consolidated Affiliated Entities, injunctive relief and/or winding up of Consolidated Affiliated Entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws and regulations, these terms may not be enforceable. Under PRC laws and regulations, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Consolidated Affiliated Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as courts in Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws and regulations do not allow the arbitral body to grant an award of transfer of assets of or equity interests in Consolidated Affiliated Entities in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by our Consolidated Affiliated Entities and/or their respective registered shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over the Consolidated Affiliated Entities, which could negatively affect our ability to conduct our business.

The Contractual Arrangements may subject us to scrutiny by the PRC tax authorities and may result in a finding that we owe additional taxes or are ineligible for tax exemptions, or both, which could substantially increase our taxes owed and thereby reduce our profit attributable to equity shareholders of the Company.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the exclusive technical services and management consultancy agreements we have with our Consolidated Affiliated Entities do not represent an arm’s-length price and adjust any of those entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, PRC tax authorities may form the view that our subsidiaries or Consolidated Affiliated Entities have improperly minimized their tax obligations, and we may

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not be able to rectify any such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for underpaid taxes, which could materially and adversely affect our business, financial condition and results of operations.

If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

Pursuant to the Contractual Arrangements, our WFOE has the exclusive right to purchase all or any part of the equity interests and assets in each of our Consolidated Affiliated Entities from their shareholders at a purchase price equal to RMB1.0, or at the lowest price permitted by PRC law, for the optioned interests. In the event of such transfer, the lowest price permitted by PRC law may be substantially higher than RMB1.0, or the competent tax authority may require our WFOE to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under the Contractual Arrangements, in which case our WFOE may be subject to a substantial amount of tax and our financial condition may be materially and adversely affected.

A transfer of shares in some of our Consolidated Affiliated Entities may trigger tax liability.

If we need to cause the transfer of shareholdings in our Consolidated Affiliated Entities from their current respective shareholders to any other individual and/or entities, we may be required to pay tax in the PRC on behalf of the transferring shareholder. Such tax would be based on any gain deemed to have been realized by such shareholder on such transfer, and may be calculated based on a tax rate applied to the transferring shareholder’s interest in net book value of the entity whose shares are being transferred minus the original investment cost. A significant tax obligation arising from any such transfer of shares could materially and adversely affect our business and results of operations.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Uncertainties or prolonged adversity in global or China’s economic, political and social conditions or government policies could adversely affect our business and prospects.

We derive majority of our revenues from our operations in China. As a result, our revenues and net income are impacted to a significant extent by economic, political and social conditions in China and globally, as well as economic conditions specific to online and mobile Internet usage and advertising. China’s economic conditions are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The global macroeconomic environment is facing new challenges and there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies. Recent

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international trade disputes, including tariff actions announced by the United States, the PRC and certain other countries, and the uncertainties created by such disputes may cause disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. There have also been concerns about the economic effect of the military conflicts and political turmoil or social instability in the Middle East, Europe, Africa and other places. The global economy, markets and levels of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates. Any severe or prolonged slowdown in the global economy may adversely affect the Chinese economy which in turn may adversely affect our business and operating results.

The rate of economic growth in the PRC has been experiencing a slowdown, primarily as a result of the COVID-19 pandemic. In addition, any future escalation of the ongoing trade war between the United States and China, regional or national instability, or ongoing impact of the COVID-19 pandemic may negatively impact the growth in both the Chinese economy and the global economy as a whole. Although the PRC government has implemented a number of measures to address the slowdown, we cannot be certain that these measures will be successful. Any continuing or worsening slowdown could significantly reduce domestic commerce in China, including through the Internet generally and within our ecosystem. An economic downturn, whether actual or perceived, a further decrease in economic growth rates, or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material and adverse effect on our business, financial condition, results of operations and prospects.

The economy of China has, in certain aspects, been transitioning to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the PRC government have had a positive effect on the economic development of China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Co-operation and Development (the “OECD”). These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;

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- inflation rates;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy was similar to those of the OECD member countries.

Fluctuations in the value of the Renminbi and other currencies may have a material and adverse impact on our results of operations and other comprehensive income or loss, as well as the value of your investment.

In the Track Record Period, substantially all of our revenues and expenditures were denominated in Renminbi, while the [REDACTED] from the [REDACTED] will be in U.S. dollars. Fluctuations in the exchange rate between the Renminbi and U.S. dollar will affect the relative purchasing power in Renminbi terms of the [REDACTED] from the [REDACTED]. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our Consolidated Affiliated Entities. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations. 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. During the Track Record Period, we recognized income of exchange differences on translation of foreign operations of RMB11.8 million and RMB24.7 million in 2019 and the six months ended June 30, 2022, respectively, and loss of exchange differences on translation of foreign operations of RMB56.1 million and RMB12.5 million in 2020 and 2021, respectively, which may be reclassified to profit or loss in subsequent periods. For more information, see “Financial Information” and Note 2.4 to the Accountants’ Report in Appendix I to this document.

Market forces or PRC or Hong Kong or U.S. government policy may adversely impact the exchange rate between the Renminbi, Hong Kong dollar and U.S. dollar in the future. Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China’s foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollar since July 2005 and, although the measures adopted by People’s Bank of China in the foreign exchange market may impact Renminbi exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long-term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

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There remains significant international pressure on the PRC government to adopt a flexible currency policy to allow the Renminbi to appreciate against the U.S. dollar. Significant revaluation of the Renminbi may have a material and adverse effect on your investment. Substantially all of our revenues and costs are denominated in Renminbi and any significant revaluation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares in Hong Kong dollars. To the extent that we need to convert U.S. dollars into Renminbi for capital expenditures and working capital and other business purposes, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against the U.S. dollars may significantly reduce the translation amount in the U.S. dollar of our earnings, which in turn could adversely affect the price of our Shares, and if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our Shares, strategic acquisitions or investments or other business purposes, the appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

Restrictions on the remittance of Renminbi into and out of the PRC and governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect foreign exchange transactions, including our ability to pay dividends and perform other obligations, and may affect the value of your investment.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the State Administration of Foreign Exchange, or SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no

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assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

PRC regulations of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the [REDACTED] from the [REDACTED] to make loans to our PRC subsidiaries and our Consolidated Affiliated Entities or to make additional capital contributions to our PRC subsidiaries, which may materially adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the [REDACTED] we receive from the [REDACTED] in the manner described in “Future Plans and Use of [REDACTED],” as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries, or (iv) acquire offshore entities with business operations in China in offshore transactions. However, most of these uses are subject to PRC regulations and approvals. For example: capital contributions to our PRC subsidiaries, whether existing or newly-established ones, are subject to the requirement of necessary filings in the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation and registration with other governmental authorities in China; loans by us to our PRC subsidiaries, which are foreign invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with the SAFE, or its local branches; and medium or long term loans by us to our PRC operating entities, which are domestic PRC entities, must be approved by the NDRC and must also be registered with SAFE or its local branches.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the “SAFE Circular 19”). SAFE Circular 19 reforms the administration of the settlement of the foreign exchange capital of foreign-invested enterprises by allowing foreign-invested enterprises to settle their foreign exchange capital at their discretion, but it continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scope. On June 9, 2016, SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions over Capital Account Foreign Exchange (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the “SAFE Circular 16”). SAFE Circular 16 continues to prohibit foreign-invested enterprises from using the RMB funds converted from its foreign exchange capital for expenditures beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real

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estate other than for self-use. On October 23, 2019, SAFE issued the Notice of SAFE on Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知), which, among other things, expanded the use of foreign exchange capital to domestic equity investment area. Non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments by using their capital on the premise of no violation of prevailing special administrative measures for access of foreign investments (negative list) and the authenticity and compliance with the regulations of domestic investment projects. SAFE Circular 19 and SAFE Circular 16 and other relevant foreign exchange rules may significantly limit our ability to transfer and use in China the [REDACTED] from this [REDACTED], which may adversely affect our business, financial conditions and results of operations.

We expect that PRC laws and regulations may continue to limit our use of [REDACTED] or from other financing sources. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our entities in China. If we fail to receive such registrations or approvals, our ability to use the [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

Substantially all of our business is conducted in China and is governed by PRC laws and regulations. Our Consolidated Affiliated Entities are located in China and subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by relevant enforcement bodies to further apply and enforce such laws and regulations. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by whom an application or case is presented to such agency, we may receive less favorable interpretation of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

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The M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth opportunities through acquisitions in China.

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM and other government authorities jointly issued the Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) which was effective as of September 8, 2006 and amended on June 22, 2009 (the “M&A Rules”). The M&A Rules and other regulations and rules concerning mergers and acquisitions established procedures and requirements that could make merger and acquisition activities by foreign investors time consuming and complex. For example, the M&A Rules requires MOFCOM be notified in advance of any change-of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law of PRC (《中華人民共和國反壟斷法》) promulgated by the SCNPC on August 30, 2007 and effective as of August 1, 2008 requires transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be notified and cleared by MOFCOM before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於建立外國投資者併購境內企業安全審查制度的通知》) (“Circular No. 6”), which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns, and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (《商務部實施外國投資者併購境內企業安全審查制度的規定》) (“MOFCOM Security Review Rules”), to replace the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度有關事項的暫行規定》) promulgated by MOFCOM effective from March 2011 and expired by the end of August 2011, for implementing Circular No. 6. The MOFCOM Security Review Rules, which became effective on September 1, 2011, explicitly provide that MOFCOM will look into the substance and actual impact of the transaction and further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, and obtaining control through contractual arrangements or offshore transactions.

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In the future, we may grow our business by acquiring complementary businesses. For example, we plan to pursue investments, strategic alliances and/or acquisitions in assets and businesses that are complementary to our business and in line with our strategies. For more information, see “Future Plans and Use of [REDACTED]” in this document. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

Under the PRC enterprise income tax law, we may be deemed a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our Shareholders and have a material and adverse effect on our results of operations and the value of your investment.

Under the PRC enterprise income tax law that became effective on January 1, 2008, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform EIT tax rate of 25% on its worldwide income. On April 22, 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the “Circular 82”), which sets out certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Further to the Circular 82, on July 27, 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》) (“SAT Bulletin 45”), which became effective on September 1, 2011, and was last amended on June 15, 2018, to provide more guidance on the implementation of the Circular 82. According to the Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered a PRC tax resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (d) not less than half of the enterprise’s directors

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or senior management with voting rights habitually reside in the PRC. SAT Bulletin 45 provides further rules on residence status determination, post-determination administration as well as competent tax authorities procedures.

Although the Circular 82 and SAT Bulletin 45 apply only to offshore-incorporated enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, that the determination criteria set out therein may reflect the SAT’s general position on how the term “de facto management body” could be applied in determining the tax resident status of offshore enterprises regardless of whether they are controlled by PRC enterprises, individuals or foreigners. We do not meet all of the conditions set out in the Circular 82. Therefore, we believe that we should not be treated as a “resident enterprise” for PRC tax purposes even if the standards for “de facto management body” prescribed in the Circular 82 applied to us. For example, our minutes and files of the resolutions of our Board of Directors and the resolutions of our Shareholders are maintained outside the PRC. However, the PRC tax authorities may take a different view. If the PRC tax authorities determine that our Cayman Islands holding company or any Hong Kong or BVI subsidiary is a PRC resident enterprise for PRC enterprise income tax purposes, its worldwide income could be subject to PRC tax at a rate of 25%, which could reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Although dividends paid by one PRC tax resident to another PRC tax resident should qualify as “tax-exempt income” under the enterprise income tax law, dividends paid by our PRC subsidiary to us or any of our Hong Kong or BVI subsidiaries could be subject to a 10% withholding tax if we or any of our Hong Kong or BVI subsidiaries were treated as a PRC resident enterprise. The PRC foreign exchange control authorities, which enforce the withholding tax on dividends, and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.

If we are treated as a resident enterprise, non-PRC resident holders of Shares may also be subject to PRC withholding tax on dividends paid by us and PRC tax on gains realized on the sale or other disposition of Shares, if such income is sourced from within the PRC. The tax would be imposed at the rate of 10% in the case of non-PRC resident enterprise holders and 20% in the case of non-PRC resident individual holders. In the case of dividends, we would be required to withhold the tax at source. Any PRC tax liability may be reduced under applicable tax treaties or similar arrangements, but it is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Although our holding company is incorporated in the Cayman Islands, it remains unclear whether dividends received and gains realized by our non-PRC resident holders of Shares will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax will reduce the returns on your investment in our Shares.

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There are uncertainties with respect to indirect transfers of PRC taxable properties outside a public stock exchange.

We face uncertainties regarding the reporting and consequences of private equity financing transactions, private share transfers, and share exchanges involving the transfer of shares in our Company by non-resident investors. According to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), issued by the SAT on February 3, 2015 (“Bulletin 7”), an “indirect transfer” of assets of a PRC resident enterprise, including a transfer of equity interests in a non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises (“Indirect Transfer”), may be re-characterized and treated as a direct transfer of PRC taxable properties, if such transaction lacks reasonable commercial purpose and was undertaken for the purpose of reducing, avoiding or deferring PRC enterprise income tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and tax filing or withholding obligations may be triggered, depending on the nature of the PRC taxable properties being transferred. According to Bulletin 7, “PRC taxable properties” include assets of a PRC establishment or place of business, real properties in the PRC, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income tax. When determining if there is a “reasonable commercial purpose” for the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable properties; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable properties have a real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable properties; and the tax situation of such Indirect Transfer outside China and its applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business of a foreign enterprise, the resulting gain is to be included with the annual enterprise filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to PRC real properties or to equity investments in a PRC resident enterprise, which are not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the competent tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest.

Currently, Bulletin 7 does not apply to the sale of shares by investors through a public stock exchange where such shares are acquired in a transaction on a public stock exchange. The PRC tax authorities could, at their discretion, adjust any capital gains and impose tax return

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filing and withholding or tax payment obligations and associated penalties with respect to any internal restructuring, and our PRC subsidiary may be requested to assist in the filing. Any PRC tax imposed on a transfer of our Shares not through a public stock exchange, or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in our Company.

We may rely on dividends paid by our 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.

We are a holding company, and we may rely on dividends paid to us by our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our Shares and to service any debt we may incur. If our WFOE incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, a wholly foreign-owned enterprise in China, such as our WFOE, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our WFOE to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

Furthermore, the ability of our WFOE to pay dividends in turn depends on service fees paid by our Consolidated Affiliated Entities pursuant to the Contractual Arrangements. Each of our Consolidated Affiliated Entities is required to set aside at least 10% of its accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. Although our WFOE, our Consolidated Affiliated Entities and their subsidiaries have no plan to pay any dividends in the foreseeable future, if they incur debt on their own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

In addition, the PRC enterprise income tax law and its implementation rules provide that a withholding tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC and governments of other jurisdictions in which the non-PRC-resident enterprises are incorporated.

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It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

All of our executive Directors and executive officers reside within China, and majority of our assets are located within China. Therefore, it may be difficult for investors to effect service of process upon us or our executive Directors and officers inside China or to enforce against us or them in China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

Pursuant to the Notice on Strengthening the Administration on Enterprise Income Tax for Non-Resident Enterprise Equity Transfer (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the “SAT Circular 698”) issued by the SAT in December 2009 with retroactive effect from January 1, 2008, and abolished and void as of December 1, 2017, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and is established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On February 3, 2015, the SAT issued the Bulletin 7. Bulletin 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698, but does not touch upon the other provisions of SAT Circular 698, which remains in force. Bulletin 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698. Bulletin 7 extends its tax jurisdiction to not only Indirect Transfers set out under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, Bulletin 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Bulletin 7 also brings challenges to both foreign transferor and transferee (or

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other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws and regulations if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, SAT issued the Announcement on Issues Concerning the Withholding of Enterprise Income Tax at Source on Non-PRC Resident Enterprises (《關於非居民企業所得稅源泉扣繳有關問題的公告》) (the “Bulletin 37”), which, among others, repeals the SAT Circular 698 on December 1, 2017. Bulletin 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises under SAT Circular 698, and certain rules stipulated in Bulletin 7 are replaced by Bulletin 37. Where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the Enterprise Income Tax, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the tax payable within such time limits specified by the tax authority; however, if the non-resident enterprise voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

There are uncertainties as to the application of Bulletin 7 and Bulletin 37. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Bulletin 7 and Bulletin 37 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in our Company, if any, if such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may become at the risk of being taxed under Bulletin 7 and Bulletin 37 and may be required to expend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we should not be taxed under Bulletin 7 and Bulletin 37, which may have a material and adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us. We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current

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shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

PRC regulations relating to offshore investment activities by PRC residents may limit our Consolidated Affiliated Entities’ ability to increase their registered capital or distribute profits to us and our ability to reinvest in our Consolidated Affiliated Entities and may otherwise expose us to liability and penalties under PRC law.

In July 2014, the SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015. If our Shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws and regulations for evasion of applicable foreign exchange restrictions. However, we may not at all time be fully aware or informed of the identities of all our Shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such Shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, and limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (the “Stock Option Rules”). Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Certain employees and former employees of our Group were granted share awards pursuant to the employee share incentive scheme adopted by Canxing Culture, which was terminated on May 14, 2021. See “History, Reorganization and Corporate Structure — Reorganization.” Failure of such employees and former employees to complete their SAFE registrations may subject these PRC residents and us to fines and legal sanctions or otherwise materially and adversely affect our business, financial condition and results of operations.

We may be subject to the approval or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities.

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)), and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行上市備案管理辦法(徵求意見稿)) (the “Draft Overseas Listing Filing Measures”, collectively, the “**Draft Regulations on Listing**”). As of the Latest Practicable Date, the Draft Regulations on Listing were in draft form and had not come into effect.

The Draft Regulations on Listing, if adopted in its current form, will require that, among other things, domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information with the CSRC. The issuer must submit to the CSRC filing documents within three working days after an application for initial public offering to competent overseas regulators is submitted.

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We believe the Draft Regulations on Listing will not have a material and adverse impact on our business operations and the [REDACTED] if they are implemented in their current form. However, we cannot assure you that the Draft Regulations on Listing will be formally implemented in their current form or any new rules or regulations promulgated in the future will not impose any additional requirement on us. If it is determined that we are subject to any CSRC approval, filing, and/or other governmental authorization or requirements for future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failures may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions. In addition, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, the settlement and delivery may not occur. Any uncertainty and/or negative publicity regarding such an approval, filing or other requirements may also have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the completion of the [REDACTED], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [REDACTED]. The [REDACTED] is the result of negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]), which may not be indicative of the price at which our Shares will be traded following the completion of the [REDACTED]. The [REDACTED] of our Shares may drop below the [REDACTED] at any time after completion of the [REDACTED].

The [REDACTED] of our Shares may be volatile, which could result in substantial losses to you.

The [REDACTED] of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performances of and fluctuations in the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatilities in the price and trading volumes of our Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the [REDACTED] of our Shares. These broad market and industry factors may significantly affect the [REDACTED] and [REDACTED] of our Shares, regardless of our actual operating performance.

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There will be a gap of several days between [REDACTED] and [REDACTED] of our Shares, and the [REDACTED] of our Shares when [REDACTED] begins could be lower than the [REDACTED].

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be several business days after the [REDACTED]. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the [REDACTED] of our Shares could fall before [REDACTED] begins as a result of adverse market conditions or other adverse developments that could occur between the time of [REDACTED] and the time [REDACTED] begins.

The actual or perceived sale or availability for [REDACTED] of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the [REDACTED] of our Shares.

Future [REDACTED] of a substantial number of our Shares, especially by our Directors, executive officers and Controlling Shareholders, or the perception or anticipation of such [REDACTED], could negatively impact the [REDACTED] of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders are subject to certain [REDACTED] periods beginning on the date on which [REDACTED] in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the [REDACTED] periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the [REDACTED] of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly “Industry Overview,” contains information and statistics relating to our industry. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not

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been independently verified by us, the [REDACTED], the [REDACTED], the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the [REDACTED] for our Shares and [REDACTED] volume could decline.

The [REDACTED] for our Shares may be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our Shares, the [REDACTED] for our Shares would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the [REDACTED] or [REDACTED] volume of our Shares to decline.

Whether and when the dividends will be declared and paid cannot be assured.

Our ability to declare future dividends will depend on the availability of dividends, if any, received from our Consolidated Affiliated Entities. Under applicable laws and the constitutional documents of our Consolidated Affiliated Entities, the payment of dividends may be subject to certain limitations. The calculation of certain of our Consolidated Affiliated Entities' profit under applicable accounting standards differs in certain respects from the calculation under IFRS. As a result, our Consolidated Affiliated Entities may not be able to pay a dividend in a given year even if they have profit as determined under IFRS. Accordingly, since we derive all of our earnings and cash flows from dividends paid by our Consolidated Affiliated Entities, we may not have sufficient distributable profit to pay dividends to our Shareholders. In addition, any future dividend declaration and distribution will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and PRC laws, including, where required, the approvals from our shareholders and our Directors. Our Shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board.

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Moreover, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. As a result, we cannot assure you that we will make any dividend payments on our Shares in the future. See “Financial Information — Dividend Policy.”

Certain judgments obtained against us by our Shareholders may not be enforceable.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our Directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to serve the process effectively within Hong Kong upon these individuals, or to bring an action against us or against these individuals in Hong Kong in the event that you believe your rights have been infringed under the Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

Since we are incorporated under the Cayman Islands law, you may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong courts may be limited.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum of Association and Articles of Association, the Cayman Companies Act (As Revised) and the common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, actions by minority Shareholders and the fiduciary duties of our Directors to us under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England and Wales, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary duties of our Directors under the Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions. In particular, the Cayman Islands has a less developed body of securities laws than Hong Kong. Hong Kong has more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, the Cayman Islands companies may not have standing to initiate a shareholder derivative action in Hong Kong courts.

Shareholders of Cayman Islands exempted companies like us have no general rights under the Cayman Islands law to inspect corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies) or to obtain copies of lists of shareholders of these companies. Under the Cayman Islands law, the names of our current Directors can be obtained from a search conducted at the Registrar of Companies. Our Directors will have discretion

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under the Memorandum of Association and Articles of Association we expect to adopt, to determine whether or not, and under what conditions, our corporate records may be inspected by our Shareholders, but are not obliged to make them available to our Shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a Shareholder resolution or to solicit proxies from other Shareholders in connection with a proxy contest.

As a result of all of the above, our public Shareholders of Shares may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board of Directors or Controlling Shareholders than they would as public shareholders of a company incorporated in Hong Kong. For a discussion of significant differences between the provisions of the Cayman Companies Act (As Revised) and the laws applicable to companies incorporated in Hong Kong and their shareholders, see “Summary of the Constitution of The Company and Cayman Islands Company Law” in Appendix III to this document.

You must rely on the judgment of our management as to the use of the [REDACTED] from the [REDACTED], and such use may not produce income or increase the price of our Shares.

Our management will have considerable discretion in the application of the [REDACTED] received by us. You will not have the opportunity, as part of your investment decision, to assess whether [REDACTED] are being used appropriately. The [REDACTED] may be used for corporate purposes that do not improve our efforts to achieve or maintain profitability or increase the [REDACTED] of Shares. The [REDACTED] from the [REDACTED] may be placed in investments that do not produce income or that lose value.

Waivers [have been granted] from compliance with certain requirements of the Listing Rules. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Hong Kong Stock Exchange and SFC [has granted] to us, a number of waivers from strict compliance with the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules.” There is no assurance that the Hong Kong Stock Exchange or SFC will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multijurisdictional compliance, all of which could materially and adversely affect us and our Shareholders.

RISK FACTORS

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there has been press and media coverage regarding us and the [REDACTED]. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and, under normal circumstances, at least two of the new applicant’s executive directors must be ordinarily resident in Hong Kong.

Since the majority of the business operations of our Group are managed and conducted outside of Hong Kong, and all of the executive Directors ordinarily reside outside Hong Kong, our Company considers that it would be practically difficult and commercially unreasonable and undesirable for our Company to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of existing executive Directors or appointment of additional executive Directors. Our Company does not have and does not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, our Company has appointed and will continue to maintain two authorized representatives, namely Ms. Wang Yan (王艷), the executive Director and joint company secretary of the Company and Ms. Leung Wing Han Sharon (梁穎嫻), the joint company secretary of the Company, to be the principal communication channel at all times between the Stock Exchange and our Company. Each of them has confirmed that she can be readily contactable by the Stock Exchange based on information provided to the Stock Exchange for the contact details, and will also be available to meet with the Stock Exchange on short notice. Ms. Leung Wing Han Sharon is also authorized to accept service of process and notices on our behalf in Hong Kong under the Companies Ordinance. Each of the authorized representatives will have the means of contacting all Directors (including independent non-executive Directors) promptly at all times as and when the Stock Exchange proposes to contact a Director with respect to any matter. Our Company will also inform the Stock Exchange promptly in respect of any change in the authorized representatives;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) in addition to the appointment of the authorized representatives, to facilitate communication with the Stock Exchange, the contact details of each Director, including his or her mobile phone number, office phone number, facsimile number and email address have been provided to each of the authorized representatives, the Compliance Advisor (as defined below) who have the means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters, and the Stock Exchange. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period as and when required;
- (c) pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed China Securities (International) Corporate Finance Company Limited as our compliance advisor (the “**Compliance Advisor**”) for the period commencing from the [REDACTED] until the date on which our Company announces our financial results and distributes our annual report for the first full financial year after the [REDACTED]. The Compliance Advisor will act as our Company’s additional and alternative channel of communication with the Stock Exchange, and its representatives will be readily available to answer enquiries from the Stock Exchange. Our Company will ensure that there are adequate and efficient means of communication between us, our authorized representatives, Directors and other officers and the Compliance Advisor, and will keep the Compliance Advisor fully informed of all communications and dealings between us and the Stock Exchange;
- (d) the Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing Rules and will be available to respond to enquiries from the Stock Exchange. Our Company will ensure that the Compliance Advisor has prompt access to the authorized representatives of our Company and the Directors who will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor’s duties. The Compliance Advisor will also provide advice in compliance with Rule 3A.23 of the Listing Rules. In addition, our Company will retain a Hong Kong legal advisor to advise it on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the [REDACTED]; and
- (e) meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives of our Company or the Compliance Advisor, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in its authorized representatives and/or the Compliance Advisor in accordance with the Listing Rules.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our Company must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- a member of The Hong Kong Chartered Governance Institute;
- a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and
- a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

Note 2 to Rule 3.28 of the Listing Rules provides that, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (i) length of employment with the issuer and other issuers and the roles he/she played;
- (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Wang Yan (王艷) (“**Ms. Wang**”) as one of the joint company secretaries. Ms. Wang is currently the executive Director and the chief financial officer of our Company. She has extensive experience in financial and business management and corporate governance matters, as well as a thorough understanding of the daily operations, internal administration and financial management of our Group accumulated since her joining the Group in March 2015. However, Ms. Wang currently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, our Company has appointed Ms. Leung Wing Han Sharon (梁穎嫻) (“**Ms. Leung**”), a Chartered Secretary, a Chartered Governance Professional and a fellow member of both The Hong Kong Chartered Governance Institute (formerly known as “The Hong Kong Institute of Chartered Secretaries”) and The Chartered Governance Institute in the United Kingdom, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Ms. Wang for an initial period of three years from the [REDACTED] to enable Ms. Wang to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules. For details on Ms. Wang’s and Ms. Leung’s qualifications and experience, see “Directors and Senior Management.”

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Accordingly, our Company has therefore applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules on the conditions that:

- (i) Ms. Wang will endeavor to attend relevant training courses, including briefings on the latest changes to the relevant applicable Hong Kong laws and regulations and the Listing Rules from which will be organized by our Company's Hong Kong legal advisor on an invitation basis and seminars organized by the Stock Exchange for listed issuers time to time;
- (ii) Both Ms. Wang and Ms. Leung have confirmed that each of them will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investors relation as well as the functions and duties of the company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules;
- (iii) Ms. Leung will assist Ms. Wang to enable her to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as our company secretary;
- (iv) Ms. Leung will communicate regularly with Ms. Wang on matters relating to corporate governance, the Listing Rules and any other laws and regulations which are relevant to our Company and its affairs. Ms. Leung will work closely with, and provide assistance for, Ms. Wang in discharging her duties as a company secretary, including organizing our Board meetings and Shareholders' general meetings;
- (v) Upon expiry of Ms. Wang's initial term of appointment as the company secretary of our Company, we will evaluate her experience in order to determine if she has acquired the qualifications required under Rule 3.28 of the Listing Rules, and whether on-going assistance should be arranged so that Ms. Wang's appointment as the company secretary of the Company continues to satisfy the requirements under Rules 3.28 and 8.17 of the Listing Rules; and
- (vi) The Company has appointed China Securities (International) Corporate Finance Company Limited as its Compliance Advisor pursuant to Rule 3A.19 of the Listing Rules which will act as the additional communication channel with the Stock Exchange (for a period commencing on the [REDACTED] and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the [REDACTED], or until the engagement is terminated, whichever is earlier) and provide professional guidance and advice to the Company and Ms. Wang as to the compliance with the Listing Rules and all other applicable laws and regulations.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We understand that such waiver will be revoked immediately if Ms. Leung ceases to provide assistance to Ms. Wang as a joint company secretary for the three-year period after the [REDACTED] or where there are material breaches of the Listing Rules by our Company. Before the end of the three-year period, we shall liaise with the Stock Exchange to revisit the situation in the expectation that we should then be able to demonstrate to the Stock Exchange’s satisfaction that Ms. Wang, having had the benefit of Ms. Leung’s assistance for three years, would then have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

[REDACTED]

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

[REDACTED]

CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules following the completion of the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver in relation to certain continuing connected transactions between us and our connected persons under Chapter 14A of the Listing Rules. For further details, see “Connected Transactions.”

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. TIAN Ming (田明)	Room C, No. 20, Lane 358 West Guilin St. Xuhui District Shanghai, China	Chinese
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Mr. JIN Lei (金磊)	No. 627, East Nanjing Road Huangpu District Shanghai, China	Chinese
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Mr. XU Xiangdong (徐向東)	Room 602, No. 558, Lane 300 Huichuan Road Changning District Shanghai, China	Chinese
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Mr. LU Wei (陸偉)	Room 301, No. 19, Lane 288 Macau Road Putuo District Shanghai, China	Chinese
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Ms. WANG Yan (王艷)	No. 17-302, Longyang Garden Lane 61, Linyi Road Pudong New District Shanghai, China	Chinese
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Non-Executive Director

Mr. LEE Wei Choy	Unit 202, Tower 1, No. 1399 Dingxiang Road Pudong New District Shanghai, China	Singaporean
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Independent Non-executive Directors

Mr. LI Liangrong (李良榮)	Room 1501, No. 7, Lane 178 Handan Road Yangpu District Shanghai, China	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Mr. CHEN Rehao (陳熱豪)	Room 1701, No. 9, Lane 1639 South Xizang Road Huangpu District Shanghai, China	Chinese
Mr. SHENG Wenhao (盛文灝)	Room 501, No. 100 Long Bai San Cun Minhang District Shanghai, China	Chinese

Further information is disclosed in “Directors and Senior Management” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

**Joint Sponsors, [REDACTED],
[REDACTED],
[REDACTED] and
[REDACTED]**

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**China Securities (International)
Corporate Finance Company Limited**
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

[REDACTED]

Legal Advisors to our Company

As to Hong Kong law:

Cooley HK
35/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law:

Zhong Lun Law Firm
6/10/11/16/17F
Two IFC, 8 Century Avenue
Pudong New Area, Shanghai
PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

As to Cayman Islands law:

Maples and Calder (Hong Kong) LLP
26th Floor, Central Plaza
18 Harbour Road
Hong Kong

**Legal Advisors to the Joint Sponsors
and the [REDACTED]**

As to Hong Kong law:

Kirkland & Ellis
26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

CM Law Firm
Rm 2805, Plaza 66 Tower 2
1366 West Nanjing Rd
Shanghai
PRC

Reporting Accountant and Auditor

Ernst & Young
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

[REDACTED]

Industry Consultant

Frost & Sullivan
Suite 2504
Wheelock Square
1717 Nanjing West Road
Shanghai
PRC

CORPORATE INFORMATION

Registered Office in the Cayman Islands	PO Box 309, Uglan House Grand Cayman, KY1-1104 Cayman Islands
Headquarters and Principal Place of Business in the PRC	17/F, Jiefang Building No. 300 Hankou Road Shanghai, PRC
Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road, Kowloon Hong Kong
Company Website	<u>starcmgroup.com</u> <i>(the information contained on this website does not form part of this document)</i>
Joint Company Secretaries	Ms. Wang Yan Ms. Leung Wing Han Sharon <i>(FCG, HKFCG)</i>
Authorized Representatives	Ms. Wang Yan Ms. Leung Wing Han Sharon <i>(FCG, HKFCG)</i>
Audit Committee	Mr. Chen Rehao <i>(Chairperson)</i> Mr. Li Liangrong Mr. Sheng Wenhao
Remuneration Committee	Mr. Li Liangrong <i>(Chairperson)</i> Mr. Jin Lei Mr. Chen Rehao
Nomination Committee	Mr. Tian Ming <i>(Chairperson)</i> Mr. Chen Rehao Mr. Li Liangrong

[REDACTED]

CORPORATE INFORMATION

[REDACTED]

Compliance Advisor

**China Securities (International)
Corporate Finance Company Limited**
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Principal Banks

**China CITIC Bank Shanghai Wanping
Road Sub Branch**
203 Wanping South Road
Shanghai
PRC

**The Hongkong and Shanghai Banking
Corporation Limited**
1 Queen's Road Central
Hong Kong

China Merchants Bank Shanghai Branch
No.1092 Hualing Road
Baoshan District, Shanghai
PRC

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from different official government publications, available sources from public market research and other sources from independent suppliers. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the [REDACTED], [REDACTED], Joint Sponsors, [REDACTED], [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

INTRODUCTION AND SOURCE OF INFORMATION

We engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report on, the pan-entertainment market in the PRC for use in this document. The information from Frost & Sullivan disclosed in this document is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB695,000, and is disclosed with the consent of Frost & Sullivan. The Frost & Sullivan Report has been prepared by Frost & Sullivan independently without any influence from us or other interested parties. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York and its services include, among others, industry consulting, market strategic consulting and corporate training.

Frost & Sullivan conducted (i) primary research, which involved discussing the status of the industry with certain leading industry participants; and (ii) secondary research, which involved reviewing company reports, independent research reports and data based on its own research database. Frost & Sullivan adopted the following primary assumptions while making projections: (i) global social, economic and political environment is likely to remain stable in the forecast period; (ii) purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions; and (iii) related industry key drivers are likely to drive the market in the forecast period.

INDUSTRY OVERVIEW

GLOBAL ENTERTAINMENT MARKET AND CHINA PAN-ENTERTAINMENT MARKET

Global Entertainment Market

The global entertainment market mainly consists of four sub-segments, namely, the music market, the variety program market, the drama series market, and the movie market. The global entertainment market has experienced growth with the CAGR of 5.8% between 2017 and 2019, reaching US\$370.7 billion in 2019. In 2020, global entertainment market decreased by 9.7% to US\$334.6 billion due to the negative influence of COVID-19. The global entertainment market is expected to gradually recover and further increase to US\$504.8 billion in 2026 with CAGR of 6.2% between 2021 and 2026.

The established integrated entertainment companies in developed countries, such as the Walt Disney company, equip themselves with distinguished competitive edges and continuously expand their business horizontally based on their IP operation capabilities and proactively introduce diversified entertainment offerings, ranging from movies, drama series to theme parks and co-branded consumer goods. Such IP-centered development strategy further strengthen their competitive advantages and contribute to maximizing the intrinsic commercial value of their IPs.

China Pan-entertainment Market

The entertainment industry in China has developed into the pan-entertainment stage, thanks to the largest internet use base in the world and high proliferation of innovative digital technologies. It is featured as extensively integration of multi-level creative and innovative products, in addition to the traditional entertainment sectors such as drama series, movie and music. In addition, industry participants use full value chain sharing and symbiosis to build powerful IP network. In detail, China pan-entertainment market mainly consists of eight categories in terms of display products, which are drama series, movie, variety program, digital music, live streaming, short form video, online literature, and animation segments.

Market size of China Pan-Entertainment Market

China’s pan-entertainment market experienced rapid growth in the past years with the market size increased from RMB299.2 billion in 2017 to RMB700.3 billion in 2021 at a CAGR of 23.7%. By 2026, the market is expected to further increase to RMB1,345.6 billion, representing a CAGR of 14.0% between 2021 and 2026.

Among eight categories, the variety program market is expected to increase from RMB56.4 billion in 2021 to RMB63.3 billion in 2026. As to digital music segment, people’s increasing awareness of copyright protection and willingness to pay contribute to the significant development of digital music industry. The market size expanded from RMB14.2 billion in 2017 to RMB44.0 billion in 2021, representing a CAGR of 32.7%. By 2026, the market size of digital music is expected to reach RMB72.1 billion at a CAGR of 10.4% during 2021 and 2026. The market of drama series, as one of the pivotal pillars in pan-entertainment market in China, increased slightly from RMB86.8 billion in 2017 to RMB90.2 billion in 2021.

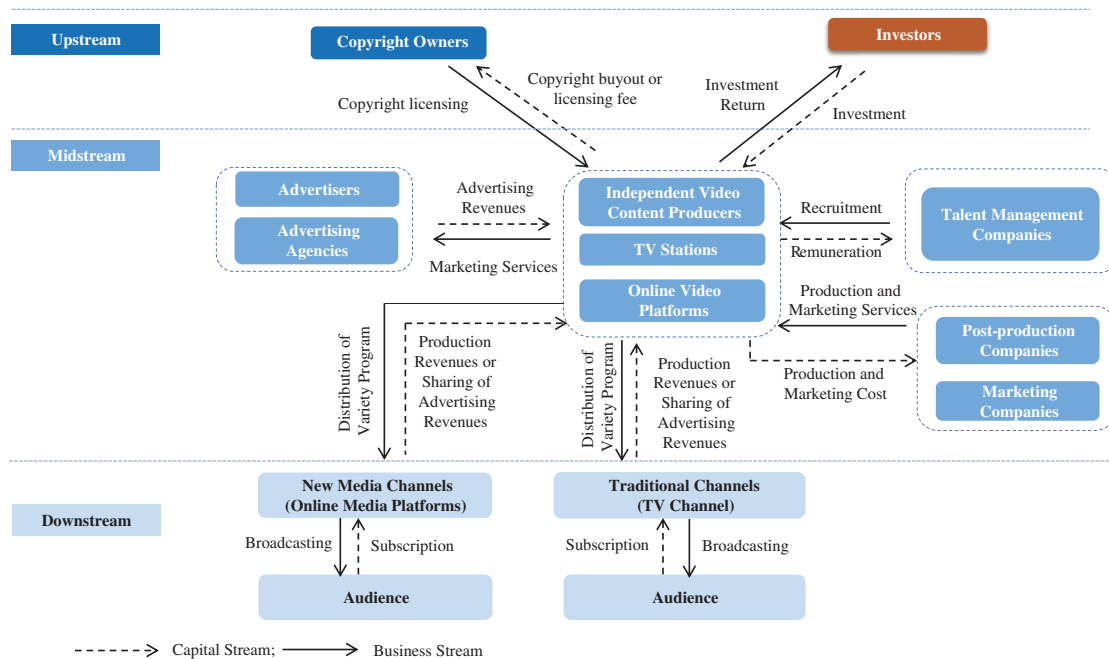
INDUSTRY OVERVIEW

VARIETY PROGRAM MARKET IN CHINA

The variety program is characterized as a type of interactive audio-visual entertainment video content with different themes, incorporating comprehensive artistic factors with engaging nature, such as music variety program, dance variety program, talent show, talk show and other variety programs. Based on the type of first broadcasting channels, variety program could be classified into TV variety program and web variety program.

Value Chain Analysis of Variety Program Market in China

The value chain of variety program market in China could be divided into (i) upstream, which includes copyright owners and investors; (ii) midstream, which includes advertisers, independent video content producers, TV stations, online video platforms, post-production companies, marketing companies and talent management companies, among others, and (iii) downstream, which includes online media platforms and TV channels. Major participants in the variety program market in China consist of the producers with different backgrounds and differentiated capabilities, advertisers and their agencies, copyright owners, post-production companies, marketing and distribution companies, and broadcasting channels. There are a small number of companies in China with an integrated capability to develop, produce, market and distribute video content programs, such as the Company. The diagram below illustrates the value chain of the variety program market in China.



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Market Size of Variety Program Market in China

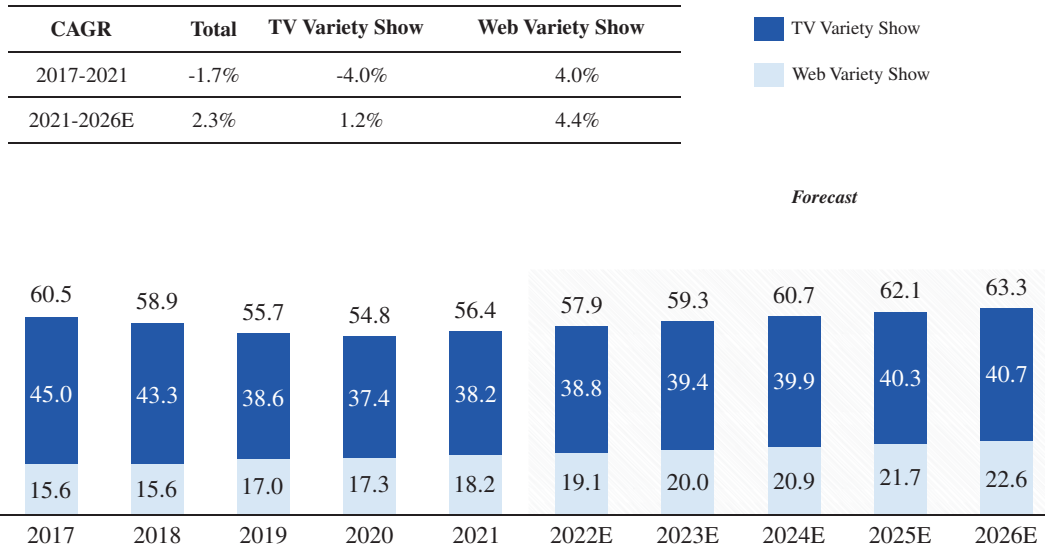
The market size refers to the advertising revenue, sub-licensing revenues and derivative product revenues of TV variety program and web variety program. Due to the decrease of advertising revenues of TV stations and decline in the number of broadcast TV variety programs between 2017 and 2020, the TV variety programs market experienced slight decrease during the same period. In particular, the outbreak of COVID-19 in 2020 led to the delay of filming and distribution of the variety program and the shrink of marketing budget of the brand owners, resulting in the further decrease of TV variety programs market size in 2020. In addition, the licensing fees that online video platforms paid for the broadcasting rights of TV variety programs experienced a downward trend in the past years. Although the IP owners of TV variety programs proactively diversify their monetization based on the content of variety programs, the rapid growth of the derivative revenue cannot offset the decline in advertising revenue and licensing revenue. In the meantime, web variety market experienced steady growth from RMB15.6 million in 2017 to RMB18.2 million in 2021, thanks to the continuing growth of the advertising revenues, representing a CAGR of 4.0% in the same period, which partially offset the decrease of TV variety program market.

In the next following years, the annual number of broadcast TV variety programs is forecasted to remain stable as the market is expected to develop into a mature stage. In addition, the annual number of broadcast web variety programs is forecasted to increase slightly, which to certain extent contribute to the increase of the variety programs market. Meanwhile, the further development of IP-centered content operation, including development of derivative products, such as co-branded consumer goods, organization of offline commercial events and collaboration with overseas streaming platform, will bring new growth potential to this market. Thus, the TV variety programs market is forecasted remain stable at CAGR of approximately 1.2% between 2021 and 2026 and reach approximately RMB40.7 billion by 2026, and the web variety program market is expected to increase to RMB22.6 million in 2026, representing a CAGR of 4.4% from 2021 to 2026.

INDUSTRY OVERVIEW

The following chart illustrates the actual and forecasted market size of the variety program market in China in terms of revenue generated by variety program by category for the period indicated.

Market Size Breakdown of Variety Program Market by Category (China)
RMB Billion; 2017-2026E



Note: The market size refers to the advertising revenue, sub-licensing revenues and derivative products of TV variety program and web variety program.

Source: Frost & Sullivan Report

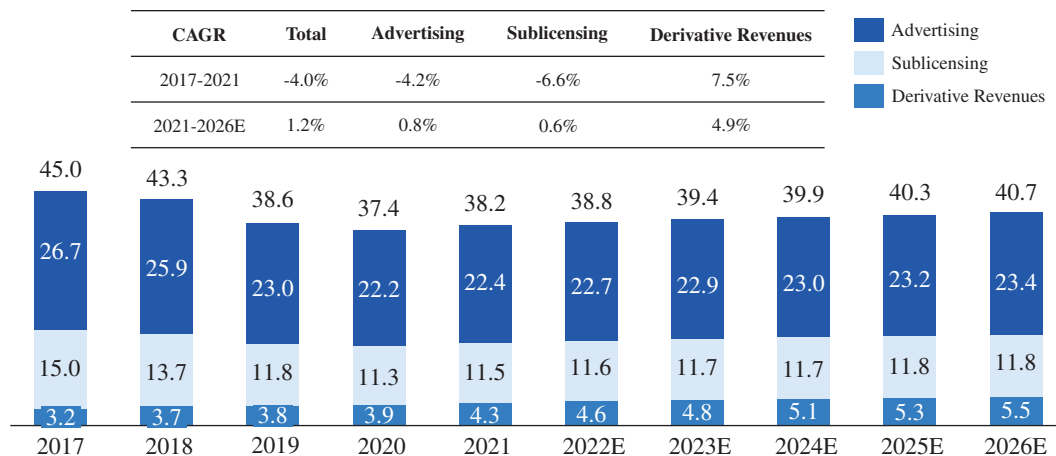
TV Variety Program

Revenue from TV variety program primarily generated from advertising, sub-licensing and derivation. Between 2017 and 2019, the market size of China TV variety program market experienced slightly decrease from approximately RMB45.0 billion to approximately RMB38.6 billion, mainly due to the decrease of TV advertising and the decreasing number of broadcast TV variety shows, primarily being affected by the popularity and competition of web variety shows, and decrease of sublicensing revenues, primarily being affected by the development of regulations and policies toward entertainment industry and platform’s tendency to control costs. The outbreak of COVID-19 in 2020 led to the delay of filming and distribution of the variety program and the shrink of marketing budget of the brand owners, resulting in the further decrease of TV variety programs market size to RMB37.4 million in 2020. In 2021, the pace of the decline in advertising revenues of TV channels significantly narrowed and the number of broadcast TV variety shows slightly increased, and the TV variety program market reached RMB38.2 billion. It indicates that the negative impact of the outbreak of COVID-19 and the development of regulations and policies toward entertainment industry that leads to the decline of TV variety shows market have been gradually diminishing.

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The TV variety program market is expected to experience a moderate increase in the following years. The decrease of TV advertising revenues is expected to cease due to the recovery of the market from the affect of COVID-19. Furthermore, the market size of TV variety programs is expected to gradually recover and have a moderate growth as the producers of TV variety program are actively exploring diversified monetization approaches based on premium variety program IP, including developing derivative products, organizing offline commercial events and collaborating with overseas streaming platforms. In particular, the emergence and rapid development of derivative products industry is expected to contribute to the increase of TV variety program market going forward. In addition, The rapid development of online video platforms gradually changes the viewing behavior and preference of the audience, especially the young generations who are the mainstream customers in the media and entertainment market. Therefore, online video platforms attract a massive audience base, which attribute to the increase of TV variety programs’ touch points and generation of more monetization opportunities. The TV variety programs have developed and will continue to develop to cater to the diverse needs of the audience, and this trend will further increase the popularity of TV variety programs in the following years. By 2026, the market size of China TV variety program market is forecasted to reach approximately RMB40.7 billion, representing a CAGR of 1.2% during 2021 to 2026, taking into consideration the potential adverse affect of resurgence of COVID-19 cases in certain regions and/or cities in China. The following chart illustrates the market size for TV variety program by type of revenue for the period indicated.

Market Size Breakdown of TV Variety Program Market by Type (China)
RMB Billion; 2017-2026E



Note: The market size refers to the advertising revenue, sub-licensing revenues and derivative revenues of TV variety program.

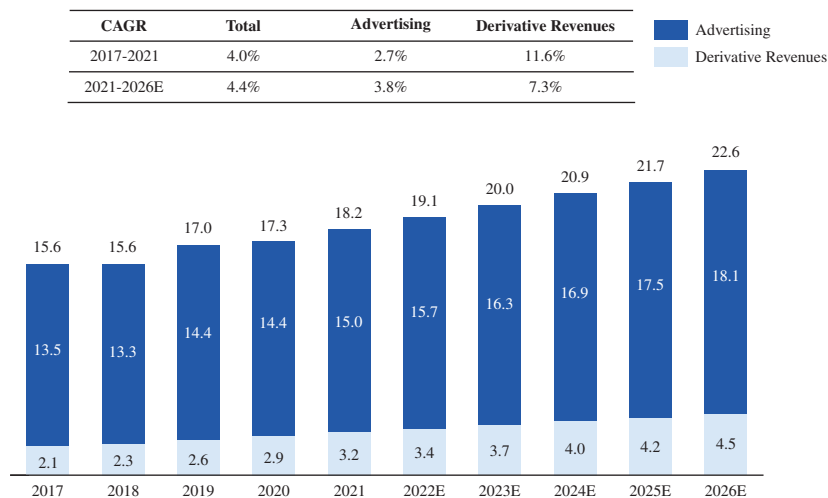
Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Web Variety Program

Revenue from web variety program primarily generated from advertising and derivation, which includes the revenues from IP licensing to consumer goods brand and various forms of IP operating income. As Chinese video platform users become more focused on the quality and originality of video content, online video platforms start to focus on professional-produced content or co-produced content to cater viewers’ ever-changing demands. As a result, between 2017 and 2021, the market size of web variety program market in China increased from RMB15.6 billion in 2017 to RMB18.2 billion in 2021. The following chart illustrates the market size for web variety program market by source of revenue for the period indicated.

Market Size Breakdown of Web Variety Program Market by Type (China)
RMB Billion; 2017-2026E



Note: The market size refers to the advertising revenue and derivative revenues of web variety program.

Source: Frost & Sullivan Report

Competitive Landscape of Variety Program Market in China

In 2021, the market size of variety program market in China reached approximately RMB56.4 billion. The growth of China variety program market attracts a wide range of participants with differentiated capabilities. The producers and operators of variety programs in China could be classified into three categories: (i) independent producers and operators, (ii) in-house producers and operators from TV stations and (iii) in-house producers and operators from online video platforms. Compared with the latter two, the independent producers and operators of variety programs usually pay more attention to the quality of program content to subsequently monetize the IPs originated from their programs. Besides, the relationship between the independent producers and operators of variety programs and another two types of market players is more cooperative than competitive. The former could license the broadcasting rights of their programs to the latter two or co-produce programs with them. In

INDUSTRY OVERVIEW

this case, there is limited competition between different market players. In 2020, the market share of top five independent producers and operators reached 5.5% with revenues generated from variety programs of RMB3.1 billion, indicating its highly fragmented landscape.

The Company ranked first in the variety program market among the market players without proprietary broadcasting channels in China in 2021, in terms of revenue generated from advertising, sub-licensing and derivative products, and it accounted for 1.6% of total variety program market.

Ranking	Variety Program producers and operators	Principal Business	Market Share (%)
1	Our Company	Variety program, music, drama series and movie producers	1.6
2	Company A ¹	Production and distribution of TV variety program	0.7
3	Company B ²	Production and distribution of comedy variety program and offline performance of talk show	0.5
4	Company C ³	Production and distribution of variety program	0.4
5	Company D ⁴	Production and distribution of web variety program	0.4
Total			3.6

Source: Frost & Sullivan Report

Notes:

1. Company A is a private company and was established in 2015 in Nanjing, with a focus on the production and distribution of TV variety programs. It mainly produces dating shows and science competition reality shows.
2. Company B is a private company and was established in 2014 in Shanghai, with a focus on the offline performance of talk show and the production of comedy variety programs.
3. Company C is a private company and was established in 2011 in Shanghai, with a focus on the production and distribution of comedy competition variety programs.
4. Company D is a private company and was established in 2014 in Beijing, with a focus on the production and distribution of web variety programs. It mainly produces trainee talent shows and music competition shows.

The costs of variety programs, drama series and movies primarily consist of artist costs, production costs, post-production costs, costs to acquire the ownership or right of use of copyrights, if applicable, and other miscellaneous costs to procure materials and services required in the process of shooting and post-production.

INDUSTRY OVERVIEW

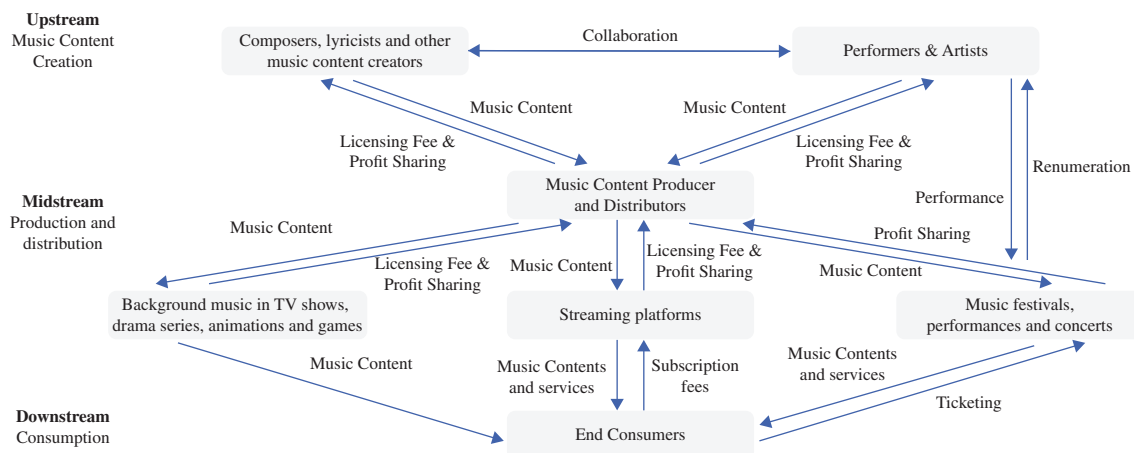
The cost per variety program normally ranges between RMB50.0 million and RMB400.0 million. Among the total costs, marketing costs normally take up 5% to 10% and post-production costs normally take up approximately 10%. The percentage of marketing costs and post-production costs remained relatively stable in the past few years. Being affected by the regulatory authorities’ restrictions on the artists’ compensation since 2018, the percentage of the artists’ remuneration in total production cost decreased from approximately 50%-60% to approximately 35%-40%, and remained stable since then. Correspondingly, the production cost in the process shooting, including fees paid to directors, stage designers, lighting engineers, photographers, and logistics fees, among others, increased to approximately 35%-40%. The cost structure is forecasted to remain stable in the following years.

MUSIC MARKET IN CHINA

The music market is a general term for all parties involved in the creation, performance, recording, promotion and managing process. The main stakeholders in the music market include creative professionals (songwriters and composers), performance professionals, business professionals and professional supporting staff. The market players in music market generate their revenues by creating new songs and lyrics, selling recordings of performances, audio and radio and providing agent services to music professionals.

Value Chain Analysis of Music Market in China

The upstream participants are mainly individuals that create music content, including composers, lyricists and performing artists. The midstream participants are music content producers and distributors who usually own plenty of music IPs and generate revenues from music licensing, selling albums and holding music-related activities, such as concerts and music festivals. They also cultivate talented musicians to continuously produce high-quality music content. The downstream participants are consumers, including subscribers of streaming platforms, buyers of physical and digital music albums, or audience of music concerts, music performances and festivals.



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

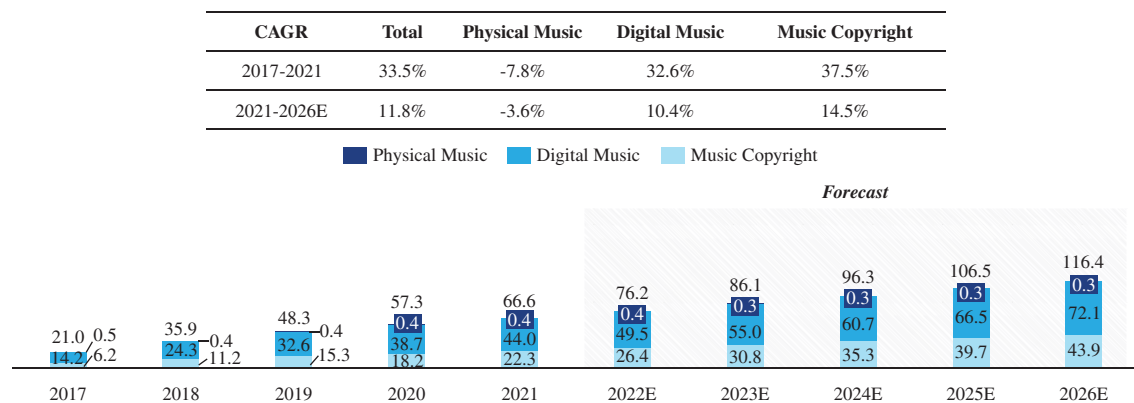
Market Size of Music Market in China

The music market in China can also be divided into physical music, online music and music copyright segments. Physical music refers to music recorded by physical music albums, cassettes and other physical forms. Online music refers to the music that is stored and downloaded from online platforms in the form of data. Music copyright refers to all royalties and fees collected during the process of creation and distribution of music. The market size of music copyright market witnessed impressive growth, increasing from RMB6.2 billion in 2017 to RMB22.3 billion in 2021, with a CAGR of 37.5%, mainly due to China’s nationwide copyright protection, which lead to the significant growth of online music market. Attributing to the same reason, the market size of China music copyright market is expected to further increase to RMB43.9 billion in 2026, representing a CAGR of 14.5% from 2021 to 2026.

The total market size of music market increased from RMB21.0 billion in 2017 to RMB66.6 billion in 2021, representing a CAGR of 33.5%, and is estimated to further increase to RMB116.4 billion in 2026, representing a CAGR of 11.8%. The following chart illustrates the market size of China music market by segments for the period indicated.

Market Size Breakdown of Music Market (China)

RMB Billion; 2017-2026E



Note: The market size refers to revenue generated from physical music, digital music and music copyright.

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Competitive Landscape of Music Market in China

The music market in China is highly fragmented, with the market share of top ten markets players amounting to 7.6% in terms of revenue in 2021, while our Company ranked seventh and accounted for 0.4% of the total music market.

Ranking	Company	Principal Business	Market Share (%)
1	Company E ¹	Recorded music, music publishing, merchandising and audiovisual content	2.0
2	Company F ²	Recorded music operation and publishing	1.5
3	Company G ³	Operation of music label for singers	1.4
4	Company H ⁴	Artist services, copyright publishing, audiovisual services and live performance	0.7
5	Company I ⁵	Operation of music label for singers and music publishing	0.5
6	Company J ⁶	Operation of music label for singers, music publishing and artist management	0.4
7	Our Company	Variety program, music, drama series and movie producers	0.4
8	Company K ⁷	Recorded music production and publishing, artist management	0.3
9	Company L ⁸	Recorded music production and publishing, artist management	0.3
10	Company M ⁹	Investment and operation of film, drama series, artist management, recorded music	0.2
Total			7.6

Source: Frost & Sullivan Report

Notes:

- Company E was established in 1934, which is a listed company on Euronext Amsterdam Stock Exchange, and is engaged in business of recorded music, music publishing, merchandising and audiovisual content, etc. The headquarter of company E is in Hilversum, Netherlands and its operational headquarters are located in Santa Monica, California, USA.

INDUSTRY OVERVIEW

2. Company F was established in 1967, which is a listed company on Nasdaq Stock Exchange. It is a multinational entertainment and record label company headquartered in New York, with its focus on the provision of recorded music operation and publishing, etc.
3. Company G was established in 1929, with its headquarter in New York. It is a subsidiary of a Tokyo and New York Exchange listed company, focusing on the operation of music label for singers, etc.
4. Company H is a private company established in 2014 in Beijing, which focus on the provision of music related services including artist services, copyright publishing, audiovisual services and live performance, etc.
5. Company I is a private company established in 1986 in Taiwan, which focus on the business of operation of music label for singers and music publishing, etc.
6. Company J was established in 1999 in Taiwan and is a listed company on Taiwan Stock Exchange. Its business focuses on the operation of music label for singers, music publishing and artist management, etc.
7. Company K was established in 1999 in Hong Kong, which is a subsidiary of a company listed on Hong Kong Stock Exchange, and focus on recorded music production and publishing, artist management, etc.
8. Company L is a private company established in 1992 in Taiwan, and focus on recorded music production and publishing, artist management, etc.
9. Company M was established in 2004 in Beijing, which is a listed company on Shenzhen Stock Exchange and focus on investment and operation of film, drama series, artist management, recorded music, etc.

DRAMA SERIES AND MOVIE MARKET IN CHINA

Drama Series Market in China

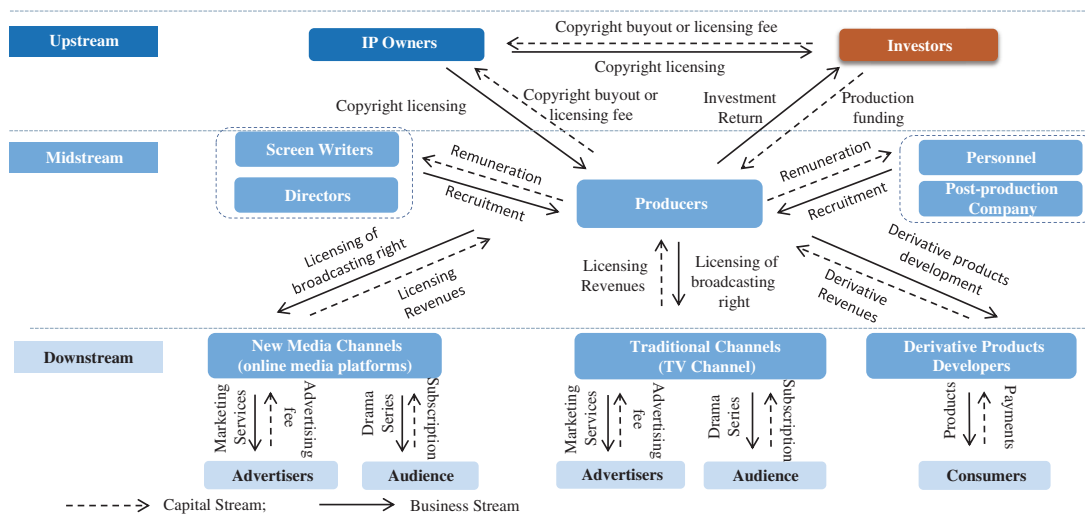
Drama series market mainly consists of two sub-segments, namely TV series market and web series market. TV series is defined as the type of drama series with distribution license issued by State Administration Radio, Film and Television of the PRC (the “SARFT”). Web series is defined as another type of drama series that is only broadcasted on online video platforms, which need to be filed and reviewed by SARFT as well.

INDUSTRY OVERVIEW

Value Chain Analysis of the Drama Series Market in China

The value chain of the drama series market in China could be generally divided into (i) upstream, which includes IP owners and investors, who keep track of the evolving expectation and interest of the consumers and put resources to create IPs; (ii) midstream, which includes producers, TV networks, online video platforms and derivative product developers, who produce and distribute the drama series and (iii) downstream, which includes advertisers, audience and consumers.

Value Chain Analysis



Source: Frost & Sullivan Report

Market Size of Drama Series Market in China

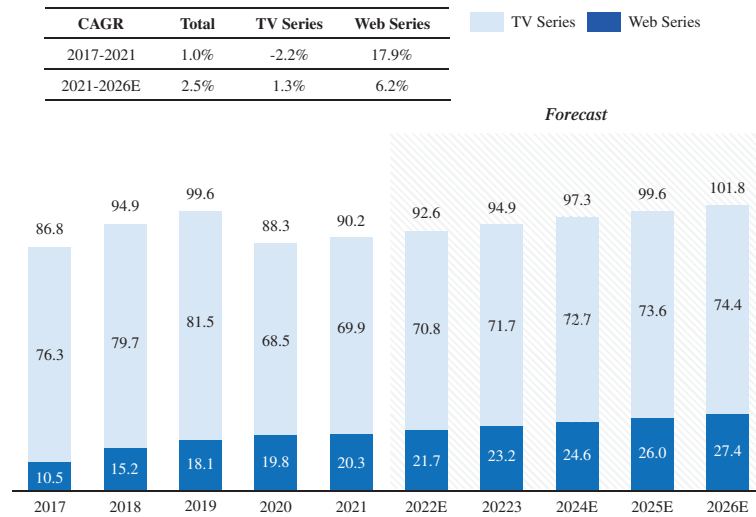
Jointly fueled by the cumulative effect of rising income levels and upgrading of consumption patterns, Chinese consumers increasingly seek high quality and diversified entertainment products, which naturally lead to the sustainable growth of demands for entertainment activities. Drama series, consisting of TV series and web series, flexibly incorporating comprehensive artistic factors to achieve the purpose of narratives, become a popular entertainment activity in consumers’ fragmented spare time.

The market size of drama series market, as measured by licensing revenues and advertising revenues, experienced fluctuations during 2017 to 2021, reaching RMB90.2 billion in 2021. It is forecasted to have a moderate growth and reach RMB101.8 billion by 2026, representing a CAGR of 2.5% between 2021 and 2026. The following chart illustrates the market size of drama series market by category in China for the period indicated.

INDUSTRY OVERVIEW

Market Size Breakdown of Drama Series Market by Category (China)

RMB Billion; 2017-2026E



Note: The market size refers to the advertising revenues and licensing revenues of TV series and web series.

Source: Frost & Sullivan Report

Competitive Landscape of Drama Series Market in China

The drama series market in China is fragmented, with the market share of top five market players being 18.2% in terms of revenue in 2021.

Ranking	Company	Principal Business	Market Share (%)
1	Company N ¹	Production and distribution of drama series and films	6.0
2	Company O ²	Production and distribution of drama series	3.9
3	Company P ³	Production and distribution of drama series	3.4
4	Company Q ⁴	Production, distribution and investment of drama series and films	2.5
5	Company R ⁵	Production and distribution of drama series	2.3
Total			18.2

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Notes:

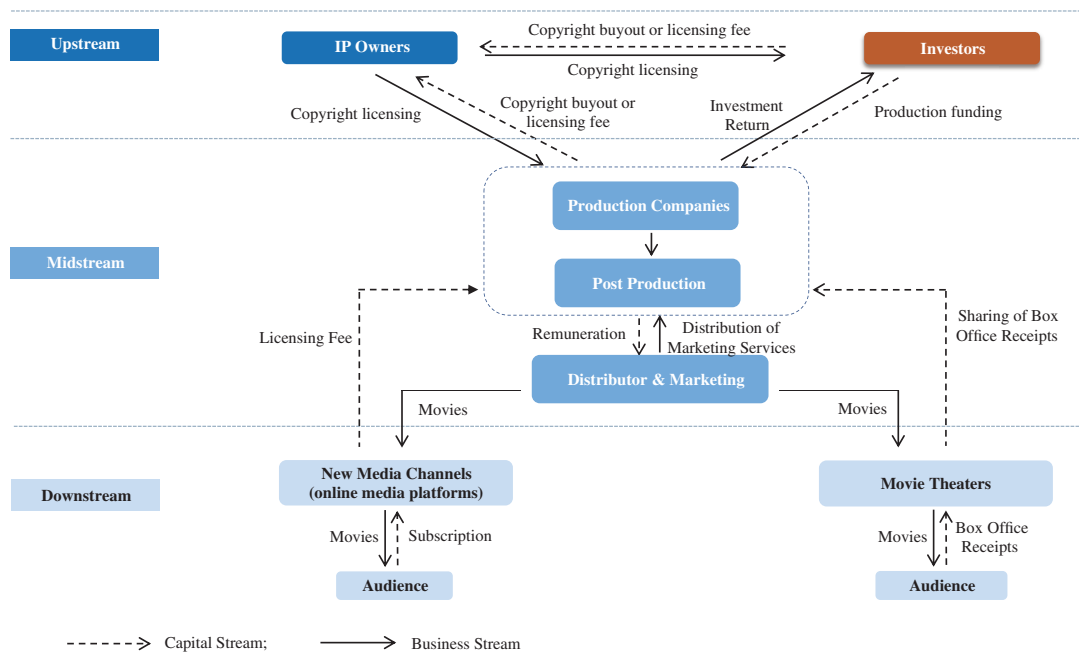
1. Company N was established in 2005 in Hangzhou, which is a listed company on Shenzhen Stock Exchange, with its focus on the production and distribution of drama series and films.
2. Company O was established in 2014 in Nanjing, which is a listed company on Hong Kong Stock Exchange, with its focus on production and distribution of drama series.
3. Company P was established in 2011 in Dongyang, which is a private company with its focus on the production and distribution of drama series.
4. Company Q was established in 2014 in Shanghai, which is a listed company on Hong Kong Stock Exchange, with its focus on the production, distribution and investment of drama series and films.
5. Company R was established in 2007 in Dongyang, which is a subsidiary of a listed company on Hong Kong Stock Exchange and mainly focus on the production and distribution of drama.

Movie Market in China

Movie market in China could be divided into two categories in term of channels of distribution, which are theatrical movie and online movies.

Value chain analysis of movie market in China

The value chain of the movie market in China could be divided into: (i) upstream resources providers, which includes investment party and content suppliers, such as author of original IP and artist agency; (ii) midstream content products and distributors, which includes movie producers, drama series producers, publishers, social media and broadcast platforms, and (iii) downstream customers.



Source: Frost & Sullivan Report

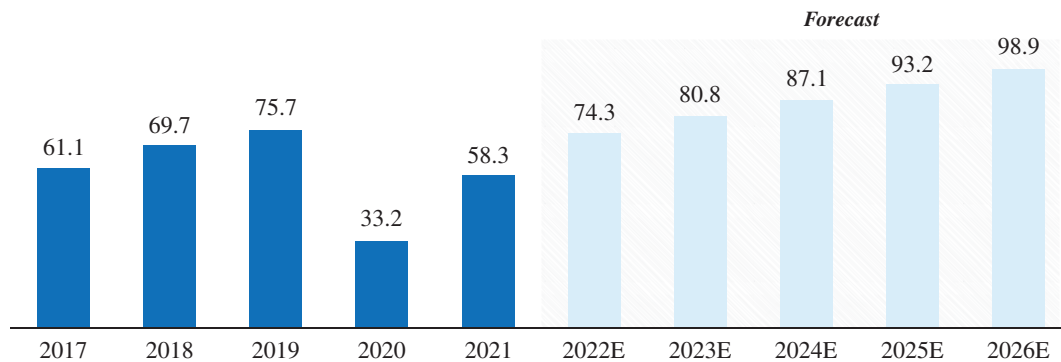
INDUSTRY OVERVIEW

Market size of movie market in China

The quality of Chinese movies has been continuously improved and achieved increasing recognition internationally. Besides, the genres of Chinese movies widely range from comedies and action to horror and science fiction, which appeal to a wide audience. The number of movie audience has recorded considerate growth between 2017 and 2019, resulting in the increase of market size from RMB61.1 billion in 2017 to RMB75.7 billion in 2019. Due to the COVID-19 pandemic, especially social distancing measures such as temporary closure of theaters, the movie market plummeted in 2020 with a market size of RMB33.2 billion. Along with the sustainable growth of demands for entertainment consumption due to the cumulative effects of rising income level, the theatrical movie market is forecasted to reach a size of RMB98.9 billion by 2026, representing a CAGR of 11.2% between 2021 and 2026. The following chart illustrates the size of movie market in China for the period indicated.

Movie Market (China)
RMB Billion; 2017-2026E

CAGR	2017-2021	2021-2026E
Movie Market	-1.2%	11.2%



Note: The market size refers to the box office receipts and non-box office receipts of theatrical movies and revenues of online movies.

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Competitive Landscape of Movie Market in China

The movie market in China is fragmented, with the market share of top five market players being 16.0% in terms of revenue in 2021.

Ranking	Company	Principal Business	Market Share (%)
1	Company S ¹	Film production, distribution, film screening and related services	5.2
2	Company T ²	Film production, distribution, cinema investment and management, artist management	4.2
3	Company U ³	Content production, IP licensing, cinema management and artist management,	3.3
4	Company V ⁴	Production, distribution and investment of films and drama series, operation of movie theatre and distribution and operation of online game	1.7
5	Company W ⁵	Investment, production, distribution of films and drama series, artist management	1.6
Total			16.0

Source: Frost & Sullivan Report

Notes:

1. Company S was established in 2010 in Beijing, which is a listed company on Shanghai Stock Exchange with its focus on film production, distribution, film screening and related services.
2. Company T was established in 2003 in Urumchi, which is a listed Company on Shenzhen Stock Exchange with its focus on film production, distribution, cinema investment and management, artist management, etc.
3. Company U was established in 1994, which is a listed company on Hong Kong Stock Exchange. It is an internet-driven integrated platform that covers content production, promotion and distribution, IP licensing, cinema ticketing management, and data services in the entertainment industry.
4. Company V was established in 2005 in Beijing, which is a listed company on Shenzhen Stock Exchange with its focus on the production, distribution and investment of films and drama series, operation of movie theatre and distribution and operation of online game.
5. Company W was established in 2005 in Beijing, which is a listed company on Shenzhen Stock Exchange, and focus on the investment, production, distribution of films and drama series, and artist management, etc.

INDUSTRY OVERVIEW

MARKET DRIVER OF CHINA PAN-ENTERTAINMENT MARKET

- *Sustainable growing demands for high-quality and creative entertainment products:* The cumulative effect of rising disposable income levels and living standards for decades lead to the growing demand of Chinese consumers to high-quality and creative spirit-oriented consumptions. Integrated entertainment companies proactively explore and cultivate high-quality original IPs, ranging from drama series, variety program, music, movies and derivative products. The market players aim to provide high-quality and creative entertainment products to further intensify their competitive edges across the whole industry value chain.

In particular, the ever-evolving preferences of Generation Z for variety programs drives the market progress. Featured by personalized, social-media-dependent and digital-native, Generation Z is more likely to pursue the trend and even lead the trend, which makes them maintain high-level sensitivity towards the quality of variety programs. To cater to Generation Z’s ever-evolving preferences for the variety programs, the variety producers are dedicated to the innovation of variety programs, including the content selections and applications of advanced technologies, which positively contribute to the diversification of variety program market. Meanwhile, Generation Z is heavily addicted to sharing, interacting and recreating content on social media and short-form video platforms, which could effectively expand the market exposure of the variety IPs and also strengthen the brand image of its producers.

- *The willingness of young generations to pay for premium entertainment content and derivative products:* Young generation has become a major consumption group for pan-entertainment products in China. As the purchasing power of the young generation grows and conscious to protect copyrights increase, they are more willing and being able to pay for pan-entertainment products, especially those catering to their diversified needs. A growing number of entertainment companies have introduced various spinoffs related to hot IPs to target the younger generation consumers, many of which have already obtained considerable financial rewards.
- *Partnership with emerging content media leads to breakthroughs.* TV channels and online video platforms which serve as the major channels for the distribution of variety programs contribute largely to the emergence and rapid growth of variety program market in past few years. Currently, both of the two aforesaid channels are experiencing development bottleneck in terms of advertising sales and new user acquisition. Meanwhile, the short-form video platforms and living streaming platforms have become the critical traffic portals. In such case, the partnership with these emerging content media allows the variety program producers to achieve breakthroughs in the aspect of content selection, program production and traffic capture.

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- *Development of digital technologies expands distribution channels and enriches the forms of the pan-entertainment products:* The proliferation of digital technologies gradually changes the consuming behaviors of the pan-entertainment consumers. The unlimited geographic coverage, inclusivity and promptness of the Internet benefits the evolution of pan-entertainment industry. In addition, the emerging technologies, powerful processors and high-definition screens not only expand the channels to distribute pan-entertainment content, but also diversify the forms of the pan-entertainment content presentation, such as the short-form video and interactive screens, making online reading and video viewing more enjoyable and convenient.

In particular, advanced technologies empower production of variety programs. Driven by technological advancement, emerging technologies strongly empowers the production of variety programs in the aspect of interaction and visualization, including but not limited to live streaming, artificial intelligence (AI), augmented reality (AR) and virtual reality (VR). The emerging technologies not only innovatively improve the audience’s viewing experience, but also stimulate new opportunities for the commercialization of variety programs.

ENTRY BARRIER OF CHINA PAN-ENTERTAINMENT MARKET

- *Capabilities to cultivate high-quality IPs:* High-quality IPs is the core of the pan-entertainment business. The experienced market players in pan-entertainment market in China are capable of cultivating high-quality IPs from a wide range of forms, including variety programs, drama series, music, movies, and online games. These premium IPs have shown strong monetization capabilities and accumulated a large audience base, which positively contribute to the commercial operation of IPs and broaden the scale of the pan-entertainment business. The lack of capabilities to cultivate superior IPs poses challenges to new entrants.
- *Capabilities to integrate various resources:* The pan-entertainment business expand entertainment contents wildly, including variety programs, drama series, digital music, short-form video, etc. The participants usually engage in various business activities throughout the value chain, including creation, production, promotion and distribution of different types of the pan-entertainment contents. On the production side, experienced teams are scarce resources since they possess strong creation and development capabilities and are more capable of delivering high-quality contents. In the aspect of promotion, it has become increasingly pivotal for the market players to embrace integrated marketing strategies to deploy campaigns across multiple channels such as social media platforms, user communities and short-form video platforms to promote contents. As for the distribution, the market players which have strong business relationships with different channels have critical impact on major monetization stream of the contents, which are required to equip with sophisticated negotiation skills. The existing market players have established solid partnership with the participants in multiple aspects and have shown proved capabilities to integrate various resources.

INDUSTRY OVERVIEW

- *Market experience and industry expertise:* Market experience and industry expertise is extremely critical to the success of market players in the pan-entertainment industry, including their (i) capability to coordinate all parties effectively, (ii) ability to keep abreast of the latest market trends and satisfy the audiences’ ever-changing preferences, and (iii) ability to manage the cooperative relationship with different distribution channels. In addition, it takes time for market players to establish a well-recognized image.
- *Capabilities to diversify monetization approaches:* Advertising is the largest revenue source for producing pan-entertainment products. The experienced market players have established long-term and stable cooperative relationships with advertisers in the market with their accumulated user base, established brand image and market recognition. In addition, experienced market players could develop other extensive monetization approaches and capture ample monetization opportunities, which contribute to the companies’ sustainable expansion. The diversified monetization approaches are difficult for new entrants to achieve in a short period.

FUTURE TRENDS OF CHINA PAN-ENTERTAINMENT MARKET

IP-centered development strategies are vital for future success of the market players

In the foreseeable future, the pan-entertainment market players are expected to hold on to the strategies to develop IP-centered products, which emphasize the stable sources of high-quality IPs and the capabilities to operate and diversify its monetization approaches. High-quality IPs could attract a large base of audience, which enhance the competitiveness of the market players. Besides, the high-quality IPs could be widely applied in a wide range of forms. IPs owners have more bargaining power in the market to influence the direction of capital flow. In view of above-mentioned facts, there is a trend for the market players in pan-entertainment market to adhere to the IP-centered development strategies to further intensify their own competitive advantage in the near future.

Monetization of pan-entertainment content trends to be extensive and diversified

At present, the revenues of the pan-entertainment products are mainly generated from advertising, licensing and membership services. However, the business of the sales of co-branded derivative consumer goods or associated services is still in its infancy, which provide opportunities for the market players who already own and have capabilities to cultivate high-quality IPs. Meanwhile, the young generation is gradually becoming the main consumption group in pan-entertainment market in China. The young generation consumers are willing and able to pay for IP-related products, providing new momentum for the pan-entertainment business. The owners or operators of pan-entertainment IPs will proactively seek new ways to expand their products and content offering to cater the personalized needs of the young generations, so that the monetization of pan-entertainment content trends will be extensive and diversified.

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Synergy effect between high-quality IPs and multi-level creative products

China’s pan-entertainment market consists of diversified sub-segments, including variety programs, drama series, digital music, films, short-form video, etc. The development of these sub-segments is not independent from each other. Specifically, leveraging premium contents, these sub-categories are cohesively evolving and organically integrating with each other. For instance, the music works derived from variety programs could be monetized through digital music platforms, the popular films could be adapted into drama series, and some contents could even approach more audience through short-form videos. The synergy effect from the sophisticated integration among various high-quality contents is expected to escalate the pan-entertainment market into a new stage featured with intercorrelation and symbiosis of value sharing and content linkage, which attributable to building up an IP ecosystem.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

According to the F&S Report, 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.

Our Company was established as an exempted company with limited liability in the Cayman Islands on March 29, 2021. Our history traces back to March 2006 when one of our principal operating entities, Canxing Culture, was established in the PRC. Chinese Culture, one of our Ultimate Controlling Shareholders, became a major shareholder of our Group in November 2010 by way of equity investment. In April 2011, Mr. Tian, our chairman of the Board, chief executive officer and Ultimate Controlling Shareholder, together with Mr. Jin and Mr. Xu, our Directors and our Ultimate Controlling Shareholders, joined our Group as our core management team members and later acquired control of the Group. For details of each of the biographies of each of Mr. Tian, Mr. Jin and Mr. Xu, see “Directors and Senior Management.” As of the Latest Practicable Date, Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu, through their various intermediary entities, collectively exercise control over our Group as a group of our Controlling Shareholders. For details of our Controlling Shareholders, see “Relationship with the Controlling Shareholders.”

In preparation for the [REDACTED] and in order to streamline our corporate structure, we implemented the Reorganization, as a result of which our Company became the offshore holding company of the current business of our Group. For details of the Reorganization, see “— Reorganization” in this section.

KEY MILESTONES

The following table sets forth the key milestones and achievements in our history and development:

Year	Milestone event
March 2006	Canxing Culture, one of our principal operating entities in the PRC, was established
April 2011	Mr. Tian, Mr. Jin and Mr. Xu joined our Group as core management team members
July 2012	“Sing! China” (中國好聲音), our pioneering TV co-production program and one of the most popular reality singing competition shows in China, was launched

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Milestone event
January 2014	“Sing My Song” (中國好歌曲), our first reality singing competition show featuring songwriters and the first original Chinese variety program out-licensed abroad, was launched
March 2016	MXQY became one of our principal subsidiaries in the PRC, primarily engaging in the operation and licensing of music IPs and artist management
February 2018	“Street Dance of China” (這!就是街舞), a made-for-internet dance competition show, was launched, which became an instant hit after its launch and topped the rankings for dance variety programs with a total view count over 1.7 billion times in the same year
May 2019	Canxing Culture was nominated for Top 30 National Cultural Enterprises (全國文化企業30強) by Guangming Daily (光明日報社) and Economic Daily (經濟日報社)
December 2020	We were granted with “TV Landmark” (2020) — Annual Outstanding Program Award for Production Company (2020年度製作機構優秀節目) for “Sing! China 2020” and “TV Landmark” (2020) — Annual Outstanding Online Audio-visual Program Award (2020年度優秀網絡視聽節目) for “Street Dance of China 2020” by NRTA and China Radio, Film and TV Magazine (中國廣播影視雜誌社)
August 2021	Fortune Star Media, one of our principal subsidiaries in Hong Kong operating one of the largest Chinese film libraries with 757 popular Chinese films, completed business combination with the Company as part of the Reorganization

OUR PRINCIPAL SUBSIDIARIES AND OPERATING ENTITIES

As of June 30, 2022, we had 26 subsidiaries and operating entities. The following sets forth the details of our principal subsidiaries and operating entities that made a material contribution to our results of operation during the Track Record Period:

Name of company	Place of establishment	Date of establishment	Ownership controlled by our Group	Share capital/ Registered capital	Principal business activities
Canxing Culture	PRC	March 24, 2006	100% ⁽¹⁾	RMB320,813,865	Production of variety programs and IP licensing

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

<u>Name of company</u>	<u>Place of establishment</u>	<u>Date of establishment</u>	<u>Ownership controlled by our Group</u>	<u>Share capital/ Registered capital</u>	<u>Principal business activities</u>
MXQY	PRC	December 6, 2012	100%	RMB30,000,000	Operation and licensing of music IPs and artist management
Star International	PRC	April 26, 2012	100%	RMB63,195,800	Provision of advertising and marketing solutions
Fortune Star Media	Hong Kong	May 31, 2010	100%	HKD10,000	Film IP library and licensing

Note:

- (1) We entered into Contractual Arrangements with our Consolidated Affiliated Entities and their registered shareholders, pursuant to which we obtained effective control over the Consolidated Affiliated Entities. See “Contractual Arrangements” for further details.

OUR HISTORY AND CORPORATE DEVELOPMENT

The following sets forth the corporate history and major shareholding changes of our Company and principal subsidiaries and operating entities.

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on March 29, 2021. Upon incorporation, the authorized share capital of our Company was US\$50,000 divided into 50,000,000,000 shares of a par value of US\$0.000001 each. Upon completion of the Reorganization, our Company became the holding company of our Group, details of which are set forth in “Reorganization” below.

Canxing Culture

Canxing Culture is one of our principal operating entities in the PRC. Canxing Culture primarily engaged in production of variety programs and operation and licensing of variety program IPs.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Establishment of Canxing Culture

Canxing Culture was initially established in the PRC on March 24, 2006 as a limited liability company (formerly known as Shanghai Canxing Culture Broadcast Co., Ltd. (上海燦星文化傳播有限公司)). Upon its incorporation, Canxing Culture was controlled by News Corporation (Asia) Ltd., which was a wholly-owned subsidiary of News Corporation, an American mass media and publishing company formerly listed on Nasdaq prior to June 2013 (collectively with News Corporation (Asia) Ltd., “**News Corporation**”) primarily engaging in television programming and broadcasting business (the “**Channel Business**”) and operation of film IP library and licensing business (the “**Film Business**”) in Asia.

Investment by Chinese Culture

In November 2010, Chinese Culture, formed a consortium with three financial investors who are Independent Third Parties (the “**Consortium**”), to acquire the Film Business and Channel Business from News Corporation. So far as the Company is aware, each member of the Consortium was independent of each other, CMC Asia and Canxing Culture at the relevant time. Upon completion of such acquisition, the Consortium owned 50.1% equity interest in CMC Asia, a then holding company of the Film Business and Channel Business. The Channel Business was conducted by SCML, a subsidiary of CMC Asia which in turn controlled Canxing Culture.

Exits of News Corporation and Management Buy-out

In April 2011, Mr. Tian, Mr. Jin and Mr. Xu joined our Group as core management team members overseeing and managing the operations of our Group. Since joining our Group, Mr. Tian, Mr. Jin and Mr. Xu, had been sharing same aspiration with Chinese Culture in our Group’s businesses and jointly devoting efforts and resources to grow and expand our Group’s businesses. In November 2013, in light of the intention of News Corporation and the three financial investors of the Consortium to realize their investments in our Group, Mr. Tian, Mr. Jin and Mr. Xu conducted a management buy-out to acquire interests in our Group in December 2013 with their personal funding and financial resources (the “**Management Buy-out**”). Following the Management Buy-out and subsequent to a series of shareholding changes among the existing shareholders of our Group from November 2013 to November 2015, our Group was jointly owned by Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu through their respective shareholding platforms.

Dismantling Overseas Structure and Proposed A-share Listing of Canxing Culture

In November 2015, in preparation of a proposed listing of Canxing Culture on the A-share market, Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu obtained direct interests in Canxing Culture in proportion to their respective shareholding interests in CMC Asia through their PRC onshore intermediary entities (the “**Onshore Intermediary Shareholders**”) in view of the foreign exchange restrictions under the relevant PRC laws and regulations. Details of Canxing Culture’s proposed A-share listing are set out in “Previous Listing Attempt — Previous A-share Listing Attempt” below.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Entering into the Canxing JCA and Joint-stock Reform

To formalize and further enhance their joint control in Canxing Culture and consistent with their past voting practice, CMC (Shanghai), Mr. Tian, Mr. Jin and Mr. Xu and the Onshore Intermediary Shareholders entered into a joint control agreement (the “**Canxing JCA**”) on January 1, 2016, pursuant to which the signing parties agreed to act in the same manner at each Onshore Intermediary Shareholder with respect to, among others, (i) proposing resolutions at the shareholders’ meetings; (ii) exercising their voting rights at the shareholders’ meetings; (iii) nominating directors and supervisors and (iv) procuring directors nominated to vote unanimously at the board meetings, in order to exercise joint control over Canxing Culture.

Pursuant to the shareholders’ resolutions and the promoters’ agreement dated July 12, 2016, Canxing Culture was converted into a joint stock limited liability company with a registered capital of RMB360,000,000, which were fully paid up on July 29, 2016.

Strategic Investments by Financial Investors

From March 2016 to June 2018, Canxing Culture completed several rounds of financings, details of which are set forth in “— [REDACTED] Investments” below. Following the completion of the last round of financing in June 2018, the shareholding structure of Canxing Culture is set out as follows:

<u>Shareholders of Canxing Culture</u>	<u>No. of shares of Canxing Culture</u>	<u>Shareholding immediately following last round of equity financing in June 2018</u>
SH Xingtou ⁽¹⁾	236,465,996	61.68%
SH Zhouxing ⁽²⁾	74,070,004	19.32%
Tibet Yuanhe	21,851,163	5.70%
Ningbo Aoteng ⁽³⁾	7,739,924	2.02%
Pingtian Fenghuai	6,877,373	1.79%
Mr. Tian	5,670,377	1.48%
Hangzhou Alibaba ⁽⁵⁾	4,499,955	1.17%
Shanghai Fengpu	4,151,721	1.08%
Guangxi Hexian ⁽⁶⁾	3,599,964	0.94%
Ningbo Fanghua	3,599,964	0.94%
Shanghai Yanheng	2,741,860	0.72%
Mr. Cao Bin	2,501,506	0.65%
Ningbo Fengcai	2,159,979	0.56%
Hanfu Capital ⁽⁴⁾	2,105,982	0.55%
Jundu Derui	1,800,000	0.47%
Beijing Langma	1,800,000	0.47%
Suzhou Haikun	900,000	0.23%
Xinyu Haikun	864,000	0.23%
Total	383,399,768	100.00%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) For details of the shareholding structure of SH Xingtou, see our Group’s simplified shareholding structure immediately prior to the commencement of the Reorganization in “Reorganization” below.
- (2) SH Zhouxing is wholly owned by Mr. Tian.
- (3) Ningbo Meishan Free Trade Port Aoteng Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區奧騰投資管理合夥企業(有限合夥)) (“**Ningbo Aoteng**”) is a limited partnership incorporated under the laws of the PRC. The general partner of Ningbo Aoteng is Ningbo Yuanyi Investment Center (Limited Partnership) (寧波元億投資中心(有限合夥)) (“**Ningbo Yuanyi**”), which is ultimately controlled by Mr. Tang Meng (唐萌), an Independent Third Party.
- (4) Hanfu Capital is a company incorporated under the laws of the PRC primarily engaging in asset management, investment management and investment advisory businesses, which is ultimately controlled by Mr. Han Xueyuan (韓學淵), an Independent Third Party.
- (5) Hangzhou Alibaba is a limited company incorporated under the laws of the PRC, which is wholly owned by Hangzhou Zhenxi Investment Management Co., Ltd. (杭州臻希投資管理有限公司), which is in turn owned by Hangzhou Zhensheng Investment Management Partnership (Limited Partnership) (杭州臻晟投資管理合夥企業(有限合夥)) (“**Hangzhou Zhensheng**”) and Hangzhou Zhenqiang Investment Management Partnership (Limited Partnership) (杭州臻強投資管理合夥企業(有限合夥)) (“**Hangzhou Zhenqiang**”) as to 50% and 50%, respectively. The general partner of Hangzhou Zhensheng and Hangzhou Zhenqiang is Hangzhou Zhenyue Enterprise Management Co., Ltd. (杭州臻悅企業管理有限公司), which is owned by each of Zhang Yong (張勇), Zheng Junfang (鄭俊芳), Wu Zeming (吳澤明) and Shao Xiaofeng (邵曉鋒) as to 25%, respectively. Each of Hangzhou Alibaba and its ultimate beneficial owners is an Independent Third Party.
- (6) Guangxi Hexian is a private company incorporated under the laws of the PRC, which is controlled by TME, a company incorporated under the laws of the Cayman Islands and its American depository shares are listed on the New York Stock Exchange (NYSE: TME). TME is a non-wholly owned subsidiary of Tencent Holdings Limited, a company listed on the Stock Exchange (Stock Code: 700). Each of Guangxi Hexian and its ultimate beneficial owners is an Independent Third Party.

For subsequent shareholding changes of Canxing Culture, see “— Reorganization — Onshore Restructuring” below.

MXQY

MXQY was established as limited liability company in the PRC on December 6, 2012 with an initial registered capital of RMB3,000,000, primarily engaging in operation and licensing of music IPs and artist management businesses.

Further to a number of shareholding changes of MXQY since its incorporation, on March 23, 2016, the then shareholders of MXQY, Shanghai Minxing Culture Media Limited Partnership (上海民星文化傳媒合夥企業(有限合夥)) (“**SH Minxing**”), a limited partnership controlled by Mr. Tian, and SH Zhouxing transferred their entire interest in MXQY to Canxing Culture for an aggregate consideration of RMB2.08 billion (the “**MXQY Acquisition**”) which was determined based on an independent valuation of MXQY as at December 31, 2015 as set out in a valuation report issued by a qualified independent valuer. Upon completion of the MXQY Acquisition, MXQY became a wholly-owned subsidiary of Canxing Culture.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As part of the Reorganization, on June 17, 2021, Canxing Culture transferred its entire equity interest in MXQY to Shanghai Jiuwu Yisheng, our WFOE, at a consideration of RMB2.08 billion, which was determined after the arm’s length negotiation with reference to the consideration of the MXQY Acquisition and fully settled on October 26, 2021. MXQY remained as a wholly-owned subsidiary of our Group during the Track Record Period. For details, see “— Reorganization — Onshore Restructuring — Step 1. Reorganization of our Non-restricted and/or Non-prohibited Business” below.

Star International

Star International was established as a limited liability company in the PRC on April 26, 2012, primarily engaging in provision of advertising and marketing solutions. Star International remained as a wholly-owned subsidiary of our Group during the Track Record Period. As part of the Reorganization, on June 21, 2021, Canxing Culture transferred its entire equity interest in Star International to Shanghai Jiuwu Yisheng at a consideration of RMB101,583,775 which represented the book value of the net assets of Star International as of April 30, 2021 and was fully settled on June 8, 2021. For details, see “— Reorganization — Onshore Restructuring — Step 1. Reorganization of our Non-restricted and/or Non-prohibited Business” below.

Fortune Star Media

Fortune Star Media was established as a private company limited by shares in Hong Kong on May 31, 2010 for the purpose of carrying out our Film Business. As part of the Reorganization, on August 2, 2021, the holding company of Fortune Star Media which was controlled by our Ultimate Controlling Shareholder, CMC Asia, transferred its 100% interest in Fortune Star Media to our Company at a consideration of HK\$10,000 which was fully settled on September 13, 2021. Given that both CMC Asia and our Company had been controlled by our Ultimate Controlling Shareholders before and after the equity transfer throughout the Track Record Period for the purpose of applying the merger accounting for Fortune Star Media, the transfer of equity interest in Fortune Star Media was recognized as a business combination under common control and consolidated into the Group for the Track Record Period under merger accounting. For details, see Note 2.1 to the Accountants’ Report in Appendix I to this document and “— Reorganization — Offshore Restructuring — Step 4. Acquisition of Fortune Star Media by our Company” below.

For further details of the changes in shareholding in our subsidiaries and Consolidated Affiliated Entities within two years immediately preceding the date of this document, see “Statutory and General Information — A. Further Information about Our Group — 3. Changes in the Share Capital of our Subsidiaries and Consolidated Affiliated Entities” in Appendix IV to this document.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PREVIOUS LISTING ATTEMPT

Previous A-share Listing Attempt

In December 2018, Canxing Culture submitted an application for listing (the “**A-share Application**”) of its shares on the ChiNext board of the Shenzhen Stock Exchange (the “**SZSE**”) to the CSRC. Due to the regulatory reform regarding change of approval-based IPO system to registration-based IPO system in June 2020, the A-share Application was transferred to and handled by the SZSE since July 2020. The SZSE issued two rounds of comments and Canxing Culture provided responses to these comments which are publicly disclosed. In January 2021, the A-share Application was put forward to the review meeting of the listing committee of the SZSE. In February 2021, the SZSE issued a termination notice in relation to the A-share Application (the “**Termination Notice**”) on the following grounds: (i) the identification of Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu as the “actual controllers” of Canxing Culture lacked sufficient basis due to its complex shareholding structure and (ii) the accounting adjustment applied by Canxing Culture in April 2020 to retrospectively recognize an impairment loss of approximately RMB347.6 million for a goodwill resulting from the MXQY Acquisition in March 2016 (the “**MXQY Goodwill Impairment Adjustment**”) did not reflect the actual financial position of Canxing Culture at the relevant time.

Our Directors are of the view that the above-mentioned issues are no longer applicable or relevant to the [REDACTED], or render the Company not suitable for [REDACTED] on the Stock Exchange based on the facts and grounds set forth below.

Shareholding Structure of Canxing Culture

1. The shareholding structure of Canxing Culture resulted from a series of historical shareholding changes spanning more than a decade, including the investment by News Corporation in an overseas structure and its subsequent exit, the Management Buy-out and dismantling the overseas structure as set out in “Our History and Corporate Development — Canxing Culture” in this section above. Our PRC Legal Advisor, who is also the PRC legal advisor to the Company for the A-share Application, is of the view that the shareholding structure of Canxing Culture immediately before and after the Reorganization does not violate the relevant PRC laws.
2. According to our PRC Legal Advisor, the term of “actual controller” is a concept under the PRC laws which refers to any natural person, enterprise or government authority that holds 50% or more of the shares, controls over 30% of the voting power, controls the appointment of the majority of the board through its voting power, may exert a material influence over the shareholders’ meeting through its voting power in a company or otherwise determined by the CSRC or the SZSE, according to the applicable listing rules of the SZSE for ChiNext Board. In general, the requirement of “actual controller” normally requires a company to identify an individual or a state-owned entity that ultimately controls the company. Controlling shareholder as defined under the Listing Rules generally refers to any person who is or a group of persons who are together

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entitled to control the exercise of 30% or more of voting power or in the position to control the composition of the majority of the board of a company. As such, the term of “actual controller” under the applicable PRC laws is different from the concept of controlling shareholders under the Listing rules in terms of scope and interpretation as to a group of shareholders collectively exercising control in a company through contractual agreement, and therefore shall not be deemed relevant to or affect the identification of the controlling shareholders of the Company pursuant to the Listing Rules.

The Ultimate Controlling Shareholders (i.e. Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu) have been our controlling shareholders under the Listing Rules as they collectively (a) through the Onshore Intermediary Shareholders jointly controlled the exercise of more than 30% of voting rights in Canxing Culture pursuant to the Canxing JCA and (b) through onshore and offshore intermediary entities continued to collectively control the exercise of more than 30% of voting rights in the Company pursuant to the Joint Control Agreement upon completion of the Reorganization, and will remain as our controlling shareholders upon [REDACTED]. Therefore, the lack of sufficient basis to identify an actual controller of Canxing Culture under the PRC laws as stated in the Termination Notice has no impact on the identification of the controlling shareholders of the Company pursuant to the Listing Rules. See “Relationship with the Controlling Shareholders” for details of our Controlling Shareholders.

Goodwill resulting from the MXQY Acquisition

1. In March 2016, Canxing Culture acquired 100% interest in MXQY from SH Minxing and SH Zhouxing, which were controlled by Mr. Tian, and recorded goodwill of RMB1.97 billion as at December 31, 2016 (the “MXQY Goodwill”). See “— Our History and Corporate Development — MXQY” in this section above for details of the MXQY Acquisition. Canxing Culture assessed the impairment of its goodwill annually by conducting goodwill impairment tests at the end of each financial year from 2016 to 2019 (the “Historical Impairment Tests”). Based on the results of the Historical Impairment Tests, no impairment was required under the applicable accounting standards in the PRC as at December 31, 2016, 2017, 2018 and 2019.
2. In December 2018, Canxing Culture first submitted its A-share Application to the CSRC. The auditor for the A-Share Application concurred with Canxing Culture that there was no indication that an impairment was required for the MXQY Goodwill and issued an unqualified audit opinion on Canxing Culture’s financial statements for the three years ended December 31, 2017 and six months ended June 30, 2018. Since the initial submission of the A-share Application, the CSRC issued various comments on the MXQY Goodwill including but not limited to the background and circumstances leading to the MXQY Goodwill, the accounting treatment of the MXQY Acquisition, the basis of the Historical Impairment Tests, and whether Canxing Culture’s annual impairment provision assessments of MXQY Goodwill were made with sufficient justification considering the difference between estimated results of MXQY projected in the Historical Impairment Tests and MXQY’s actual operating results from 2016 to 2019. In April 2020, based on

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Canxing Culture’s understanding on rounds of comments on the A-share Application from the CSRC that an impairment loss for the MXQY Goodwill may be required, Canxing Culture engaged an independent qualified valuer to conduct a voluntary re-assessment of MXQY’s cash-generating unit as at December 31, 2016 with reference to the actual results of MXQY from 2016 to 2019 and without taking into account potential contribution from MXQY’s new businesses, which led to the valuer issuing a goodwill retrospective appraisal report. The results of such appraisal report indicated that the recoverable amount of the cash-generating unit to which the MXQY Goodwill is allocated was lower than its carrying amount as at December 31, 2016 and thus Canxing Culture voluntarily applied the MXQY Goodwill Impairment Adjustment, which it believed is prudent at that time and could provide better protection for the minority shareholders. The auditor for the A-Share Application issued an unqualified audit opinion on Canxing Culture’s financial statements after the application of the MXQY Goodwill Impairment Adjustment. Following submission of the updated prospectus reflecting the application of MXQY Goodwill Impairment Adjustment, Canxing Culture’s A-Share Application was put forward to the preliminary review meeting of the CSRC conducted in June 2020. After the preliminary meeting, Canxing Culture received a letter from the CSRC mentioning that a public offering review meeting was expected to be arranged for Canxing Culture in the near future and setting out certain comments including disclosure comments on the MXQY Goodwill Impairment Adjustment.

3. As a result of the reform of the IPO regulatory regime in the PRC in June 2020, Canxing Culture’s A-share Application was transferred from the CSRC to the SZSE for vetting. The SZSE issued two rounds of comments on, among other things, the reasons for and the reasonableness of the MXQY Goodwill Impairment Adjustment, and whether the MXQY Goodwill Impairment Adjustment complied with the applicable accounting standards. In February 2021, the A-share Application was put forward to the review meeting of the listing committee of the SZSE, and the listing committee of the SZSE issued the Termination Notice in relation to the A-share Application and one of the grounds was that the MXQY Goodwill Impairment Adjustment “did not reflect the actual circumstances of the issuer at the relevant time.” Nevertheless, the Termination Notice did not explicitly indicate specific deviations from the PRC accounting standards with respect to the MXQY Goodwill Impairment Adjustment or deficiency in Canxing Culture’s internal controls over its financial reporting process.
4. In connection with the initial non-recognition of the goodwill impairment pursuant to the Historical Impairment Tests and the application of the MXQY Goodwill Impairment Adjustment, Canxing Culture had, respectively, (i) obtained necessary board approvals and performed relevant corporate governance procedures in compliance with Canxing Culture’s articles of associations and all applicable PRC laws and regulations as confirmed by our PRC Legal Advisor, (ii) performed independent due diligence and work (including obtaining and considering the independence, qualifications, expertise and experience of the relevant professional parties) in terms of the independent professional valuations/opinions obtained during the decision making process and (iii) sought professional advices from and engaged in ongoing discussion with the relevant

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professional parties involved in the A-share Application. In addition, we have adopted and implemented enhanced risk management and internal control policies for the [REDACTED] covering financial reporting process and intangible asset management process (including valuation and impairment assessment). See “Business — Risk Management and Internal Control Systems” for further details. We have engaged an independent internal control consultant to perform internal control assessment procedures in connection with our internal control of various processes which covered, among others, controls in connection with financial reporting process and intangible asset management process. The internal control consultant performed procedures in March 2021 on our internal control system pursuant to the relevant technical bullets in AATB1 issued by the HKICPA. During the review, the internal control consultant did not identify material deficiencies over the Group’s financial reporting process and had provided recommendations on remedial actions as to certain routine areas that could be further improved. The internal control consultant had performed a follow-up review in July 2021 with regard to the Group’s implementation of the remedial actions recommended by the internal control consultant including, among the others, (i) establishing and adopting the internal control policies and procedures, including the Financial Accounting Management Policies (《財務會計管理制度》) and the Major Accounting Process Accounting Reporting Process (《重大會計處理會計報告流程》) which have incorporated the relevant requirements under the Listing Rules and have been reviewed by the internal control consultant; (ii) engaging competent third-party valuers to conduct valuation on the impairment of goodwill resulting from the MXQY Acquisition annually; and (iii) establishing the internal audit team which performs internal review over financial reporting process annually. Having completed these procedures, the internal control consultant did not identify any material deficiencies based on selected samples in the internal control system of the Group. Based on the above, which are supported by the independent due diligence work performed by the Joint Sponsors with the assistance of their legal advisors and the internal control consultant engaged by the Company, our Directors believes that the Termination Notice was not reflective of any material internal control weakness in the Company’s financial reporting process and they had fulfilled their fiduciary duties and duties of skill, care and diligence in deciding whether a goodwill impairment was required for the MXQY Acquisition at the relevant times. The Company is not aware of any matter that may affect the suitability of the Directors under Rules 3.08 and 3.09 of the Listing Rules. Based on the enhanced risk management and internal control policies adopted and implemented by the Company and the completion of procedures as recommended by the independent internal control consultant, our Directors are not aware of any material internal control deficiency in the Company’s financial reporting process or any matters relating to the A-share Application which may affect the Company’s suitability for the [REDACTED].

5. Our Directors understand that the use of hindsight in the MXQY Goodwill Impairment Adjustment is generally not allowed under IFRS. The MXQY Goodwill Impairment Adjustment was only made on a voluntary basis during the A-share Application under the then relevant circumstances as set forth above. We have conducted impairment tests of goodwill during the Track Record Period in accordance with IFRS and recognized an impairment loss of RMB386.8 million as of December 31, 2020 and an impairment loss

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of RMB380.7 million as of December 31, 2021 in connection with MXQY Goodwill based on our assessment of the operational performance of MXQY at the relevant time. In performing the goodwill impairment testing for the [REDACTED], same set of financial data provided to and used by the auditor for the A-share Application in the Historical Impairment Tests has been used for the impairment testing as at December 31, 2019, as such financial data is based on the most recent financial budget approved by the senior management of our Company as at December 31, 2019, which are relatively reliable and also represent the senior management’s reasonable estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The impairment testing as at December 31, 2019 was performed in compliance with the requirement of International Accounting Standards 36 “*Impairment of Assets*” according to the Accountants’ Report which sets out the Reporting Accountants’ opinion on the Historical Financial Information as a whole. For further details on the impairment of the MXQY Goodwill, see “Financial Information — Critical Accounting Policies and Estimates — Business Combinations and Goodwill” and “Financial Information — Description of Key Statement of Profit or Loss Items — Impairment of Goodwill” and Note 16 to the Accountants’ Report included in Appendix I to this document. As our consolidated financial statements have been prepared in accordance with IFRS for the [REDACTED], our Directors believe that the above issue with respect to the MXQY Goodwill is no longer applicable or subsisting.

Our Directors have confirmed, and our PRC Legal Advisor is of the view that, based on the confirmations by each of the professional parties engaged by Canxing Culture in relation to the A-share Application and the publicly available information, none of the professional parties engaged by Canxing Culture in relation to the A-share Application have been/are subject to any investigation by the relevant regulatory authorities in the PRC in relation to the A-share Application. The Directors further confirmed that there is no other matter in relation to the A-share Application that needs to be brought to the attention of the Stock Exchange or our investors.

Based on the independent due diligence performed by the Joint Sponsors including, without limitation, (i) obtaining and reviewing the A-share Application documents and the subsequent amendments thereto, (ii) conducting interviews with the management of the Company and key professional parties involved in the A-share Application to understand, among others, the background of and reason for the historical accounting treatment on the goodwill from the MXQY Acquisition in the A-share Application, (iii) discussing with the management of the Company to understand, among others, the reasonableness of the historical accounting treatment on the MXQY Goodwill in the A-share Application, and (iv) discussing with the PRC Legal Advisor and PRC legal advisor to the Joint Sponsors to understand the implication of the Termination Notice under the applicable PRC laws and regulations and the A-share listing rules, the Joint Sponsors are not aware of any material internal control deficiency in the Company’s financial reporting process, material non-compliance with applicable A-share listing rules or any other material matters relating to the A-share Application which affect the Company’s suitability for the [REDACTED] and should be brought to the attention of the Stock Exchange.

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Based on the due enquiry, review of related documents and independent due diligence work performed, the Joint Sponsors are not aware of any affirmative specific facts made against the Directors that lead the Joint Sponsors to believe that the Directors failed to fulfill their fiduciary duties and duties of skill, care and diligence, or that there is any matter which may affect the Directors’ suitability under Rules 3.08 and 3.09 in relation to the MXQY Goodwill Impairment Adjustment.

REASONS FOR [REDACTED] ON THE STOCK EXCHANGE

Our Directors believe that the [REDACTED] will provide us with the necessary funding to increase our competitiveness by assisting us to expand our operations and strengthen our business prospects in the pan-entertainment industry, and the [REDACTED] on the Stock Exchange will raise our profile and market awareness of our brand name and present us with an opportunity to further expand our investor base and broaden our access to international capital markets. Taking into account the long-term business development of our Group and the needs to obtain alternative financing for further expansion, our Directors considered the Stock Exchange to be a more suitable venue to access international equity market and expend our business.

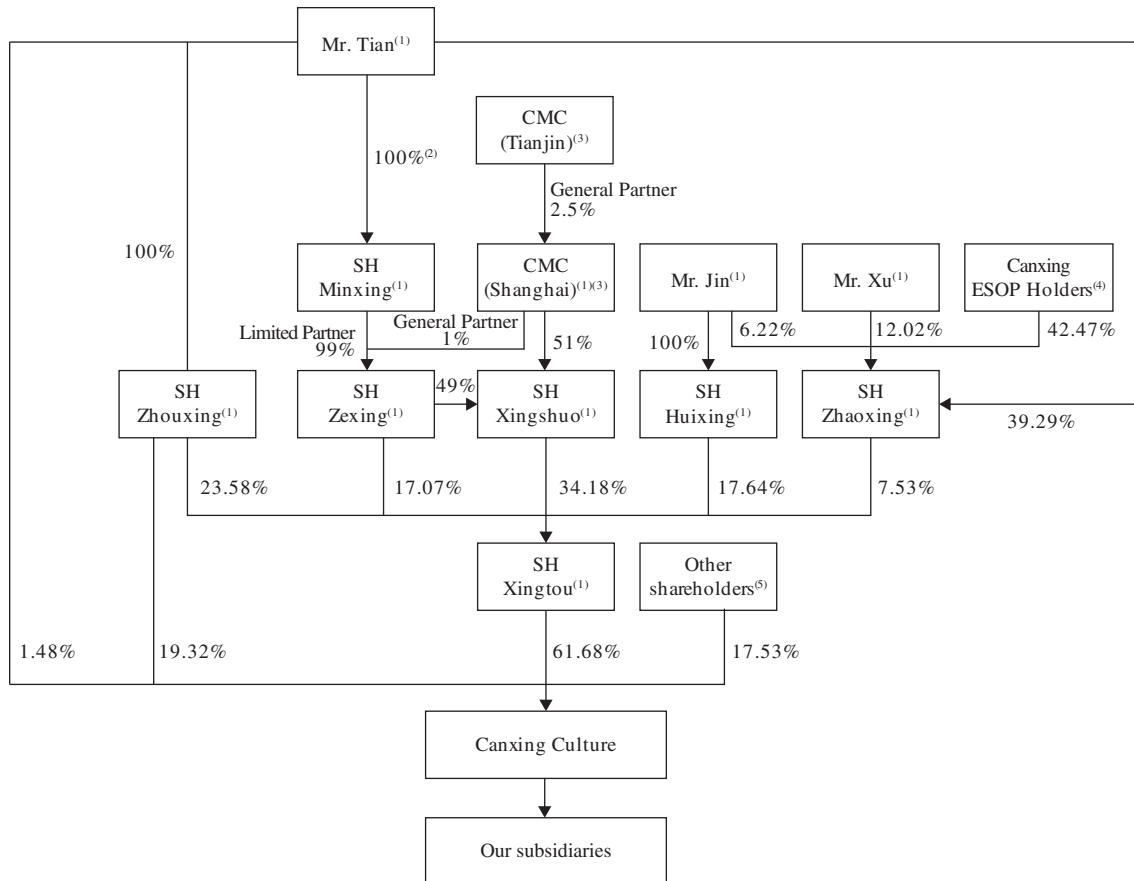
MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

During the Track Record Period and until the Latest Practicable Date, we did not conduct any major acquisitions, disposals or mergers.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

In order to streamline our shareholding structure and optimize our corporate structure to further develop the business of our Group and enable us to access the international capital markets, we underwent the Reorganization in preparation for the [REDACTED], details of which are set out below. The following chart sets forth our Group’s simplified shareholding structure immediately prior to the commencement of the Reorganization.



Notes:

- (1) Each of CMC (Shanghai), Mr. Tian, Mr. Jin, Mr. Xu and the Onshore Intermediary Shareholders including Shanghai Xingshuo Investment Management Co., Ltd. (上海星燦投資管理有限公司) (“**SH Xingshuo**”), Shanghai Zexing Investment Co., Ltd. (上海澤星投資有限公司) (“**SH Zexing**”), Shanghai Zhaoxing Investment Co., Ltd. (上海昭星投資有限公司) (“**SH Zhaoxing**”), Shanghai Huixing Investment Co., Ltd. (上海輝星投資有限公司) (“**SH Huixing**”), SH Minxing, SH Zhouxing and SH Xingtou is a party to the Canxing JCA.
- (2) SH Minxing is owned as to 1% by Shanghai Wangxing Investment Management Co., Ltd. (上海望星投資管理有限公司) (“**Shanghai Wangxing**”) as the general partner and 99% by Horgos Chenxing Equity Investment Management Co., Ltd. (霍爾果斯晨星股權投資管理有限公司) (“**Horgos Chenxing**”) as a limited partner. Each of Shanghai Wangxing and Horgos Chenxing is owned as to 1% by SH Zhouxing and 99% by Mr. Tian.
- (3) CMC (Shanghai) is a limited partnership of which the general partner is CMC (Tianjin). To the best of our Directors’ knowledge, each of the shareholders of CMC (Tianjin) and limited partners of CMC (Shanghai) was an Independent Third Party.

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- (4) Certain employees and former employees of our Group (the “**Canxing ESOP Holders**”) were granted share awards pursuant to the employee share incentive scheme adopted by Canxing Culture on November 10, 2016 (the “**Canxing ESOP Plan**”). Each Canxing ESOP Holder’s indirect interest in Canxing Culture through SH Zhaoxing and in turn through SH Xingtou correspond to their respective interest underlying the share awards granted under the Canxing ESOP Plan. As part of the Reorganization in preparation for the [REDACTED], the Canxing ESOP Plan was terminated on May 14, 2021.
- (5) For details of the shareholding of other shareholders, see “— Our History and Corporate Development — Canxing Culture — Strategic Investments by Financial Investors.”

Offshore Restructuring

Step 1. Incorporation of our Company, offshore holding companies and Star CM (HK)

Immediately upon incorporation of our Company on March 29, 2021, one ordinary share was allotted and issued to its initial subscriber, Mapcal Limited, and was then immediately transferred to Harvest Sky, a BVI company wholly owned by Mr. Tian, at nominal value.

Each of the following entities was established in the BVI to reflect the shareholding structure of SH Xingtou:

<u>Holding companies</u>	<u>Shareholding</u>
Harvest Sky	Mr. Tian (100%)
Goldenbroad	Mr. Jin (100%)
East Brothers	Mr. Tian (81.76% ⁽¹⁾), Mr. Jin (6.22%) and Mr. Xu (12.02%)
Beamingstars	Harvest Sky (48.01%) and SH Zhihua ⁽²⁾ (51.99%)
Unionstars	Harvest Sky (40.65%), Goldenbroad (17.64%), East Brothers (7.53%) and Beamingstars (34.18%)

Notes:

- (1) East Brothers is owned by Mr. Tian as to 81.76%, of which 42.47% interest reflects the equity interest held by all the Canxing ESOP Holders in SH Zhaoxing. Such interests are reserved for future distribution to eligible participants pursuant to the employee share incentive scheme to be adopted by the Company after [REDACTED].
- (2) SH Zhihua, is a limited partnership establish in the PRC which is controlled by Chinese Culture.

Star CM (HK) was established in Hong Kong on May 14, 2021 as a wholly-owned subsidiary of our Company. Each of our Company, Star CM (HK), Harvest Sky, Goldenbroad, East Brothers, Beamingstars and Unionstars has been an investment holding company without substantive business operations since incorporation.

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Step 2. Issuance of ordinary shares of our Company

To reflect the onshore shareholding structure of Canxing Culture at the Company level, from April 2021 to July 2021, our Company allotted and issued an aggregate of 383,399,767 Shares to the following shareholders, the consideration of which had been settled in full as of August 27, 2021. Upon completion of all of the allotments and issuances, the shareholding structure of our Company is set out as follows:

Shareholder	No. of Shares	Shareholding immediately following the issuance of Shares
Unionstars	236,465,996	61.68%
Harvest Sky	79,740,381	20.80% ⁽¹⁾
Tibet Yuanhe	21,851,163	5.70%
Shanghai Aoxia ⁽²⁾	7,739,924	2.02%
Pingtian Fenghuai	6,877,373	1.79%
Taobao China	4,499,955	1.17%
Shanghai Fengpu	4,151,721	1.08%
Premier Asia ⁽³⁾	3,599,964	0.94%
Ningbo Fanghua	3,599,964	0.94%
Shanghai Yanheng	2,741,860	0.72%
Dream Radius ⁽⁴⁾	2,501,506	0.65%
Ningbo Fengcai	2,159,979	0.56%
Hanfor International ⁽⁵⁾	2,105,982	0.55%
Jundu Derui	1,800,000	0.47%
Beijing Langma	1,800,000	0.47%
Suzhou Haikun	900,000	0.23%
Xinyu Haikun	864,000	0.23%
Total	383,399,768	100.00%

Notes:

- (1) To streamline the shareholding structure of the Company, Mr. Tian combined its direct interest of 1.48% and indirect interest of 19.32% held through SH Zhouxing in Canxing Culture at the Company level through Harvest Sky.
- (2) Shanghai Aoxia is an affiliate of Ningbo Aoteng.
- (3) Introduced by Canxing Culture, Premier Asia is an offshore investment vehicle subscribing for the Shares corresponding to the shareholding interests in Canxing Culture held by Guangxi Hexian, one of Canxing Culture’s shareholders immediately prior to the commencement of the Reorganization. According to the Company’s Reorganization plan, after Guangxi Hexian withdrew its investment in Canxing Culture for commercial reasons at a consideration equivalent to its original investment amount in Canxing Culture during the Capital Reduction, Premier Asia agreed to subscribe for the Shares

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corresponding to Guangxi Hexian’s shareholding interests in Canxing Culture immediately before the withdrawal of investment. Premier Asia paid for the subscription with its own funds equaled to the consideration paid by Canxing Culture to Guangxi Hexian in respect of the Capital Reduction. So far as the Company is aware, each Premier Asia and its ultimate beneficial owner is independent from Guangxi Hexian. For further details of Premier Asia, see “— [REDACTED] Investments — Information about the [REDACTED] Investments — Premier Asia” below.

- (4) Dream Radius is wholly owned by Mr. Cao Bin.
- (5) Hanfor International is an offshore affiliate of Hanfu Capital.
- (6) Details of other shareholders in the table above are set forth in “— [REDACTED] Investments — Information about the [REDACTED] Investors” below.

Except for SH Xingtou, SH Zhouxing, Mr. Cao Bin, Mr. Tian and Hanfu Capital, which are the Registered Shareholders of Canxing Culture, all other shareholders of Canxing Culture, either by themselves or through designated offshore investment vehicles, subscribed for the aforementioned interests in the Company representing their corresponding interests in Canxing Culture prior to the Reorganization, at the consideration equal to their respective original investment amounts in Canxing Culture they received from the capital reduction in a total amount of RMB1,897,064,827 as set out in “— Onshore Restructuring — Step 2. Capital Reduction of Canxing Culture” below.

Step 3. Acquisition of Canxing International by Star CM (HK)

On July 31, 2021, Star CM (HK) and Canxing Culture entered into a share transfer agreement pursuant to which, Star CM (HK) acquired 100% of the equity interest in Canxing International Media Limited (“**Canxing International**”), a company incorporated in Hong Kong on December 1, 2017 which was wholly owned by Canxing Culture, from Canxing Culture at a consideration of RMB25,500,000.

Step 4. Acquisition of Fortune Star Media by our Company

Upon completion of the onshore Reorganization as set out in “— Onshore Restructuring” below, on August 2, 2021, the Company entered into a share transfer agreement with CMC Asia pursuant to which, CMC Asia transferred 100% equity interest in Fortune Star Media to our Company. Following such share transfer, Fortune Star Media became a wholly-owned subsidiary of our Company. Such transaction was an integral part of our Reorganization and constituted a common control combination under IFRS.

Step 5. Signing of the Joint Control Agreement

On August 3, 2021, to reflect the joint control arrangement under the Canxing JCA on the Company, CMC (Shanghai), CMC (Tianjin), Mr. Tian, Mr. Jin and Mr. Xu and their onshore and offshore intermediary entities including Unionstars, Harvest Sky, Goldenbroad, East Brothers, Beamingstars and SH Zhihua entered into a joint control agreement to exercise their voting rights in the Company, in the same manners as Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu and their Onshore Intermediary Shareholders agreed under the Canxing JCA as set out

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in “— Our History and Corporate Development — Canxing Culture — Entering into Canxing JCA and Joint-stock Reform” above. Pursuant to the terms of the Joint Control Agreement, the parties to the Joint Control Agreement had confirmed and agreed that they had and would continue to act in concert to reach consensus with respect to, among others, (i) proposing resolutions at the shareholders’ meetings; (ii) exercising their voting rights at the shareholders’ meetings; (iii) nominating directors and (iv) procuring directors nominated to vote unanimously at the board meetings at each intermediary entity and the Company with respect to all matters of the Company. The signing parties to the Joint Control Agreement believe that the arrangement under the Joint Control Agreement is consistent with the arrangement under the Canxing JCA in all material respect and will be beneficial to the overall strategic planning and decision-making process of our Group.

Onshore Restructuring

Step 1. Reorganization of our Non-restricted and/or Non-prohibited Business

To ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, we restructured our onshore entities and minority equity investments so that entities operating businesses that are not subject to foreign ownership restrictions or prohibitions can be held through Shanghai Jiuwu Yisheng, a wholly foreign-owned enterprise of our Company. During the period from June 2021 to July 2021, Canxing Culture transferred to Shanghai Jiuwu Yisheng (i) the entire equity interests in certain of its onshore subsidiaries including MXQY, Star International, Ningbo Canxing Culture Broadcast Co., Ltd. (寧波燦星文化傳播有限公司) and Xi’an Star China Media Co., Ltd. (西安星空華文傳媒有限公司), and (ii) its equity interests in Shanghai Canteng Culture & Media Co., Ltd. (上海燦騰文化傳媒有限公司) (currently known as Shanghai Heilai Music Co., Ltd. (上海黑籟音樂有限公司)), Shanghai Hongying Culture & Art Development Co., Ltd. (上海鴻贏文化藝術發展有限公司) and Shanghai Ximan Canxing Culture Broadcast Co., Ltd. (上海喜漫燦星文化傳播有限公司). Except for the consideration for the transfer of equity interest in MXQY which was determined after arm’s length negotiation with reference to the consideration of the MXQY Acquisition, the consideration for the above share transfers were determined with reference to the book value of net assets of the relevant companies. All the above-mentioned share transfers were fully settled on October 26, 2021.

Step 2. Capital Reduction of Canxing Culture

Pursuant to the shareholders’ resolutions adopted by Canxing Culture on May 14, 2021, certain then existing shareholders of Canxing Culture exited Canxing Culture by way of capital reduction in its registered capital in a total amount of RMB62,585,903 for a total consideration of RMB1,897,064,827 (the “**Capital Reduction**”). The consideration received by each of the above exiting shareholders upon completion of the Capital Reduction equaled to their respective original investment amount paid for the subscription of the shares in Canxing Culture. The consideration for the Capital Reduction was fully settled on August 27, 2021. Following the Capital Reduction, the registered capital of Canxing Culture decreased from

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RMB383,399,768 to RMB320,813,865 and each of SH Xingtou, SH Zhouxing, Mr. Tian, Mr. Cao Bin and Hanfu Capital remained as the Registered Shareholders of Canxing Culture holding 73.71%, 23.09%, 1.77%, 0.78% and 0.65% interest in Canxing Culture, respectively.

Step 3. Acquisition of Shanghai Jiuwu Yisheng by Star CM (HK)

On June 9, 2021, Canxing Culture transferred 2% equity interest in Shanghai Jiuwu Yisheng to Glow Success Investment Limited (“**Glow Success**”), a Hong Kong company wholly owned by Mr. Wang Feng who was an Independent Third Party at a consideration of RMB6,000,000. The consideration was determined based on a valuation report prepared by an independent valuer and fully settled on July 22, 2021. Upon completion of the share transfer on June 24, 2021, Shanghai Jiuwu Yisheng was converted into a sino-foreign joint venture enterprise.

On July 21, 2021, Canxing Culture transferred 98% equity interest in Shanghai Jiuwu Yisheng to Star CM (HK) for a consideration of RMB296,940,000, which was determined based on a valuation report prepared by an independent valuer. The consideration for the transfer was fully settled on August 2, 2021. On July 21, 2021, Glow Success transferred its 2% equity interest in Shanghai Jiuwu Yisheng to Star CM (HK) for a consideration of RMB6,060,000, which was determined based on the same valuation report as mentioned above. The consideration for the Share transfer was fully settled on August 18, 2021. Upon completion of the above share transfers of Shanghai Jiuwu Yisheng, Shanghai Jiuwu Yisheng became a wholly-owned subsidiary of our Company.

Step 4. Contractual Arrangements in respect of Our Consolidated Affiliated Entities

On July 23, 2021 and November 7, 2022, our Consolidated Affiliated Entities, their registered shareholders and Shanghai Jiuwu Yisheng, entered into the Contractual Arrangements in order to exercise and maintain control over the operation of and obtain economic benefits from Canxing Culture and its subsidiaries which engaged in businesses subject to foreign ownership restrictions or prohibitions. For further details, see “Contractual Arrangements.”

Upon completion of the above steps, our Company became the holding company of our Group. The shareholding and corporate structure of our Group immediately after the Reorganization is set forth in “— Our Structure Immediately Prior to the [REDACTED]” below.

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[REDACTED] INVESTMENTS

Overview

We attracted several rounds of investment through direct investments or equity transfers from March 2016 to June 2018:

- (1) **2016 Investments:** On March 30, 2016, Canxing Culture and its then existing shareholders SH Xingtou and SH Zhouxing entered into a capital increase agreement with Tibet Yuanhe, Shanghai Yanheng, Pingtan Fenghuai, Shanghai Fengpu, Mr. Tian and Mr. Cao Bin (together the “**2016 Investors**”) pursuant to which the 2016 Investors subscribed for the increased registered capital of RMB593,742.87 of Canxing Culture at an aggregate consideration of RMB642,528,735 and the registered capital of Canxing Culture increased from RMB3,973,510 to RMB4,567,252.87. The premium amount of RMB641,934,992.76 was credited to the capital reserve of Canxing Culture. The registered capital of Canxing Culture increased from RMB4,567,252.87 to RMB360,000,000 due to the conversion of Canxing Culture from a limited liability company to a join stock company in July 2016.
- (2) **2017 Investments:** On December 1, 2017, the then existing shareholders of Canxing Culture, SH Xingtou, SH Zhouxing and the 2016 Investors entered into a shareholders’ agreement with Ningbo Aoteng, Ningbo Fanghua, Ningbo Fengcai and Hanfu Capital (together the “**2017 Investors**”) pursuant to which 2017 Investors subscribed for the increased registered capital of RMB15,299,849 of Canxing Culture at an aggregate consideration of RMB850,000,000 and the registered capital of Canxing Culture increased from RMB360,000,000 to RMB375,299,849. The premium amount of RMB834,700,151 was credited to the capital reserve of Canxing Culture.
- (3) **2018 First Round Investments:** The following sets out transfer of shares of Canxing Culture from February 2, 2018 to April 8, 2018:
 - On February 2, 2018, Suzhou Haikun entered into share transfer agreements with each of Pingtan Fenghuai and Shanghai Yanheng, pursuant to which each of Pingtan Fenghuai and Shanghai Yanheng transferred 450,000 shares of Canxing Culture to Suzhou Haikun at the consideration of RMB25,000,000, respectively.
 - On March 12, 2018, Xinyu Haikun and SH Zhouxing entered into a share transfer agreement pursuant to which SH Zhouxing transferred 864,000 shares of Canxing Culture to Xinyu Haikun at a consideration of RMB48,000,000.

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- On April 2, 2018, Jundu Derui entered into share transfer agreements with each of Mr. Cao Bin, Shanghai Yanheng and Pingtan Fenghuai, pursuant to which each of Mr. Cao Bin, Shanghai Yanheng and Pingtan Fenghuai transferred 720,000 shares, 450,000 shares and 630,000 shares of Canxing Culture to Jundu Derui at the consideration of RMB40,000,000, RMB25,000,000 and RMB35,000,000, respectively.
 - On April 8, 2018, Hanfu Capital and Mr. Cao Bin entered into a share transfer agreement pursuant to which Mr. Cao Bin transferred 306,000 shares of Canxing Culture to Hanfu Capital at a consideration of RMB17,000,000.
 - On April 26, 2018, Beijing Langma and SH Zhouxing entered into a share transfer agreement pursuant to which SH Zhouxing transferred 1,800,000 shares of Canxing Culture to Beijing Langma at a consideration of RMB100,000,000.
- (4) **2018 Second Round Investments:** On June 19, 2018, Canxing Culture, SH Xingtou, SH Zhouxing and Mr. Tian entered into a capital subscription agreement with Hangzhou Alibaba and Guangxi Hexian (together the “**2018 Second Round Investors**”), pursuant to which the 2018 Second Round Investors subscribed for the registered capital increased in the amount of RMB8,099,919 of Canxing Culture at an aggregate consideration of RMB360,000,000. Pursuant to the shareholders’ resolutions dated June 11, 2018, the registered capital of Canxing Culture increased from RMB375,299,849 to RMB383,399,768. The premium amount of RMB351,900,081 was credited to the capital reserve of Canxing Culture.

The below table summarizes the principal terms of the [REDACTED] Investments:

<u>Relevant investment</u>	<u>Date of investment</u>	<u>Total consideration paid by the investors</u> (RMB)	<u>Settlement date</u> ⁽¹⁾	<u>Cost per share</u> ⁽²⁾ (RMB)	[REDACTED] to the [REDACTED] ⁽³⁾
2016 Investments	March 30, 2016	642,528,735	March 31, 2016	13.73	[REDACTED]%
2017 Investments	December 1, 2017	850,000,000	December 12, 2017	55.56	[REDACTED] ⁽⁴⁾
2018 First Round Investments	February 2, 2018, from Pingtan Fenghuai and Shanghai Yanheng to Suzhou Haikun	315,000,000	February 2, 2018	55.56	[REDACTED] ⁽⁴⁾

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Relevant investment	Date of investment	Total consideration paid by the investors (RMB)	Settlement date ⁽¹⁾	Cost per share ⁽²⁾ (RMB)	[REDACTED] to the [REDACTED] ⁽³⁾
	March 12, 2018, from SH Zhouxing to Xinyu Haikun		March 19, 2018		
	April 2, 2018, from Mr. Cao Bin, Shanghai Yanheng and Pingtan Fenghuai to Jundu Derui		April 16, 2018		
	April 8, 2018, from Mr. Cao Bin to Hanfu Capital		April 26, 2018		
	April 26, 2018, from SH Zhouxing to Beijing Langma		May 29, 2018		
2018 Second Round Investments	June 19, 2018	360,000,000	June 22, 2018	44.44	[REDACTED] ⁽⁵⁾

Notes:

- (1) Refers to the last date of settlement for the relevant rounds of [REDACTED] Investments.
- (2) For the 2016 Investments, being cost per RMB1.0 of the registered capital of Canxing Culture. For the 2017 Investments, 2018 First Round Investments and 2018 Second Round Investments, being cost per share of Canxing Culture with par value of RMB1.0.
- (3) The [REDACTED] to the [REDACTED] is calculated based on the assumption that the [REDACTED] is HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED].
- (4) The premium to the [REDACTED] was due to different valuations of the Group based on mutual agreement between the Group and the relevant [REDACTED] Investors at the relevant times. In general, the valuation of the Group increased from 2016 Investments to the 2018 First Round Investments, which was in line with the then business growth of the Group. Specifically, the consideration for the 2017 Investments and 2018 First Round Investments was determined after arm's

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length negotiations between our Group and the relevant [REDACTED] Investors based on the Group’s business prospects, then market value of Canxing Culture with reference to the PE ratios of comparable companies at the relevant times and the capital market conditions in the PRC in late 2017 and early 2018, respectively.

- (5) The premium to the [REDACTED] was due to different valuations of the Group based on mutual agreement between the Group and the relevant [REDACTED] Investors at the relevant times. The consideration for the 2018 Second Round Investments was determined after arm’s length negotiations between our Group and the relevant [REDACTED] Investors based on the Group’s business prospects, then market value of Canxing Culture with reference to the PE ratios of comparable companies at the relevant time and the capital market conditions in the PRC in mid-2018.

Basis of determination of the consideration

The consideration was determined based on arm’s length negotiation between the [REDACTED] Investors and our Group with reference to Canxing Culture’s business scale and financial performance at the relevant times. Other factors were also taken into account in the determination of the consideration including but not limited to (i) the investment risk assumed by the relevant [REDACTED] Investors under the capital market conditions at the time of the relevant investments and (ii) the strategic benefits which would be brought by the [REDACTED] Investors to our Group as detailed in the “— Strategic benefits that the [REDACTED] Investors would bring to our Group.”

Use of proceeds from the [REDACTED] Investments

As of the Latest Practicable Date, substantially all of the proceeds from the [REDACTED] Investments had been fully utilized for the development and operations of our business, including but not limited to strategic investments, new business development, personnel recruitment as well as other general corporate purposes.

Strategic benefits that the [REDACTED] Investors would bring to our Group

At the time of the [REDACTED] Investments, we were of the view that our Company would benefit from the strategic or financial value that the [REDACTED] Investors would bring to our business, the additional capital provided by the [REDACTED] Investors’ investments in our Group and their knowledge relevant to our business. Our [REDACTED] Investors include renowned professional investors, which can provide us with professional advice on our Group’s development and improve our corporate governance, financial reporting and internal control.

Our Company also considers that the [REDACTED] Investments demonstrated the [REDACTED] Investors’ confidence in our Group’s operations and served as an endorsement of our Company’s performance, strengths and prospects, which can assist us in broadening our shareholder base.

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Information about the [REDACTED] Investors

The following sets forth the background information of our [REDACTED] investors (the “[REDACTED] Investors”). Each of our [REDACTED] Investors is an Independent Third Party.

Dream Radius

Dream Radius is a company incorporated under the laws of the BVI, which is ultimately controlled by Mr. Cao Bin, one of the Registered Shareholders of Canxing Culture. Dream Radius is an overseas special purpose vehicle controlled by Mr. Cao Bin for the purpose of investment holding.

Tibet Yuanhe

Tibet Yuanhe is a private company incorporated under the laws of the PRC. It is directly wholly-owned by Zhefu Holding Group Co., Ltd. (浙富控股集團股份有限公司) (“**Zhefu Group**”), a company incorporated in the PRC and listed on the Shenzhen Stock Exchange (SZSE: 002266). Zhefu Group primarily engages in harmless treatment of hazardous waste, recycling of renewable resources, hydropower equipment and nuclear power equipment businesses.

Shanghai Yanheng

Shanghai Yanheng is a limited partnership incorporated under the laws of the PRC and a private equity fund. The general partner of Shanghai Yanheng is Yanshan Investment Management (Shanghai) Co., Ltd. (岩山投資管理(上海)有限公司) (“**Yanshan Investment**”). Yanshan Investment is wholly owned by Tibet Yanshan Investment Management Co., Ltd. (西藏岩山投資管理有限公司) (“**Tibet Yanshan**”), a company incorporated under the laws of the PRC which is ultimately controlled by Ms. Fu Yaohua (傅耀華). As of the Latest Practicable Date, Shanghai Yanheng had 36 limited partners and was held as to 18.6% by Mr. Sun Yi (孫毅) as the largest limited partner. Apart from the investment in the Company, Shanghai Yanheng also invested in other portfolio companies.

Pingtang Fenghuai and Shanghai Fengpu

Each of Pingtan Fenghuai and Shanghai Fengpu is a limited partnership incorporated under the laws of the PRC and a private equity fund. Their general partner is Fengshi (Shanghai) Investment Management Co., Ltd. (灃石(上海)投資管理有限公司) (“**Fengshi Shanghai**”), which is owned by Yanshan Investment and Mr. Rao Kangda (饒康達) as to 50.0%, respectively. As of Latest Practicable Date, Pingtan Fenghuai had two limited partners being Pingtan Fengshi No.1 Investment Management Partnership (Limited Partnership) (平潭灃石1號投資管理合夥企業(有限合夥)) (“**Pingtang Fengshi No.1**”) and Shanghai Fengshi No.2 Venture Capital Partnership (Limited Partnership) (上海灃石二號創業投資合夥企業(有限合夥)) (“**Shanghai Fengshi No.2**”). Each of Pingtan Fengshi No.1 and Shanghai Fengshi No.2 is a limited partnership incorporated under the laws of the PRC and a private equity fund. Their

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general partner is Fengshi Shanghai. As of the Latest Practicable Date, Pingtan Fengshi No.1 was held as to 37.4%, 37.4%, 24.9% and 0.1%, respectively, by four limited partners being Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司), Tibet Yuanhe, Shanghai 2345 Network Holding Group Co., Ltd. (上海二三四五網絡控股集團股份有限公司) and Tibet Kunjin Enterprise Management Co., Ltd. (西藏琨錦企業管理有限公司). Haitong Innovation Securities Investment Co., Ltd., a company incorporated under the laws of the PRC, is wholly owned by Haitong Securities Co., Ltd. (海通證券股份有限公司), a company incorporated under the laws of the PRC and listed on the Shanghai Stock Exchange (SHSE: 600837). Shanghai 2345 Network Holding Group Co., Ltd. is a company incorporated under the laws of the PRC and listed on the Shenzhen Stock Exchange (SZSE: 002195). As of the Latest Practicable Date, Shanghai Fengshi No.2 had 31 limited partners and was held as to 21.3% by Pingtan Fengshi Hengtong Investment Management Partnership (Limited Partnership) (平潭灃石恒通投資管理合夥企業(有限合夥)) (“**Fengshi Hengtong**”) as the largest limited partner. The general partner of Fengshi Hengtong is Fengshi Shanghai. As of the Latest Practicable Date, Fengshi Hengtong had two limited partners being Tibet Fengshi Investment Management Co., Ltd. (西藏灃石投資管理有限公司) and Tibet Yanshan. Tibet Fengshi Investment Management Co., Ltd., a company incorporated under the laws of the PRC, is wholly owned by Fengshi Shanghai. As of Latest Practicable Date, Shanghai Fengpu had 7 limited partners and was held as to 61.3% by Mr. Wang Weimin (王為民) as the largest limited partner.

Shanghai Aoxia

Shanghai Aoxia is a limited partnership incorporated under the laws of the PRC. The general partner of Shanghai Aoxia is Ningbo Yuanyi, which is ultimately controlled by Mr. Tang Meng (唐萌). As of the Latest Practicable Date, Shanghai Aoxia had one limited partner being Ningbo Aoteng, a limited partnership incorporated under the laws of the PRC. The general partner of Ningbo Aoteng is Ningbo Yuanyi. As of the Latest Practicable Date, Xingye Guoxin Asset Management Co., Ltd. (興業國信資產管理有限公司), a company incorporated under the laws of the PRC, is the largest limited partner of Ningbo Aoteng holding 90.7% limited partner interest in Ningbo Aoteng, while none of the other limited partners holds more than one third of the interest in Ningbo Aoteng. Xingye Guoxin Asset Management Co., Ltd. is ultimately controlled by Industrial Bank Co., Ltd. (興業銀行股份有限公司), a company incorporated under the laws of the PRC and listed on the Shanghai Stock Exchange (SHSE: 601166).

Ningbo Fanghua

Ningbo Fanghua, a limited partnership incorporated under the laws of the PRC, is a private equity fund. The general partner of Ningbo Fanghua is Shanghai Yousheng Assets Management Co., Ltd. (上海悠晟資產管理有限公司) (“**Shanghai Yousheng**”). Shanghai Yousheng is owned by Ningbo Xihe Asset Management Co., Ltd. (寧波羲和資產管理有限公司), Shanghai Penghui Jiqu Asset Management Center (Limited Partnership) (上海鵬匯集裘資產管理中心(有限合夥)) and Ningbo Meishan Free Trade Port Yunguang Investment Center (寧波梅山保稅港區雲光投資中心) as to 40.0%, 30.0% and 30.0%, respectively. Ningbo Xihe

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Asset Management Co., Ltd. is ultimately controlled by Ms. Sun Xiaolan (孫曉蘭). The general partner of Shanghai Penghui Jiqu Asset Management Center (Limited Partnership) is Penghui Shanghai Private Equity Fund Management Co., Ltd. (鵬匯(上海)私募基金管理有限公司), which is ultimately controlled by Mr. Lu Ji (陸吉). The general partner of Ningbo Meishan Free Trade Port Yunguang Investment Center is Linghui (Shanghai) Asset Management Co., Ltd. (領麾(上海)資產管理有限公司), which is ultimately controlled by Ms. Zhou Yinglong (周影龍). As of Latest Practicable Date, Ningbo Fanghua had two limited partners being Ningbo Meishan Free Trade Port Taimai Enterprise Management Consulting Co., Ltd. (寧波梅山保稅港區太麥企業管理諮詢有限公司) and Wenzhou Yingqiao Investment Co., Ltd. (溫州英橋投資有限公司). Ningbo Meishan Free Trade Port Taimai Enterprise Management Consulting Co., Ltd., a company incorporated under the laws of the PRC, is owned by Mr. Dong Hai (董海) and Mr. Chen Kefu (陳可夫) as to 50%, respectively. Wenzhou Yingqiao Investment Co., Ltd., a company incorporated under the laws of the PRC, is wholly owned by Mr. Yi Jiandong (易建東).

Ningbo Fengcai

Ningbo Fengcai, a limited partnership incorporated under the laws of the PRC, is a private equity fund. The general partner of Ningbo Fengcai is Shanghai Fengshi Assets Management Co., Ltd. (上海豐實資產管理有限公司), a company incorporated under the laws of the PRC which is ultimately controlled by Mr. Lu Changqi (盧長祺). As of Latest Practicable Date, Ningbo Fengcai had four limited partners being Ms. Xu Shu (徐曙), Mr. Xi Li (奚利), Mr. Ding Jiachun (丁嘉春) and Mr. Huang Xiao Ming (黃曉明).

Hanfor International

Hanfor International is a company incorporated under the laws of the BVI, which is ultimately controlled by Mr. Han Xueyuan (韓學淵) and an offshore affiliate of Hanfu Capital, one of the Registered Shareholders of Canxing Culture. Hanfor International is an overseas special purpose vehicle controlled by Mr. Han Xueyuan for the purpose of investment holding. Hanfu Capital is a company incorporated under the laws of the PRC primarily engaging in asset management, investment management and investment advisory businesses.

Suzhou Haikun and Xinyu Haikun

Each of Suzhou Haikun and Xinyu Haikun is a limited partnership incorporated under the laws of the PRC and a private equity fund. The general partner of Suzhou Haikun and Xinyu Haikun is Haikun Investment Management (Shanghai) Co., Ltd. (海鯤投資管理(上海)有限公司) (“**Haikun Shanghai**”), which is wholly owned by Ms. Cheng Ahui (程阿惠). As of Latest Practicable Date, Suzhou Haikun had four limited partners being Xinyu Haikun Jingchuang Investment Partnership (Limited Partnership) (新余海鯤景創投資合夥企業(有限合夥)) (“**Haikun Jingchuang**”), Xinyu Haikun Haoshuo Investment Partnership (Limited Partnership) (新余海鯤昊燦投資合夥企業(有限合夥)) (“**Haikun Haoshuo**”), Xinyu Haikun Tenghao Investment Partnership (Limited Partnership) (新余海鯤滕浩投資合夥企業(有限合夥)) (“**Haikun Tenghao**”) and Haikun Shengze (Wuhu) Investment Center (Limited Partnership) (海鯤晟澤(蕪湖)投資中心(有限合夥)) (“**Haikun Shengze**”). Each of Haikun

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Jingchuang, Haikun Haoshuo, Haikun Tenghao and Haikun Shengze is a limited partnership incorporated under the laws of the PRC and a private equity fund. The general partner of Haikun Jingchuang, Haikun Haoshuo, Haikun Tenghao and Haikun Shengze is Haikun Shanghai. As of the Latest Practicable Date, Haikun Jingchuang had 49 limited partners and was held as to 5.0% by Mr. Han Rui (韓瑞) as the largest limited partner. As of the Latest Practicable Date, Haikun Haoshuo had 45 limited partners and was held as to 5.0% by Ms. Liu Chunying (劉春英) as the largest limited partner. As of the Latest Practicable Date, Haikun Tenghao had 49 limited partners and was held as to 3.8% by Ms. Zhang Shaoying (張少英) as the largest limited partner. As of the Latest Practicable Date, Haikun Shengze had one limited partner being Ms. Feng Yingfang (馮瑩昉). As of the Latest Practicable Date, Xinyu Haikun had 23 limited partners and was held as to 8.6% by Ms. Tang Aiyu (唐愛玉) as the largest limited partner.

Jundu Derui

Jundu Derui, a limited partnership incorporated under the laws of the PRC, is a private equity fund. The general partner of Jundu Derui is Ningbo Jundu Private Equity Fund Management Co., Ltd. (寧波君度私募基金管理有限公司) (“**Ningbo Jundu**”), which is beneficially owned by Chen Jun (陳軍), Cheng Jianmin (成建民) and Yu Bin (喻賓), as to 36.0%, 25.5% and 10.0%, respectively. The remaining interest in Ningbo Jundu was owned by a group of shareholders each holding less than 10% interest in Ningbo Jundu. Jundu Derui had 37 limited partners and was held as to 10.0% by Suzhou Dade Hongqiang Investment Center (Limited Partnership) (蘇州大得宏強投資中心(有限合夥)) (“**Suzhou Dade Hongqiang Center**”) as the largest limited partner. Suzhou Dade Hongqiang Center is a limited partnership incorporated under the laws of the PRC and a private equity fund. The general partner of Suzhou Dade Hongqiang Center is Suzhou Dade Hongqiang Investment Management Co., Ltd. (蘇州大得宏強投資管理有限公司), a company incorporated under the laws of the PRC and owned by Ms. Zhao Xiaoling (趙曉玲) and Ms. Wang Xiuzhen (王秀珍) as to 70% and 30%, respectively. Suzhou Dade Hongqiang Center had one limited partner being Ms. Wang Xiuzhen. Apart from the investment in the Company, Jundu Derui also invested in other portfolio companies.

Beijing Langma

Beijing Langma is a private company incorporated under the laws of the PRC and is managed and owned by Everest VC (北京朗瑪峰創業投資管理有限公司) as to 3.5%, a company incorporated under the laws of the PRC which is ultimately controlled by Mr. Xiao Jiancong (肖建聰). Beijing Langma had 31 shareholders and was held as to 8.0% by Mr. Yang Xikuan (楊喜寬) as the largest shareholder.

Taobao China

Taobao China, a limited liability company incorporated under the laws of Hong Kong, is wholly owned by Alibaba Group Holding Limited. Alibaba Group Holding Limited is an exempted company incorporated with limited liability under the laws of the Cayman Islands on June 28, 1999, and is listed on the NYSE under the symbol “BABA” and on the Hong Kong Stock Exchange under the stock code “9988.”

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Premier Asia

Premier Asia is a private company incorporated under the laws of the BVI wholly owned by Zhongjing Xinhua Property Management (Hong Kong) Co., Limited (中靜新華資產管理(香港)有限公司), a company incorporated under the laws of Hong Kong with its sole shareholder being Zhongjing Xinhua Asset Management Co., Ltd. (中靜新華資產管理有限公司). Zhongjing Xinhua Asset Management Co., Ltd. is ultimately controlled by Shanghai Soong Ching Ling Foundation (上海宋慶齡基金會). Premier Asia is an overseas special purpose vehicle established for the purpose of investment holding.

Special Rights and Lock Up

Pursuant to our shareholders agreement dated August 27, 2021 entered into by us and the existing Shareholders of our Company (the “**Shareholders Agreement**”), the [REDACTED] Investors were granted certain special rights in relation to the Company, including, among others, customary rights of first refusal, pre-emptive rights and information rights. All special rights under the [REDACTED] Investments were terminated immediately prior to the first submission of the [REDACTED] to the Stock Exchange for the purpose of the [REDACTED]. The [REDACTED] Investors are not subject to any lock-up requirement pursuant to the Shareholders Agreement.

Public Float

As neither of the [REDACTED] Investors will be a core connected person of our Company upon [REDACTED], all the shares held by the [REDACTED] Investors mentioned above will be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules.

[REDACTED]

Compliance with Interim Guidance and Guidance Letters

Based on the documents provided by the Company relating to the [REDACTED] Investments, the Joint Sponsors confirm that the [REDACTED] Investments are in compliance with the Interim Guidance on [REDACTED] Investments (HKEX-GL29-12) and the Guidance on [REDACTED] Investments (HKEX-GL43-12).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) Each of Mr. Tian, Mr. Jin, Mr. Xu, CMC (Shanghai), CMC (Tianjin), SH Zhihua, Harvest Sky, Beamingsstars, Goldenbroad, East Brothers and Unionstars are parties to the Joint Control Agreement. For further details, see “— Reorganization — Offshore Restructuring — Step 5. Signing of the Joint Control Agreement.”
- (2) [REDACTED] Investors include Dream Radius (0.65%), Hanfor International (0.55%), Taobao China (1.17%), Premier Asia (0.94%), Tibet Yuanhe (5.70%), Shanghai Yanheng (0.72%), Pingtan Fenghuai (1.79%), Shanghai Fengpu (1.08%), Shanghai Aoxia (2.02%), Ningbo Fanghua (0.94%), Ningbo Fengcai (0.56%), Suzhou Haikun (0.23%), Xinyu Haikun (0.23%), Jundu Derui (0.47%) and Beijing Langma (0.47%). See “— [REDACTED] Investments” in this section for further details of our [REDACTED] Investors.
- (3) As of the Latest Practicable Date, the remaining 30% of the issued share capital of Xingyi (Shanghai) Enterprise Management Co., Ltd. was owned by Shanghai Gengchi Investment Consulting Co., Ltd. (上海互馳投資諮詢有限公司), Shanghai Yingqian Assets Management Co., Ltd. (上海應乾資產管理有限公司) and Ms. Jin Shasha (金沙莎) as to 20%, 7% and 3%, respectively, each an Independent Third Party.
- (4) As of the Latest Practicable Date, the remaining 30% of the issued share capital of Xingkongshishang Culture & Communication (Shanghai) Co., Ltd. was owned by Ms. Li Yinglan (李盈瀾), an Independent Third Party.
- (5) As of the Latest Practicable Date, the remaining 49% of the issued share capital of MXDR was owned by Mr. Zhang Yong (張勇), Mr. Qiu Qingbin (仇青斌), Mr. Xiong Yuanteng (熊遠騰) and Mr. Xie Hongbo (謝洪波) as to 32.5%, 2.45%, 9.15% and 4.9%, respectively, each an Independent Third Party.
- (6) As of the Latest Practicable Date, the remaining 49% of the issued share capital of Shanghai Shengzhong Network Technology Co., Ltd. was owned by Shanghai Shengzhong Information Technology Partnership (Limited Partnership) and Mr. Lu Qiang (陸強), an Independent Third Party, as to 20% and 29%, respectively.
- (7) As of the Latest Practicable Date, the remaining 50% of the issued share capital of Shanghai Shengzhong Information Technology Partnership (Limited Partnership) was owned by Mr. Lu Qiang, an Independent Third Party.
- (8) As of the Latest Practicable Date, the remaining 40% of the issued share capital of Shanghai Mengxiang Tengfei Network Technology Co., Ltd. was owned by Tengyang Advertisement Co. Ltd. (騰揚廣告有限責任公司), an Independent Third Party.
- (9) As of the Latest Practicable Date, the remaining 22% of the issued share capital of Canxing Film was owned by Mr. Zhang Jun (張軍) and Mr. Jing He (景赫), employees of Canxing Film, and Ms. Shi Min (石敏), a director of Canxing Film, as to 15%, 5% and 2%, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) For notes (1), (3), (4), (5), (6), (7), (8) and (9), please refer to the diagram contained under “Our Structure Immediately Prior to the [REDACTED]” in this section.
- (2) Other [REDACTED] Investors includes Dream Radius ([REDACTED]%), Hanfor International ([REDACTED]%), Taobao China ([REDACTED]%), Premier Asia ([REDACTED]%), Tibet Yuanhe ([REDACTED]%), Shanghai Yanheng ([REDACTED]%), Pingtan Fenghuai ([REDACTED]%), Shanghai Fengpu ([REDACTED]%), Shanghai Aoxia ([REDACTED]%), Ningbo Fanghua ([REDACTED]%), Ningbo Fengcai ([REDACTED]%), Suzhou Haikun ([REDACTED]%), Xinyu Haikun ([REDACTED]%), Jundu Derui ([REDACTED]%) and Beijing Langma ([REDACTED]%). See “— [REDACTED] Investments” in this section for further details of our [REDACTED] Investors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRC LEGAL COMPLIANCE

Our PRC Legal Advisor confirmed that (i) all necessary regulatory approvals, permits and licenses required under PRC Laws in relation to the Reorganization have been obtained and (ii) all share transfers and changes in registered capital as part of the Reorganization have been properly and legally completed in compliance with all applicable PRC laws and regulations.

SAFE REGISTRATION

Pursuant to the SAFE Circular No. 37, before a PRC resident contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), the PRC resident must conduct foreign exchange registration for offshore investment with the local branch of SAFE. Where a significant matter occurs such as a capital increase/decrease or equity transfer/replacement by a domestic resident individual, the foreign exchange modification registration procedure for foreign investment shall be undertaken with the local branch of SAFE in a timely manner. Pursuant to the Circular of SAFE on Further Simplification and Improvement Policies in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular No. 13**”) issued by SAFE and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks instead of the local branch of SAFE.

Our PRC Legal Advisor has confirmed that each of Mr. Tian, Mr. Jin, Mr. Xu and Mr. Cao Bin as the individual shareholders of the offshore holding vehicles holding our Shares as of the date of this document, known to us as being PRC residents, has completed the registration under SAFE Circular No. 37 and SAFE Circular No. 13.

M&A RULES

According to Article 2 of the “Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) jointly issued by six PRC governmental and regulatory agencies, including MOFCOM and CSRC, which became effective on September 8, 2006 and amended on June 22, 2009, foreign investors should comply with the M&A Rules and other applicable PRC laws and regulations when the foreign investors purchase equity interests in a domestic non-foreign-invested enterprise (“domestic company”) or subscribes for increased capital of a domestic company, thus changing the nature of the domestic company into a foreign-invested enterprise (“merger and acquisition of equity interests”); or when the foreign investors establish a foreign-invested enterprise in the PRC, through which they purchase and operate the assets of a domestic company by agreement; or when foreign investors purchase the assets of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》 (2008)) promulgated by Foreign Investment Department of the Ministry of Commerce (商務部外資司), notwithstanding the fact that (i) the domestic shareholder of the domestic company is connected with the foreign investor or not, (ii) whether the foreign investor is an existing shareholder or a new investor, the M&A Rules shall not apply to the merger and acquisition of equity interests in a foreign-invested enterprise.

Our PRC Legal Advisor is of the opinion that, based on its understanding of the current PRC laws and regulations, prior CSRC and MOFCOM approvals for the [REDACTED] and [REDACTED] of our Shares on the Stock Exchange is not required because (i) our wholly foreign-owned PRC subsidiaries were not established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules and (ii) no provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules. However, our PRC Legal Advisor further advises that there is uncertainty as to how the M&A Rules will be interpreted or implemented, and whether the relevant PRC government authorities will reach the same conclusion as our PRC Legal Advisor.

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OVERVIEW

Who We Are

According to the F&S Report, 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 people with our original and entertaining content. Bringing enjoyment to people’s everyday lives, we have accumulated an audience base which serves as the basis of our diversified IP-related business.

We have a broad spectrum and a number of popular variety program IPs in diverse genres, including music variety programs, dance variety programs, talent shows, talk shows, outdoor/cultural variety programs and other variety programs. According to the F&S Report, we are one of the few companies that can create and operate variety program IPs in various major program genres. We adhere to the idea that entertainment content should touch on hot issues, people’s livelihoods and their innermost soul, enabling us to produce variety programs which are not only entertaining but also filled with positive energy. Reflecting the sociocultural environment of our time, our variety programs are authentic and can resonate with a broad audience. We uphold the highest standards in our operations and are dedicated to building a team underpinned by operational excellence and social responsibilities.

What We Do

We are dedicated to creating entertainment IPs.

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%. In 2012, we launched “Sing! China” (中國好聲音), one of the most popular singing competition shows in China. With 11 seasons aired, “Sing! China” has set a record by being the longest running seasonal variety program in China. We also created and operated other variety program IPs with long-lasting popularity, such as “Guess the Singer!” (蒙面唱將猜猜猜), “Sing My Song” (中國好歌曲) and “Brilliant Chinese — Path to Glory” (出彩中國人). We cooperated with Youku, one of the Top Three Online Video Platforms in China, and jointly produced “Street Dance of China” (這!就是街舞), a made-for-internet dance competition show. It became an instant hit after its launch in 2018 and topped the rankings for dance variety programs with a total view count of over 1.7 billion in the same year. We also produced programs in other genres, such as “The Great Wall” (了不起的長城), a cultural variety program released in 2020, which ranked third in terms of TV viewership among all TV variety programs in its time slot.

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We are a music IP creator and operator in China. As of June 30, 2022, we had a music library of 8,549 IPs, consisting of 3,546 live music recordings produced during the creation of our music variety programs, 3,158 songs we produced for our managed artists, and 1,845 lyrics and music compositions. The breadth and diversity of our music library demonstrate our ability to continually create widely popular music IPs.

We own and operate a large library of Chinese film IPs. We believe our extensive IP operation experience will greatly benefit our development in the field of film and drama series production. As of June 30, 2022, we owned 757 popular Chinese films produced in Hong Kong in the past few decades, including many classics such as “The Way of the Dragon” (猛龍過江), “First of Fury” (精武門), “A Chinese Ghost Story” (倩女幽魂) and “Rouge” (胭脂扣). We own the right of rerun of all of our film IPs as well as the rights of remastering and remake of some of our film IPs, and we are seeking opportunities to present our film IPs in innovative ways, such as creating new film IPs based on the storyline of the existing ones. In addition, in October 2020, we concluded the filming of the drama series “Reading Class” (閱讀課), our first drama series production.

Our IP-centric ecosystem has become an integral part of audience members’ lives, bringing them a spectacular “on-the-air, online and on-the-spot” entertainment experience.

The entertainment IPs that we have created, owned and operated have reached a wide audience through diverse broadcasting channels. As of June 30, 2022, we had close cooperation with four of the Big Five Satellite TV Networks in China, the Top Three Online Video Platforms in China and the two major online music platforms in China to distribute our IP content worldwide. During the Track Record Period, a number of our variety programs consistently ranked among the top three in terms of first-run viewership in the same time slot.

We operate our proprietary mobile app, the “Sing! China” app, and a WeChat mini-app, the “Zongbache” (綜巴車) mini-app, to offer an engaging social network platform for our audience. As of June 30, 2022, there were more than 1.2 million registered users on the “Sing! China” app and more than 68,000 registered users on the “Zongbache” mini-app.

We have also expanded our footprint in a wide array of IP-related businesses, enabling us to further interact with hundreds of millions of audience members and become an enjoyable part of their lives. We arrange our managed artists to attend various concerts, tours and in-person appearances, where audience members can interact with our managed artists. Through our arts education and training programs, people can improve their singing, dancing and other performance skills. In addition, we license our entertainment IPs to consumer products brands and themed attractions, so that audience members can purchase tie-in merchandise and have fabulous on-site entertainment experiences.

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Our revenue decreased from RMB1,806.6 million in 2019 to RMB1,559.9 million in 2020 and decreased to RMB1,126.7 million in 2021. Our revenue was 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(27.8) 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(0.3) 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 “Financial Information — 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).

OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

Leading Creator, Owner and Operator of Entertainment IPs in China

According to the F&S Report, we are the largest variety program IP creator and operator in China in terms of the number of variety program IPs created during the Track Record Period, with a market share of 1.6% in China in terms of revenue in 2021. In addition, we are a music IP creator and operator in China, and have a large library of Chinese film IPs. We are a leading creator and operator of variety program, music, film and drama series IPs in China in terms of revenue in 2021.

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Building on our insight into evolving audience preferences and our deep understanding of the fast-changing industry, we pioneered the Chinese entertainment industry with our diverse and extensive selection of entertainment IPs. In relentless pursuit of originality, we have been the creator of all of our variety program IPs since 2016.

- **Variety program IPs.** We are one of the few companies in China that is capable of producing and operating super large variety programs. We constantly roll out variety program IPs with an average viewership rating of 1% or above. During the Track Record Period, we produced and launched a total of 32 variety programs with the cumulative number of episodes of 307. Among the 30 programs we produced in 2019, 2020 and 2021, eight of which were listed among the top ten domestic variety programs in terms of viewership among variety programs in their respective time slots. In 2012, we produced “Sing! China” variety program which is not only an innovative music competition show, but also the holder of the record for China’s seasonal variety program with the largest number of seasons aired. In 2018, we produced the super hit “Street Dance of China” variety program which is the first original made-for-internet dance variety program in China and has a total view count of more than 1.7 billion.
- **Music IPs.** We are one of the leading music IP creators and operators in China. Relying on our strong music IP production and operation capabilities, we have produced songs in various music genres and we aim to continually create songs that can go viral. We have produced music IPs based on live performances during our creation of singing competition shows. We also produce a large number of popular original songs and music videos for our managed artists every year. As of June 30, 2022, our music library contained 8,549 music IPs that can be licensed, including music recordings produced during the production of our variety programs, singles and albums we produced for our managed artists, and lyrics and music compositions.
- **Film and Drama Series IPs.** We have a large library of Chinese film IPs, consisting of 757 films that cover almost all of the most popular films produced in Hong Kong in the past few decades as of June 30, 2022. We own the right of rerun of all of our film IPs, as well as the rights of remastering and remake of some of our film IPs. In addition, we completed the filming of the drama series “Reading Class” (閱讀課) in October 2020, our first original drama series, and we plan to produce more drama series and films in the future to further expand and diversify our library of original IPs.

We believe that our industry expertise and our leading position in creating entertainment IPs, coupled with the rapid growth of the entertainment industry in China and across the globe, will enable us to play a crucial role in the entertainment industry value chain. With a firm commitment to continually creating entertainment content, we endeavor to create entertainment IPs that are youth-centric, trendsetting and international. We have also expanded our footprint in various IP-related businesses to further develop our entertainment IP ecosystem and continue to lead the market.

BUSINESS

Strong IP Creation Capabilities

We have always been a forerunner in the creation of Chinese entertainment IPs. The ability to continually create popular, entertainment content is our core capability, crucial for strengthening our market power and increasing our business value. Many of our variety programs ranked among the most popular prime-time broadcasts on four of the Big Five TV Networks in China in terms of viewership at their time slots, and accumulated high view counts on the Top Three Online Video Platforms in China, during the Track Record Period.

We have established standardized and efficient entertainment IP creation processes, covering concept formulation, production, marketing, promotion, licensing and broadcasting. These standardized processes enable us to create entertainment content in a cost-effective manner and expand our content creation from our dominant categories such as music and dance variety programs to talk shows, outdoor/cultural variety programs and other popular genres. During the Track Record Period, we continually produced variety programs that ranked among the top five in the field of music and dance variety programs in terms of viewership in their respective timeslots, including “Sing! China 2019,” “Sing! China 2020,” “Sing! China 2021,” “Shine! Super Brothers” (追光吧!哥哥), “The Great Wall,” “China’s Got Talent 2019,” and “Guess the Dancer! 2021” (蒙面舞王2021).

Our content production and operations team and our talent resources are the key drivers of our IP creation and operation, and they constitute our core competencies.

- ***Content Production and Operations Team.*** Our content production and operations team consist of more than 250 professionals. With our innovation-friendly workplace, excellent corporate culture and effective incentive schemes, we have cultivated and inspired many influential directors, such as Mr. Jin Lei (金磊), Mr. Xu Xiangdong (徐向東), Mr. Lu Wei (陸偉), Ms. Shen Ning (沈寧), Mr. Wu Qunda (吳群達) and Mr. Zhang Li (章驪). Programs directed by Mr. Jin Lei include “Sing! China” and “Shine! Super Brothers.” Programs directed by Mr. Xu Xiangdong include “Guess the Singer!” (蒙面唱將猜猜猜) and “So You Think You Can Dance” (舞林爭霸). Programs directed by Mr. Lu Wei include “Street Dance of China” and “Brilliant Chinese — Path to Glory.” Having worked in the variety program industry for decades, our directors are renowned for their expertise in producing and operating super large variety programs. For details of our director’s team, see “— Our Businesses — Variety Program IP Production, Operation, and Licensing — Content Production and Operations Team — Director’s Team.”
- ***Talent Resources.*** We have entered into artist management agreement with many outstanding performing artists who participated in our music variety programs. We engage them in our variety program and music IP production, as well as our other IP-related business. As of June 30, 2022, we had cooperative relationships with more than 150 performing artists, including, in alphabetical order, Ms. Chen Bing (陳冰), Ms. Curley G (希林娜依•高), Ms. Huang Xiaoyun (黃霄雲), Mr. Jiang Dunhao (蔣敦豪), Mr. Li Qi (李琦), Mr. Lil-Em (那吾克熱•玉素甫江), Ms. Liu

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Xuejing (劉雪婧), Ms. Pan Hong (潘虹), Ms. Su Yunying (蘇運瑩), Mr. Tenzin Nyima (旦增尼瑪), Ms. Wu Keyue (伍珂玥), Ms. Xing Hanming (邢晗銘), Ms. Yu Zibei (于梓貝), Mr. Zahi Bing Zo (紜西平措) and Mr. Zhang Lei (張磊). In addition, we have created an extensive talent discovery and recommendation network accumulated over the years to identify new talents who can star in our variety programs. The network covers multiple countries and regions in the world and serves as an important channel for us to explore and cultivate artists with great potential.

Vibrant Entertainment Ecosystem Benefited from Efficient IP Operation

Leveraging our strong IP operation capabilities, we can effectively achieve synergies among our IP resources, further extending our IP value chain. By expanding our IP operations to cover multiple pan-entertainment business segments, we have built a multi-level entertainment IP ecosystem.

- ***Variety program and music IP operation.*** As of June 30, 2022, we produced 3,546 music IPs in relation to our variety programs and 3,158 music IPs for our managed artists. We license our music works to online music and audio entertainment platforms, such as TME and NetEase Cloud Music, media companies, and karaoke operators. We enjoy a strategic advantage in identifying and attracting new blood in the Chinese music industry through our extensive talent discovery network built over the years, and we further promote the cultivation and development of songwriters through our “Sing My Song” variety program. We promote our managed artists through vigorously carrying out offline music activities, such as music festivals and concerts, and also through building a large music production platform for Chinese pop music.
- ***Film and drama series production and IP operation.*** We have cooperated with domestic and international media platforms, such as ByteDance, a leading online video platform, to broadcast the films in our film IP library. In addition, we concluded the filming of our first original drama series, “Reading Class” in 2020. Leveraging our library of film IPs and our capabilities in content production, we are strategically positioned to expand our footprint in the field of film and drama series IP operation and licensing.
- ***Artist management.*** We have successfully identified a large number of talented performing artists through our competition shows. Our artist management team is in close contact with various corporate customers, advertising agencies and media platforms, and works with our managed artists to schedule concerts, tours, in-person appearances and endorsement deals with the customers. As of June 30, 2022, we had one of the largest pools of managed artists among all the variety program IP operation companies in China, according to the F&S Report, with more than 150 managed artists.

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- ***Concert production and organization.*** Leveraging our rich expertise in event planning and our deep roster of managed artists, we have established a concert organization and production business and have served a wide array of customers, including well-known online music platforms and advertising agencies.
- ***Arts education and training.*** Building on our leading brands of singing and dance competition shows and our collaboration with outstanding performing artists, we cooperate with the Shanghai Institute of Visual Arts (上海視覺藝術學院) to offer undergraduate programs in pop music and street dance. As of June 30, 2022, 224 students were enrolled in our arts education program. In addition to the undergraduate program, we offer online and offline music and dance training classes to the general public.
- ***Mobile app and WeChat mini-app.*** To provide an immersive platform for audience members to interact with each other, we have developed and launched a “Sing! China” mobile app and a “Zongbache” mini-app. Through a wide array of social functions, users can receive updates on our latest variety programs and participate in online singing battles, as well as comment on and give “likes” to other users’ singing performances.
- ***Consumer products.*** We actively seek to license our entertainment IPs to various domestic and international brands in various sectors, including cosmetics, food and beverages, clothing and fashion items. We also engage third party suppliers to produce clothing and fashion items centered around our entertainment IPs and sell them on our “Zongbache” mini-app and on online retail platforms such as Tmall.
- ***Themed attractions.*** Leveraging our IP resources and strong brand effect, we have expanded into the themed attraction business with an asset-light model focused on IP licensing. We have obtained the land-use right of a land parcel in Songjiang, Shanghai, where we plan to build our “Songjiang Star Variety Program, Film and Drama Series Production Base” and related themed attractions. For more details of our Songjiang Star Variety Program, Film and Drama Series Production Base, see “— Our Businesses — Other IP-Related Business — Themed Attractions.”

Diversified Distribution Channels Centered on IP Promotion

We have built a variety of channels to promote our IPs and to reach a wide audience. Building on our long-term partnerships with major satellite TV networks and online video platforms, as well as our self-operated distribution channels, we have provided our audience with comprehensive and extensive access to our content. Our cooperation with four of the Big Five Satellite TV Networks in China and the Top Three Online Video Platforms in China was one of the most extensive among all entertainment IP operators, in terms of the number of the variety programs broadcast in China during the Track Record Period. In 2020, we created “Shine! Super Brothers,” which is the first variety program to be launched

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simultaneously on Youku, one of the Top Three Online Video Platforms in China, and Dragon Satellite TV, one of the Big Five Satellite TV Networks in China, setting another record in the Chinese variety program market.

- **TV networks.** We have conducted extensive market research on the business needs and the brand images of major TV networks and have established close cooperative relationship with the leading ones. We have produced variety programs for leading TV networks, including “Brilliant Chinese — Path to Glory” (出彩中國人) and “Great Challenge” (了不起的挑戰) for CCTV 1, “Sing My Song” for CCTV 3, “Cinderella” (來吧!灰姑娘) for CCTV 6, “Sing! China” and “A Class” (同一堂課) for Zhejiang Satellite TV, “Guess the Singer!” “Guess the Dancer!” (蒙面舞王) “Likes! Talent” (點讚!達人秀) and “Sofa Quiz Time” (了不起的沙發) for Jiangsu Satellite TV, as well as “China’s Got Talent” (中國達人秀) and “Jin Xing Show” (金星秀) for Dragon Satellite TV, all of which have achieved high viewership ratings. Among them, “Sing! China 2021” achieved an average viewership rating of 2.32% and “Guess the Dancer! 2021” achieved an average viewership rating of 1.42%, making them the hit shows of their respective years.
- **Online video platforms.** For internet users, our variety program IPs are easily accessible on leading online video platforms, including Youku, iQIYI and Tencent Video. We first cooperated with Youku to create the highly popular variety program IP “Street Dance of China 2018.” Since then, we have continued our cooperation with Youku and produced “Street Dance of China 2019,” “CHUANG” (這!就是原創) and “Arrival of the Best-Seller!” (爆款來了). We have also cooperated with Tencent Video in producing “Rave Now” (即刻電音) and participated in the production of “Sing Tour” (唱給世界聽) and “Shifu Go Go Go!” (出發吧, 師傅!), which were released on iQIYI. Such collaborations enable us to build a distribution network that covers the major online video platforms. Among these programs, “Street Dance of China 2018” has gained a total view count of 1.7 billion, and “Street Dance of China 2019” has received a rating as high as 8.7 out of ten on Douban.com, a leading Chinese social networking service website that is well known for its movie and variety program review database. The popularity of “Street Dance of China” continued and “Street Dance of China 2020” has inspired a total of six spinoffs. In addition, we have worked with leading short video platforms to launch our own channels, in an effort to increase our influence among internet users.
- **Self-operated distribution channels.** We actively build self-operated distribution channels to expand our audience reach, such as our “Sing! China” app and “Zongbache” mini-app. They allow us to interact directly with audience members and are growing into a social media platform for users.

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An Audience Base Attracted by Our Popular IPs

Empowered by our strong IP operation capabilities and diversified distribution channels, our entertainment IPs have attracted a massive audience base with strong loyalty. Having ranked the first in terms of viewership in its timeslot for ten consecutive years from 2012 to 2021, “Sing! China” has accumulated a large number of passionate and loyal audience. With the highest total view count among all made-for-internet dance variety programs in China in 2018, “Street Dance of China” has built a loyal audience base in particular among the younger generation.

We are able to achieve frequent, efficient and real-time communications and interactions with audiences through various online and offline channels. For example, the offline entertainment events in association with our “Sing! China” variety program attracted many enthusiastic music lovers from multiple countries and regions around the world to participate during the Track Record Period. As of June 30, 2022, the “Sing! China” app had more than 1.2 million registered users, who can participate in online singing battles, take online assessments of their singing skills, and take online arts training courses on the app.

We have covered the entire value chain of entertainment IP creation and operation, making our entertainment IP ecosystem highly interactive, connected and participatory. We identify and promote new talent through various channels, including offering arts training and education, contracting with rising artists and providing new talent with an online platform to showcase their vocal skills on the “Sing! China” app. These channels enable frequent interactions among audience and attract artists to register on our “Sing! China” app and give online live performances.

Global Entertainment IP Presence

In recent years, the global entertainment industry has experienced steady growth with the development of the Chinese market. According to the F&S Report, the market size of the global entertainment industry reached US\$373.1 billion in 2021, and it is expected to reach US\$504.8 billion in 2026 with a CAGR of 6.2% from 2021 to 2026. We believe we are well-positioned to capitalize on the market growth of the global entertainment industry with our global vision and our international presence through IP licensing.

We license our IP rights in variety programs to overseas content production companies. Through our licensing network, our variety programs are available in multiple countries, including China, the United States, Canada, Singapore, Malaysia and Qatar. We also licensed the program format of “Sing My Song,” an original variety program created by us, to a content production company in Vietnam, which is the first time an original Chinese variety program has been licensed in an overseas market. During the Track Record Period, our variety programs received several international awards and nominations. For example, “A Class 2019,” our original variety program produced by us, won the best children’s program award given by Infocomm Development Authority of Singapore. “CHUANG” won “best Director (China)” at 2019 Asian Academy Creative Awards.

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We also have a global reach through STAR Chinese Channel, STAR International Channel and Channel V, three major channels operated by our related entity, SCML, all of which have extensive popularity and wide influence in overseas markets. These channels provide entertainment content to audiences in Southeast Asia and North America. Channel V’s annual “Chinese Music Awards” (全球華語音樂榜中榜), a well-recognized music awards program in the Chinese music industry, has been held for 20 consecutive years and we have the right to host it for an indefinite period.

Visionary and Experienced Management Team

Benefiting from the insights and expertise of our management team led by Mr. Tian Ming (田明), we have pioneered the Chinese entertainment industry. Our management team has witnessed the vigorous development of China’s culture and entertainment industry in the past 30 years and will continue to set the trend for producing and operating Chinese entertainment IPs.

Our Chairman, Mr. Tian Ming, has nearly 30 years of experience within the industry. He has served as senior executive of Shanghai Oriental Star Culture Development Co., Ltd. (上海東方之星文化發展有限公司), deputy general manager of Shanghai Media Group (上海文廣新聞傳媒集團), chief operating officer and general manager of Dragon Satellite TV. He has extensive experience in producing variety programs, managing team efficiently and integrating industry resources. Under the leadership of Mr. Tian Ming, our passionate and professional content creation team is highly collaborative and committed to creating entertainment IPs. Our visionary management team will continue to guide us through the fast-changing industry trends, formulate growth strategies, capture market opportunities and achieve sustainable development.

Our senior executives have an average of 30 years of relevant industry experience: Mr. Jin Lei, Mr. Xu Xiangdong, Mr. Lu Wei, Ms. Shen Ning, Mr. Wu Qunda and Mr. Zhang Li are excelled in the creation of entertainment IPs; Mr. Cao Zhigao (曹志高) has extensive experience in the operation and the monetization of entertainment IPs. Ms. Wang Yan (王艷) has profound financial management and corporate management experience. Their insights into the trend of mass culture and entertainment, developing IP value chain and capturing creative opportunities to reach wider audiences enable us to continually create popular IPs and maintain a leading position in our industry.

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OUR STRATEGIES

We plan to continue to maintain our market leading position and expand our business outreach. To achieve our goals, we plan to execute the following strategies:

Further Strengthen Our IP Creation and Operation Capabilities

We will strengthen our market leading position in the field of variety program IP creation and continue to expand our music IP library and film IP library. We plan to further enhance our capabilities of content production in the field of variety programs, music, film and drama series. We will also diversify the genres and topics of our IPs and explore ways to expand our IP reserve through cooperation and mergers and acquisitions.

Building on our established entertainment IP industry value chain, we will further explore innovative ways to operate our entertainment IPs. We plan to continue to invest in the fields of arts education and training, themed attractions and consumer products to provide entertainment services and products to the audience.

Further Expand Our Audience Outreach and Brand Influence to Enhance Our Monetization Capabilities

We will continue to set up distribution channels in various business fields to reach a wider audience. We will increase the number of TV networks, online video platforms and music service providers we work with. We also plan to diversify our distribution channels and offer onsite experience through IP-centered experience halls, electronic music centers and street dance centers. We will continue to deepen our cooperation with various distribution platforms and achieve synergies in association with the production, operation and distribution of our IPs. We will provide better user experience and increase the size and stickiness of our audience base, in order to attract investing media platforms and advertising clients, and enhance our monetization capabilities.

Leveraging the growth of the global entertainment industry, we plan to further enhance the influence and value of our entertainment IPs in the global market. We will strength our efforts to recruit content production professionals in the overseas entertainment market and attract talented artists globally to join our content production process. We will continue to promote our original content overseas and monetize our entertainment IPs by licensing our program IPs to overseas content production companies and companies in other-IP related business.

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Further Expand Our Business Through Mergers and Acquisitions

We will keep a close watch on and continuously evaluate high-quality mergers and acquisitions targets that are complementary to our business and in line with our strategies, including arts training institutions, IP-centered experience halls, marketing and promoting companies, themed attractions and consumer products companies that can improve our IP operation capabilities. Through mergers and acquisitions, we can effectively integrate premium industry resources in the upstream and downstream of the entertainment value chain, further accelerating the expansion of the Company.

Continue to Attract Talents and Build Our Team

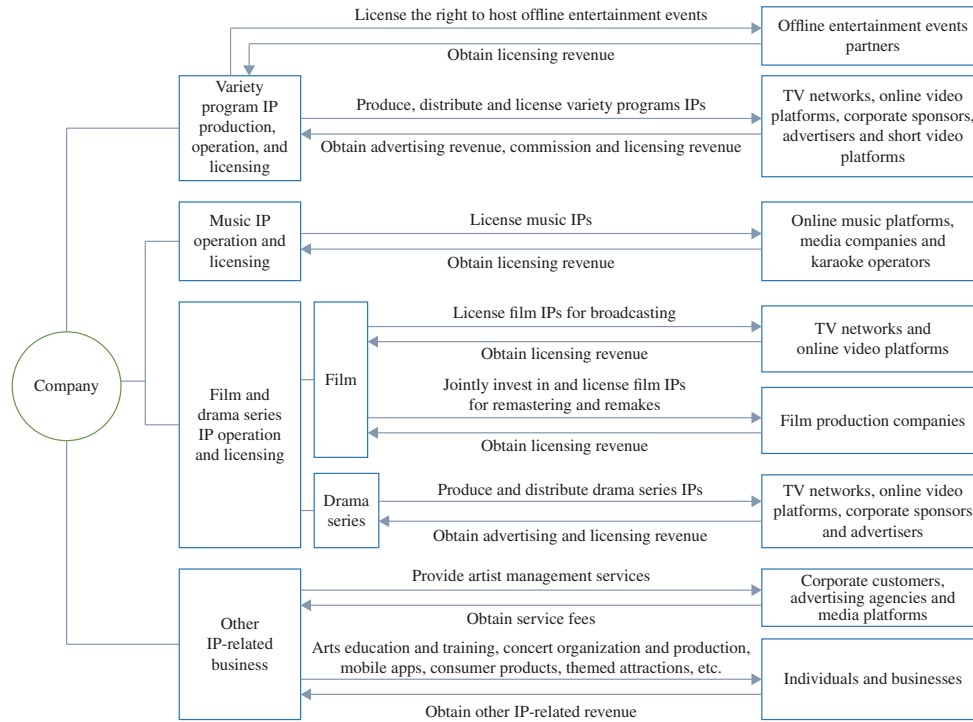
Talent is the key enabler for our market leading position. We provide excellent training opportunities and highly competitive compensation and incentive plan for our employees. We will further improve our talent acquisition and retention system to attract top talents in the fields of IP production, operation and management, facilitate our team to continuously improve and enhance the long-term business prospects of the Company.

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We are the leading creator and operator of variety program, music, film and drama series IPs in China in terms of revenue in 2021, capable of offering a full spectrum of entertainment IPs and other IP-related products and services. Stemming from our successful variety program offering, we have been continually diversifying our exposure to other pan-entertainment categories and expanding our business along the entertainment value chain. Built upon our fully integrated entertainment ecosystem, we are committed to meeting the needs of our customers audience members, and exceeding their expectations through every interaction.

Leveraging our premium industry resources and market leading position, we have built a business model that centers on our entertainment IPs and generates revenue from multiple sources. We produce variety programs for TV networks and online video platforms, generating income in the form of revenue sharing, commission fees and licensing fees for the broadcasting rights of our variety programs and the right to host offline entertainment events. We also license the songs and albums we produced for our variety programs and managed artists to leading online music platforms, media companies and karaoke operators. To further diversify our revenue source, we license our film IPs to international and domestic media platforms and made our debut in drama series production and distribution. To further capitalize on our IP resources, we provide a series of IP-related products and services such as artist management, concert organization and production, arts education and training, mobile apps, consumer products and themed attractions. Below is an illustration of our business and revenue model.

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The following table sets out a breakdown of our revenue, 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	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										

Revenue

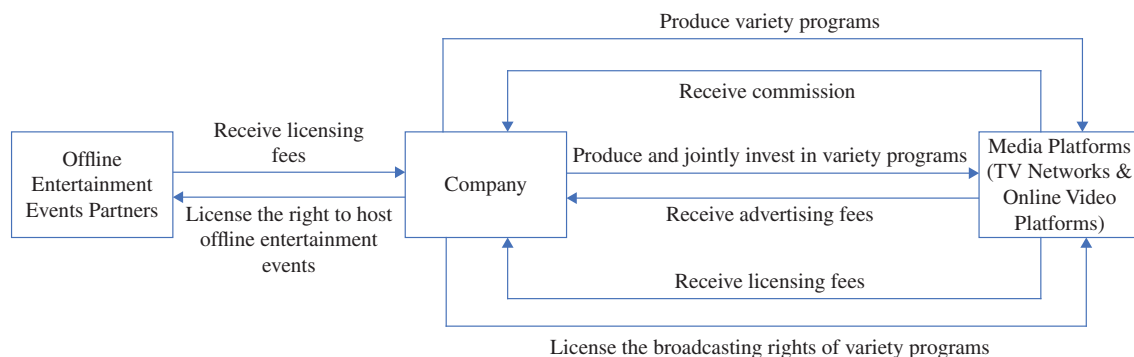
Variety program IP production, operation, and licensing	1,340.5	74.2%	1,090.1	69.9%	879.5	78.0%	72.5	46.9%	136.5	74.7%
Music IP operation and licensing	239.1	13.2%	217.3	13.9%	118.3	10.5%	45.2	29.2%	19.5	10.7%
Film and drama series IP operation and licensing	115.0	6.4%	174.2	11.2%	86.4	7.7%	22.4	14.5%	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 revenue	1,806.6	100.0%	1,559.9	100.0%	1,126.7	100.0%	154.6	100.0%	182.6	100.0%

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

Variety Program IP Production, Operation, and Licensing

We create and distribute variety programs on various media platforms, consisting of major TV networks and online video platforms. Under the revenue sharing model, we produce and jointly invest in variety programs with media platforms and share the advertising sales with the platforms. Under the commissioned production model, we are engaged by media platforms to produce variety programs for a fixed commission. We generate additional revenues from licensing the broadcasting rights of our variety programs to media platforms for reruns and from licensing the right to host offline entertainment events in association with our variety programs for licensing fees. The following is an illustration of our variety program IP production, operation, and licensing.



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The following table sets out a breakdown of our revenue generated from variety program IP production, operation, and licensing by cooperation models for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(RMB in millions, except percentages)</i>									
	<i>(unaudited)</i>									
Revenue Sharing Model	1,137.5	84.9%	665.8	61.1%	704.7	80.1%	56.3	77.7%	36.1	26.4% ⁽¹⁾
Commissioned Production Model	203.0	15.1%	424.3	38.9%	174.8	19.9%	16.2	22.3%	100.4	73.6% ⁽¹⁾
Total	1,340.5	100.0%	1,090.1	100.0%	879.5	100.0%	72.5	100.0%	136.5	100.0%

Note:

- (1) The percentage of our revenue generated during the six months ended June 30, 2022 under the commissioned production model increased and that under the revenue sharing model decreased compared to the same period in 2021, primarily because (i) we recognized revenue of “Great Dance Crew” in the six months ended June 30, 2022, which was produced under the commissioned production model, and (ii) we recognized revenue of “Guess the Singer! 2020” in the same period in 2021, which was produced under the revenue sharing model.

The following table sets out a breakdown of our gross profit and gross profit margin by cooperation models for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(RMB in millions, except for percentages)</i>				
<i>(unaudited)</i>					
Gross Profit⁽¹⁾					
Revenue Sharing Model	323.4	113.9	95.0	31.3	12.8
Commissioned Production Model	64.0	108.5	39.4	3.9	16.2
Total gross profit⁽¹⁾	387.4	222.4	134.4	35.2	29.0
Gross Profit Margin⁽¹⁾					
Revenue Sharing Model	28.9%	20.4%	15.3%	48.6%	21.2%
Commissioned Production Model	28.4%	17.1%	13.5%	55.6%	35.5%
	31.5%	25.6%	22.5%	24.1%	16.1%

Note:

- (1) Gross profits and gross profit margins in this table are calculated excluding equity-settled share award expenses in cost of sales, as equity-settled share award expenses cannot be allocated to a specific cooperation model.

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The following table sets out a breakdown of our revenue generated from variety program IP production, operation, and licensing by programs for the periods indicated, and the director(s) of the top five variety programs each year in terms of revenue contribution.

	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in millions, except for percentages)</i>							
Sing! China (中國好聲音) ⁽¹⁾	490.5	36.6%	324.5	29.8%	256.1	28.6%	-	-
Street Dance of China (這!就是街舞) ⁽²⁾	184.0	13.7%	210.5	19.3%	239.1	27.2%	-	-
China’s Got Talent 2019 (中國達人秀 2019) ⁽³⁾	182.9	13.6%	-	-	-	-	-	-
CHUANG (這!就是原創) ⁽⁴⁾	140.3	10.5%	-	-	-	-	-	-
Guess the Singer! (蒙面唱將猜猜猜) ⁽⁵⁾	132.8	9.9%	65.1 ⁽⁶⁾	6.0%	23.8 ⁽⁶⁾	2.7%	-	-
Let’s Band (一起樂隊吧)	70.1	5.2%	-	-	-	-	-	-
The Great Wall (了不起的長城)	34.6 ⁽⁷⁾	2.6%	158.2 ⁽⁷⁾	14.5%	-	-	-	-
Guess the Dancer! (蒙面舞王) ⁽⁸⁾	-	-	80.1	7.3%	79.9	9.1%	-	-
Arrival of the Best-Seller! 2020 (爆款來了2020) ⁽⁹⁾	-	-	76.9	7.1%	-	-	-	-
Sing Along the Way (街頭音浪2020)	-	-	54.7	5.0%	-	-	-	-
King Cross 2020 (跨界歌王2020)	-	-	41.5	3.8%	-	-	-	-
Shifu Go Go Go! (出發吧,師傅!)	-	-	23.5	2.2%	-	-	-	-
Likes! Talent (點讚!達人秀) ⁽¹⁰⁾	-	-	-	-	110.3 ⁽¹¹⁾	12.5%	24.1 ⁽¹¹⁾	17.7%
Shine! Super Brothers 2021 (追光吧!2021) ⁽¹²⁾	-	-	-	-	68.4 ⁽¹³⁾	7.8%	17.1 ⁽¹³⁾	12.5%
IN China (中國潮音)	-	-	-	-	52.7 ⁽¹⁴⁾	6.0%	8.8 ⁽¹⁴⁾	6.5%
Great Dance Crew (了不起!舞社)	-	-	-	-	-	-	53.3	39.0%
Others ⁽¹⁵⁾	105.3	7.9%	55.1	5.0%	53.7	6.1%	33.2	24.3%
Total	1,340.5	100.0%	1,090.1	100.0%	879.5	100.0%	136.5	100.0%

Notes:

- (1) “Sing! China 2019” was directed by Mr. Jin Lei, Mr. Lu Wei and Mr. Chen Di; “Sing! China 2020” was directed by Mr. Jin Lei and Mr. Shen Ning; “Sing! China 2021” was directed by Mr. Jin Lei.
- (2) “Street Dance of China 2019,” “Street Dance of China 2020” and “Street Dance of China 2021” were directed by Mr. Lu Wei.
- (3) “China’s Got Talent 2019” was directed by Mr. Zhang Li.
- (4) “CHUANG” was directed by Mr. Wu Qunda.
- (5) “Guess the Singer! 2019” was directed by Mr. Xu Xiangdong and Mr. Wang Chenchen.

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- (6) Representing the revenue we recognized in 2020 and 2021 for “Guess the Singer! 2020” that was broadcast in 2020 and 2021.
- (7) Representing the revenue we recognized in 2019 and 2020 for “The Great Wall” that we started the production process in 2019 and the program was broadcast in 2020.
- (8) “Guess the Dancer! 2020” and “Guess the Dancer! 2021” were directed by Mr. Xu Xiangdong and Mr. Wang Chenchen.
- (9) “Arrival of the Best-Seller! 2020” was directed by Mr. Lu Wei.
- (10) “Likes! Talent” was directed by Mr. Zhang Li and Mr. Chen Di.
- (11) Representing the revenue we recognized in 2021 and the six months ended June 30, 2022 for “Likes! Talent” that was broadcast in 2021 and 2022.
- (12) “Shine! Super Brothers 2021” was directed by Mr. Jin Lei.
- (13) Representing the revenue we recognized in 2021 and the six months ended June 30, 2022 for “Shine! Super Brothers 2021” that was broadcast in 2021 and 2022.
- (14) Representing the revenue we recognized in 2021 and the six months ended June 30, 2022 for “IN China” that was broadcast in 2021 and 2022.
- (15) For the years ended December 31, 2019, 2020 and 2021, others comprised of variety programs other than our major programs, consisting of non-seasonal variety programs, variety programs of which we only involved in post-production and variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing. For the six months ended June 30, 2022, others comprised of variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing, and variety programs which have not been broadcast as of June 30, 2022.

The following table sets out a breakdown of our gross profit and gross profit margin by programs for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾
	(%)		(%)		(%)		(%)	
<i>(RMB in millions, except for percentages)</i>								
Sing! China (中國好聲音)	228.8	46.6%	54.4	16.8%	5.6	2.2%	-	-
Street Dance of China (這!就是街舞)	38.2	20.8%	58.0	27.6%	83.5	34.9%	-	-
China’s Got Talent 2019 (中國達人秀2019)	35.7	19.5%	-	-	-	-	-	-
CHUANG (這!就是原創)	18.3	13.0%	-	-	-	-	-	-
Guess the Singer! (蒙面唱將猜猜猜) ⁽²⁾	17.9	13.5%	1.2	1.8%	1.5	6.3%	-	-
Let’s Band (一起樂隊吧)	26.6	37.9%	-	-	-	-	-	-
The Great Wall (了不起的長城) ⁽³⁾	-	-	29.1	18.4%	-	-	-	-

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	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾	Gross profit ⁽¹⁾	Gross profit margin ⁽¹⁾
	(%)		(%)		(%)		(%)	
	<i>(RMB in millions, except for percentages)</i>							
Guess the Dancer! (蒙面舞王)	-	-	19.2	24.0%	9.8	12.3%	-	-
Arrival of the Best-Seller! 2020 (爆款來了2020)	-	-	35.6	46.3%	-	-	-	-
Sing Along the Way (街頭音浪2020)	-	-	16.6	30.3%	-	-	-	-
King Cross 2020 (跨界歌王2020)	-	-	6.3	15.2%	-	-	-	-
Shifu Go Go Go! (出發吧,師傅!)	-	-	0.2	0.9%	-	-	-	-
Likes! Talent (點讚!達人秀) ⁽⁴⁾	-	-	-	-	2.0	1.8%	0.4	1.7%
Shine! Super Brothers 2021 (追光吧!2021) ⁽⁵⁾	-	-	-	-	13.7	20.0%	3.5	20.5%
IN China (中國潮音) ⁽⁶⁾	-	-	-	-	8.9	16.9%	1.5	17.0%
Great Dance Crew (了不起!舞社)	-	-	-	-	-	-	11.3	21.2%
Others ⁽⁷⁾	21.9	20.8%	1.8	3.3%	9.4	17.5%	12.3	37.0%
Total	387.4	28.9%	222.4	20.4%	134.4	15.3%	29.0	21.2%

Notes:

- (1) Gross profits and gross profit margins in this table are calculated excluding equity-settled share award expenses in cost of sales, as equity-settled share award expenses cannot be allocated to a specific program.
- (2) The overall gross profit margin of “Guess the Singer! 2020” was 3.0% after including the revenue generated and cost of sales incurred in 2020 and 2021.
- (3) The overall gross profit margin of “The Great Wall” was 15.1% after including the revenue generated and cost of sales incurred in 2019 and 2020.
- (4) The overall gross profit margin of “Likes! Talent” was 1.8% after including the revenue generated and cost of sales incurred in 2021 and the six months ended June 30, 2022.
- (5) The overall gross profit margin of “Shine! Super Brothers 2021” was 20.1% after including the revenue generated and cost of sales incurred in 2021 and the six months ended June 30, 2022.
- (6) The overall gross profit margin of “IN China” was 16.9% after including the revenue generated and cost of sales incurred in 2021 and the six months ended June 30, 2022.
- (7) For the years ended December 31, 2019, 2020 and 2021, others comprised of variety programs other than our major programs, consisting of non-seasonal variety programs, variety programs of which we only involved in post-production and variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing. For the six months ended June 30, 2022, others comprised of variety programs whose revenue is less than two percent of our total revenue generated from variety program IP production, operation, and licensing, and variety programs which have not been broadcast as of June 30, 2022.

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The following table sets out a breakdown of our revenue generated from variety program IP production, operation, and licensing by sources by media platforms 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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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%	4.0	5.5%	0.1	0.1%
Online video platforms	116.9	8.7%	67.8	6.2%	48.8	5.5%	–	–	–	–
Licensing of offline entertainment events	68.3	5.1%	24.5	2.3%	48.1	5.5%	31.7	43.7%	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%

Note:

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

Among our revenue generated from variety program IP production, operation, and licensing, our revenue generated from TV networks decreased from RMB686.0 million in 2019 to RMB568.4 million in 2020, primarily due to a decrease of RMB271.3 million in our revenue from TV networks for advertising sales, because (i) our revenue in connection with “Sing! China 2020” decreased due to the negative impact of the COVID-19 pandemic, and (ii) we did not produce the subsequent season for “China’s Got Talents 2019” in 2020, resulting from changes in the investing media platform’s production budget and broadcasting plan and schedules. The decrease was partially offset by an increase in our commission fee from TV networks, due to the recognition of a majority of our revenue from “The Great Wall” in 2020. Our revenue from TV networks further decreased from RMB568.4 million in 2020 to

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RMB259.8 million in 2021, primarily due to (i) a decrease of RMB198.0 million in our commission from TV networks, because we did not produce the subsequent season for “The Great Wall” in 2021, resulting from changes in the investing media platform’s production budget and broadcasting plan and schedules, and (ii) a decrease of RMB111.9 million in our revenue from TV networks for advertising sales in connection with “Sing! China 2021,” mainly due to a decrease in the advertising budget of corporate customers, 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 and smartphone. Our revenue from TV networks decreased from RMB24.7 million for the six months ended June 30, 2021 to RMB2.3 million for the six months ended June 30, 2022, primarily due to a decrease of RMB20.5 million in our revenue from TV networks for advertising sales, because we recognized part of the revenue from “Guess the Singer! 2020” in 2021, while we did not recognize any revenue from “Guess the Singer!” program in the first half of 2022.

Among our revenue generated from variety program IP production, operation, and licensing, our revenue generated from online video platforms decreased from RMB577.7 million in 2019 to RMB493.2 million in 2020. The decrease was primarily due to a decrease of RMB106.4 million in our revenue from online video platforms for advertising sales, because we did not produce the subsequent season for “CHUANG” in 2020, resulting from changes in the investing media platform’s production budget and broadcasting plan and schedules. The decrease was partially offset by an increase in our commission fee of RMB71.0 million from online video platforms, primarily due to an increase of our revenue from “Arrival of the Best-Seller!” program in 2020 as compared to 2019. Our revenue from online video platforms increased from RMB493.2 million in 2020 to RMB569.2 million in 2021, primarily due to an increase of RMB145.9 million in our revenue from online video platforms for advertising sales, primarily because we produced “Likes! Talent” under the revenue sharing model. Our revenue from online video platforms increased from RMB16.0 million for the six months ended June 30, 2020 to RMB121.9 million for the six months ended June 30, 2021, primarily due to an increase of RMB82.3 million in our commission from online video platforms, mainly because we produced “Great Dance Crew” under the commissioned production model.

Since our inception, we have created over 80 variety program IPs as of June 30, 2022, covering a wide array of categories. Our music and dance variety programs are highly popular among audience both inside and outside China, such as “Sing! China” (中國好聲音) and “Street Dance of China” (這!就是街舞). Many of the variety programs we created are first of its kind, such as “Sing My Song” (中國好歌曲), the first music competition show in China featuring songwriters. We also produced talent shows, outdoor/cultural variety programs and talk shows, such as “Jin Xing Show” (金星秀) and “Miaofu Show” (苗阜秀).

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Program Portfolio and Major Program Description

We first produced “Sing! China” in 2012, which became an instant hit with the audience. “Sing! China” ranked first place in terms of TV viewership at its own time slot for ten consecutive years from 2012 to 2021. Since its launch, “Sing! China” has snared numerous viewers and become a highly successful case of a multi-season variety program with enduring popularity.

Building on the success of the “Sing! China” series, we have focused our resources on creating and operating music variety programs, dance variety programs and talent shows, which epitomize our creativity and industry experience. In addition, we have spanned our business to cover other program genres, including talk shows and outdoor/cultural variety programs, and have produced several smash hits. The following table sets forth key information on our variety programs released during the Track Record Period.

Program Portfolio

Genre	Program	Format	Frequency	Primary Broadcasting Platform
<i>Music Variety Program</i>				
1.	CHUANG (這!就是原創)	Music competition show for songwriters	Seasonal	Youku
2.	Sing Tour (唱給世界聽)	Outdoor show to promote Chinese music	Seasonal	iQIYI
3.	Sing! China 2019 (中國好聲音2019)	Music competition show for singers	Seasonal	Zhejiang Satellite TV
4.	Guess the Singer! 2019 (蒙面唱將猜猜猜2019)	Guess the singer challenge	Seasonal	Jiangsu Satellite TV
5.	Let’s Band (一起樂隊吧)	Music competition show for music bands	Seasonal	Youku
6.	King Cross 2020 (跨界歌王2020)	Music competition show for non-professional singers	Seasonal	Beijing Satellite TV
7.	Sing! China 2020 (中國好聲音2020)	Music competition show for singers	Seasonal	Zhejiang Satellite TV
8.	Sing Along the Way (街頭音浪2020)	City travel music show	Seasonal	Youku

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Genre	Program	Format	Frequency	Primary Broadcasting Platform
9.	Guess the Singer! 2020 (蒙面唱將猜猜猜2020)	Guess the singer challenge	Seasonal	Jiangsu Satellite TV
10.	Sing! China 2021 (中國好聲音2021)	Music competition show for singers	Seasonal	Zhejiang Satellite TV
11.	IN China (中國潮音)	Music competition show featuring pop music	Seasonal	Youku
<i>Dance Variety Program</i>				
12.	Street Dance of China 2019 (這!就是街舞2019)	Street dance competition show	Seasonal	Youku
13.	Let's Dance! 2020 (師父!我要跳舞了2020)	Children's dance variety program	Seasonal	Youku
14.	Street Dance of China 2020 (這!就是街舞2020)	Street dance competition show	Seasonal	Youku
15.	Guess the Dancer! 2020 (蒙面舞王2020)	Guess the dancer challenge	Seasonal	Jiangsu Satellite TV
16.	Let's Dance! 2021 (師父!我要跳舞了2021)	Children's dance variety program	Seasonal	Youku
17.	Street Dance of China 2021 (這!就是街舞2021)	Street dance competition show	Seasonal	Youku
18.	Guess the Dancer! 2021 (蒙面舞王2021)	Guess the dancer challenge	Seasonal	Jiangsu Satellite TV
19.	Great Dance Crew (了不起!舞社)	Dance competition show for dancers	Seasonal	Youku
<i>Talent Show</i>				
20.	Shine! Super Brothers 2020 (追光吧!哥哥2020)	Performing artists' talent show	Seasonal	Youku and Dragon Satellite TV
21.	China's Got Talent 2019 (中國達人秀2019)	Talent show	Seasonal	Dragon Satellite TV

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Genre	Program	Format	Frequency	Primary Broadcasting Platform
22.	Shifu Go Go Go! (出發吧,師傅!)	Taxi driver's talent show	Seasonal	iQIYI
23.	Likes! Talent (點讚!達人秀)	Talent show	Seasonal	Douyin and Jiangsu Satellite TV
24.	Shine! Super Brothers 2021 (追光吧!2021)	Talent show featuring performing artists	Seasonal	Youku and Dragon Satellite TV
<i>Talk Show</i>				
25.	Talk One on One 2021 Season One (有一說一2021第一季)	Talk show conducted outdoors	Seasonal	Xigua Video
26.	Talk One on One 2021 Season Two (有一說一2021第二季)	Talk show conducted outdoors	Seasonal	Xigua Video
27.	Roasting King (嘴強王者)	Talk show in the roast genre featuring esports	One-off	Tencent Video
<i>Outdoor/Cultural Variety Program</i>				
28.	The Great Wall (了不起的長城)	Outdoor cultural and knowledge show	Seasonal	Beijing Satellite TV
29.	A Class 2019 (同一堂課2019)	Cultural show encouraging teenagers to discover the charm of Chinese classics	Seasonal	Zhejiang Satellite TV
<i>Other Variety Program</i>				
30.	Arrival of the Best-Seller! 2019 (爆款來了2019)	E-commerce competition show	Seasonal	Youku
31.	Arrival of the Best-Seller! 2020 (爆款來了2020)	E-commerce competition show	Seasonal	Youku
32.	PANTHEPACK (熊貓書包請查收)	Variety program featuring a group of artists	Seasonal	Douyin

During the Track Record Period and up to the Latest Practicable Date, we did not have any material termination of or loss-making programs.

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Major Program Description

Below is a description of a selective list of our variety programs produced during the Track Record Period, which covers all of the five program genres and include all of our major programs during the Track Record Period.

Sing! China (中國好聲音)



“Sing! China” is the first singing competition show we produced. The series employs a panel of music icons serving as mentors who choose teams of contestants, usually passionate music lovers and many of them self-taught. The mentors will guide their team through rounds of battles and compete to ensure that their team wins the competition. Since its debut in 2012, “Sing! China” has enjoyed success nationwide and gained global influence.

The reason for the phenomenal success of “Sing! China” is multifold: As we provide the contestants with an opportunity to bring their authentic style in front of a national audience, “Sing! China” has become a preferred platform for talented singers to pursue their performance career. Featuring everyday people from all walks of life, we present the contestants’ performance and life stories which can easily resonate with the audience. In addition, we have built an extensive and efficient talent discovery network over the years to help us continually identify emerging artists to participate in the programs as contestants. Because of its enduring popularity and successful track record, “Sing! China” has been selected to be one of the only four music competition shows that are allowed to be broadcast on TV networks during prime time since 2013.

After its launch, “Sing! China” has aired 11 seasons and is broadcast on Zhejiang Satellite TV, one of the Big Five Satellite TV Networks in China. “Sing! China” finished its first season with a massive audience base and a viewership rating as high as 3.08%. It continued its success with its subsequent seasons, ranking first in terms of average viewership rating at its timeslot

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for ten consecutive years from 2012 to 2021. As advised by Frost & Sullivan, rankings based on average viewership ratings are commonly used to measure popularity of variety programs. It had an average viewership rating of 1.75%, 2.52% and 2.32% in 2019, 2020 and 2021, respectively. We produced the “Sing! China” programs under the revenue sharing model during the Track Record Period.

In comparison, three variety programs of the same genre produced by other producers achieved an average viewership rating of 1.87%, 0.74% and 0.91% in 2019, respectively, and 2.17%, 2.02% and 0.94% in 2020, respectively, and 2.52%, 2.28% and 2.26% in 2021, respectively.

“Guess the Singer!” (蒙面唱將猜猜猜)



“Guess the Singer!” is another highly successful music variety program produced by us. Performers in head-to-toe disguise will perform duets, trios or choruses, with a panel of celebrities trying to guess the identities of the performers. The program is highly entertaining as it combines music performance with the excitement of guessing games. To further add an element of surprise, we have invited people from vastly different backgrounds, including singers, actors and actresses, athletes, entrepreneurs and social media influencers, to perform. As the audience has only seen the performers in their primary role, they are often fascinated to discover the performers’ hidden singing skills. The fact that “Guess the Singer!” provides a stage that is open to both amateurs and professionals helps attract people from various professions to participate in the program and further contributes to its popularity.

Premiered in 2016, we have produced five seasons of “Guess the Singer!,” which is broadcast on Jiangsu Satellite TV, one of the Big Five Satellite TV Networks in China. It had an average viewership rating of 1.20% and 1.45% in 2019 and 2020, respectively, ranking second in terms of average viewership rating at its timeslot for both seasons. We produced the “Guess the Singer!” programs under the revenue sharing model during the Track Record Period.

In comparison, three variety programs of the same genre produced by other producers achieved an average viewership rating of 1.87%, 0.74% and 0.91% in 2019, respectively, and 2.17%, 2.02% and 0.94% in 2020, respectively.

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“CHUANG (這!就是原創)”



“CHUANG” is a music competition show for songwriters, which aims to present the latest trend of Chinese music and the talents of songwriters. Led by three well-known music artists, “CHUANG” provides a valuable opportunity for rising songwriters to perform their original songs to a nationwide audience. The music works performed during the show cover a broad range of music elements, such as pop, classic and hip-hop.

“CHUANG” was streamed on Youku in 2019, one of China’s leading online video platforms. We produced “CHUANG” under the revenue sharing model.

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“Let’s Band (一起樂隊吧)“



“Let’s Band” is a music competition show that features bands. 75 young musicians form bands and compete with each other, under the lead of four well-known music artists. “Let’s Band” aims to present the development trend of bands, scout new talent for China’s music industry and promote bands that are popular with the young generation. Through presenting the journey of the 75 program participants in the show, who love the culture of bands and look for like-minded friends and colleagues, “Let’s Band” showcases their passion and love for music and bands.

“Let’s Band” was streamed on Youku in 2019, one of China’s leading online video platforms. We produced the “Let’s Band” under the commissioned production model.

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“Sing Along the Way (街頭音浪)”



“Sing Along the Way” is a music variety program that combines the elements of music performance and city tours. Several music artists traveled in a van and visited six cities in China, namely Shanghai, Chengdu, Xi’an, Hefei, Harbin and Qingdao, to scout talented musicians and perform for local communities. “Sing Along the Way” presented a wonderful journey where audience can appreciate the performances of rising music talent, enjoy beautiful city views and feel the interactions between the singers and the local communities.

“Sing Along the Way” was streamed on Youku in 2020, one of China’s leading online video platforms. We produced the “Sing Along the Way” under the commissioned production model.

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“King Cross 2020 (跨界歌王2020)”



“King Cross 2020” is a music competition show that features non-professional singers. It invites contestants from various backgrounds, such as actors, actresses and social media influencers. The participants received intense training during the production of the program, performed in front of the audience and competed against each other.

“King Cross 2020” is broadcast on Beijing Satellite TV, one of the Big Five Satellite TV Networks in China. It had an average viewership rating of 1.02% in 2020, ranking fifth in terms of average viewership rating at its timeslot. We produced “King Cross 2020” under the commissioned production model during the Track Record Period. “King Cross” is a series of variety programs broadcast on Beijing Satellite TV with five seasons aired from 2016 to 2020. We only produced its latest season, “King Cross 2020.”

In comparison, three variety programs of the same genre produced by other producers achieved an average viewership rating of 2.17%, 2.02% and 0.94% in 2020, respectively.

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“IN China (中國潮音)”



“IN China” is a music competition show that features pop music with distinct Chinese elements. “IN China” invites various musicians to present music from a broad range of genres, including electronic, pop, rap and rock, and combine it with elements of traditional Chinese music, such as folklore and Chinese opera. Led by five well-known music artists, the participants competed to become the champion.

“IN China” was streamed on Youku in 2021, one of China’s leading online video platforms. We produced “IN China” under the commissioned production model.

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“Street Dance of China” (這!就是街舞)



“Street Dance of China” is a dance competition show featuring four captains and their respective four teams of street dancers. Through dance battles with various styles, techniques and influences, the show streamlines the winner through rounds of elimination. The stage of “Street Dance of China” welcomes contestants from all walks of life, with different personalities and embody many different styles, from old-school to new-school hip-hop, urban to locking, ballet to waacking. Young and old generations of street dancers come together to create and perform some of the most intricate pieces. With massive stars serving as captains and lending their influence and dance skills, the show has helped boost street dance to the mainstream.

“Street Dance of China 2018” is our first made-for-internet variety program and was streamed during the spring of 2018 on Youku, one of China’s leading online video platforms. It had a highly successful run with 1.7 billion accumulated views in 2018. Premiered in 2018, we have produced five seasons of “Street Dance of China,” which were all broadcast on Youku.

We produced the “Street Dance of China” programs under the revenue sharing model during the Track Record Period.

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“Guess the Dancer!” (蒙面舞王)



“Guess the Dancer!” is a dance variety program that brings well-known actors, actresses, singers and social media influencers together to participate in dance performance. The participants will perform in front of an audience in costume to conceal their identity. A panel of well-known dancers, singers, actors and actresses, and the audience will work together to guess the identity of the performers. “Guess the Dancer!” is highly entertaining as the performers will perform a wide variety of different dances and the audience’s votes to determine the identity of the performers add an extra layer of excitement to the program. Audience is often intrigued to find out the hidden dance skills of the well-known performers. The well-known performers, in turn, often appreciate the opportunity to try out something different and foster closer connection with audience.

Premiered in 2020, we have produced three seasons of “Guess the Dancer!”, which were all broadcast on Jiangsu Satellite TV, one of the Big Five Satellite TV Networks in China. It has drawn many well-known performing artists to participate in the program and a large and loyal audience since its launch. It had an average viewership rating of 0.86% and 1.42% in 2020 and 2021, respectively, ranking third and fourth in terms of average viewership rating at its timeslot in the corresponding periods. We produced the “Guess the Dancer!” program under the revenue sharing model during the Track Record Period.

In comparison, two variety programs of the same genre produced by other producers achieved an average viewership rating of 1.36% and 0.34% in 2020, respectively.

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Shine! Super Brothers (追光吧!哥哥)



“Shine! Super Brothers” is a talent show featuring 21 male performing artists. The program follows the general formula of talent shows, but with the twist that participants are already well-known artists, or the “brothers.” In three months, the 21 “brothers” will practice and perform various singing and dancing skills on stage in front of the audience. The show is designed to showcase their courage and perseverance of the “brothers” in seeking career breakthrough.

Premiered in 2020, “Shine! Super Brothers” has drawn a lot of attention and aroused much discussion on the social media platforms. It is broadcast on Dragon Satellite TV and Youku, and has made history by being the first variety program whose initial broadcast was carried out simultaneously on a TV network and on an online video platform. Since 2020, we have produced two seasons of “Shine! Super Brothers.” We produced the “Shine! Super Brothers” programs under the commissioned production model during the Track Record Period.

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“China’s Got Talent” (中國達人秀)



“China’s Got Talent” is a talent show that features all kinds of performances of all ages competing for the opportunity to perform in the final round. Contestants perform in front of a panel of four judges, consisting of famous actors and actresses, singers, athletes and TV show hosts, as well as a live audience. The judges vote alongside the audience to decide whether the contestants will have the opportunity to enter the next round. “China’s Got Talent” attracts a large and loyal audience with its extremely inclusive format. There is no age minimum or maximum and every genre, including those that defy classification, is welcome onstage. Audience loves the show because it celebrates the beauty and talent of ordinary people: whatever the contestants do, they can have the opportunity to stand in the spotlight and proudly perform in front of a national audience, as long as they do it well.

Since 2012, we have produced two seasons of “China’s Got Talent,” which were broadcast on Dragon Satellite TV. It consistently ranked among the top five among all the variety programs at its time slot in terms of viewership and ranked third place in 2019. In 2019, it had an average viewership rating of 1.3%, ranking third in terms of average viewership rating at its timeslot. We produced the “China’s Got Talent” programs under the revenue sharing model during the Track Record Period.

In comparison, two variety programs of the same genre produced by other producers achieved an average viewership rating of 0.58% and 0.77% in 2019, respectively.

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“Shifu Go Go Go! (出發吧,師傅!)”



“Shifu Go Go Go!” is a talent show that features taxi drivers. The program invites four judges, comprising of singer, dancer, stand-up comedian and TV show host, to give comments on contestants’ performances. “Shifu Go Go Go!” provides taxi drivers with a stage to showcase their talents and share their life stories. Audience can appreciate the acts as well as the moving moments in each of the contestants’ stories.

“Shifu Go Go Go!” was streamed on iQIYI, one of China’s leading online video platforms. We produced the “Shifu Go Go Go!” under the commissioned production model.

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“Likes! Talent (點贊!達人秀)”



“Likes! Talent” is a talent show that invites talent from all walks of life to participate and compete in the program. The program has four judges, comprising of well-known singer, actor, actress and TV show host, who commented on the performances of the participants. “Likes! Talent” aims to provide an opportunity for ordinary people to perform their talented acts in front of a nationwide audience and tell their inspiring life stories.

“Likes! Talent” was streamed on Douyin, one of China’s leading short video platforms, and simultaneously broadcast on Jiangsu Satellite TV, one of the Big Five Satellite TV Networks in China, in 2021. We produced “Likes! Talent” under the revenue sharing model.

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“A Class” (同一堂課)



“A Class” is a cultural variety program with a focus on Chinese culture and primary school students. The program invites cultural figures from various backgrounds and in different professions, such as authors, actors, actresses, singers, scholars, entrepreneurs and athletes, to teach Chinese lessons to primary school students. The teachers will interpret the stories behind the articles they teach from their own perspectives and explore the cultural roots with the students in different ways, such as singing, acting, storytelling, traveling and reenacting the history.

Since 2018, we have produced two seasons of “A Class,” which were broadcast on Zhejiang Satellite TV, one of the Big Five Satellite TV Networks in China. In 2019, it had an average viewership rating of 0.25%, ranking sixth in terms of average viewership rating at its timeslot. We produced the “A Class” program under the revenue sharing model during the Track Record Period.

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“The Great Wall” (了不起的長城)



“The Great Wall” is a cultural variety program that centers on the Great Wall of China. Seven celebrities, consisting of actors, actresses, singers, comedians and TV show hosts, join the program as “brick members” and form the “Great Wall Brick Group.” They are tasked with the mission to tour the history and present of the Great Wall and learn about the stories behind it. The “brick members” are tested on their physical strengths as well as brain power. During their travel, they are frequently tested on the history of the Great Wall and the “brick members” who got the answers wrong will have to face a series of funny punishments. The program combines the history of the Great Wall with the excitement of quizzing and punishing celebrities, making it both educational and entertaining.

Premiered in 2020, “The Great Wall” ranked third place in terms of TV viewership among all TV variety at its time slot. Broadcast on Beijing Satellite TV, a leading TV network in China, “The Great Wall” has aroused much discussion and has drawn a large and loyal audience since its airing. In 2020, it had an average viewership rating of 1.16%, ranking third in terms of average viewership rating at its timeslot. We produced the “The Great Wall” program under the commissioned production model during the Track Record Period.

In comparison, three variety programs of the same genre produced by other producers achieved an average viewership rating of 1.01%, 0.91% and 1.84% in 2020, respectively.

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Talk One on One (有一说一)



“Talk One on One” is a talk show that features conversations between a well-known figure, as talk show host, and pedestrians in each episode. Different from traditional talk shows, “Talk One on One” is filmed outdoors, in places such as cafes and parks. The talk show host in each episode will discuss, and sometimes debate, with the audience regarding hot topics in the society. Since its airing in 2021, “Talk One on One” quickly gained popularity because of its innovative program format and the featured choice of talk show hosts and conversation topics.

“Talk One on One” debuted in 2021 on Xigua Video, a leading Chinese online video platform owned by ByteDance. We produced two seasons of “Talk One on One” under the commissioned production model during the Track Record Period.

“Arrival of the Best-Seller!” (爆款來了)



“Arrival of the Best-Seller!” is an e-commerce variety program that is part variety show and part infomercial. The program invites people from different backgrounds, such as singers, TV show hosts and social media influencers, as contestants to introduce selected products to the audience. A panel of judges will choose the contestants for their team and lead their team members through multiple rounds of battles to test their ability to promote a product.

Since 2019, we have produced two seasons of “Arrival of the Best-Seller!,” which was broadcast on Youku as a successful attempt in combing variety program with e-commerce.

We produced the “Arrival of the Best-Seller!” programs under the commissioned production model during the Track Record Period.

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Production of Multi-season Variety Programs

Whether we will consecutively produce multiple seasons of a program is affected by various factors, and we did not produce subsequent season for every program we produced. For example, we did not produce any subsequent season for “Chuang,” “Let’s Band,” “Sing Along The Way,” “King Cross 2020,” “IN China” and “Shifu Go Go Go!” during the Track Record Period. Factors that may affect our decision on whether to produce a subsequent season include, but are not limited to, changes in advertising clients’ demands and budget, shifts in audience preferences, availability of suitable program participants, changes in investing media platforms’ production budget, broadcasting plans and schedules, as well as changes in the overall economic environment.

Program Pipeline

Our program pipeline combines existing multi-season variety programs with enduring popularity with new variety programs. The following table sets forth the five variety programs released and the seven variety programs to be released subsequent to the Track Record Period.

Genre	Program	Format	Frequency	Release time/ Expected release time	Primary broadcasting platform/ Planned primary broadcasting platform	Expected cooperation model
<i>Music Variety Program</i>						
1.	E-POP of China (超感星電音)	Music variety program featuring electronic music	Seasonal	July 2022	Youku	Revenue sharing model
2.	Remember Me (百 川樂時空)	Music variety program featuring singers	Seasonal	4th quarter 2022	A top online video platform	Commissioned production model
3.	Guess the Singer! 2023	Guess the singer challenge	Seasonal	1st quarter 2023 or after	A leading satellite TV network	Revenue sharing model
4.	Sing! China 2022	Music competition show for singers	Seasonal	August 2022	Zhejiang Satellite TV	Revenue sharing model
5.	Program A	Outdoor music and culture variety program	Seasonal	4th quarter 2022	A top online video platform	Commissioned production model

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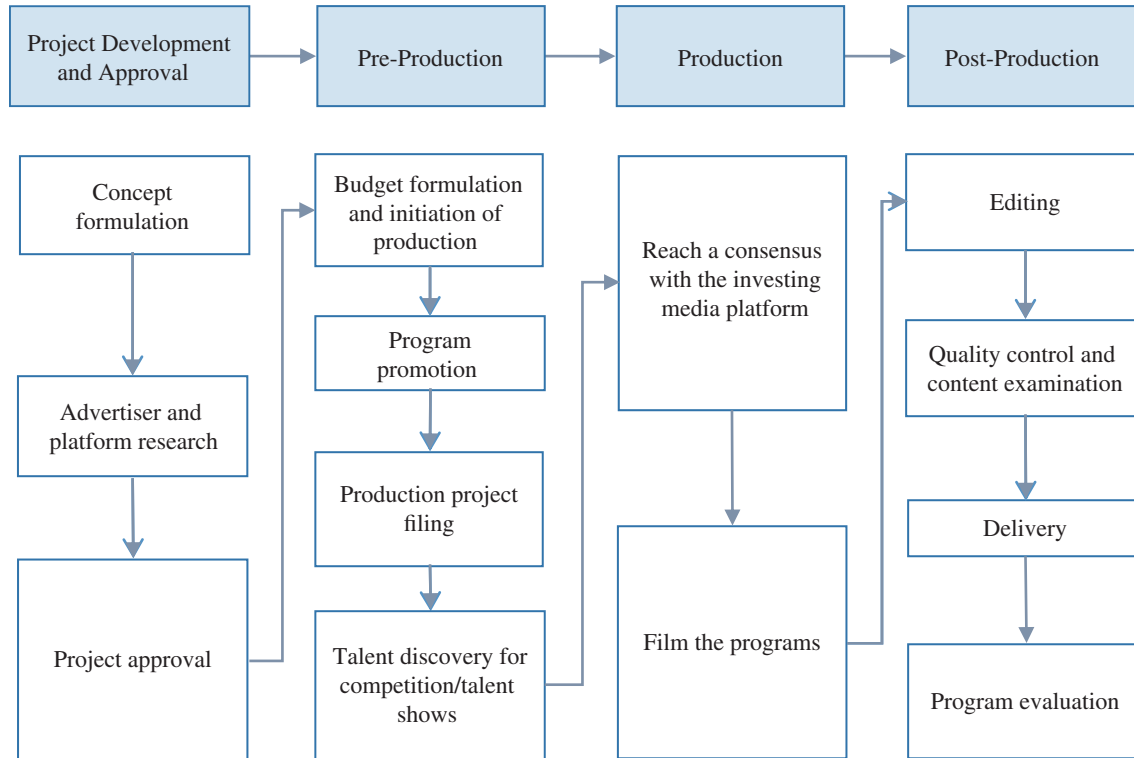
<u>Genre</u>	<u>Program</u>	<u>Format</u>	<u>Frequency</u>	<u>Release time/ Expected release time</u>	<u>Primary broadcasting platform/ Planned primary broadcasting platform</u>	<u>Expected cooperation model</u>
<i>Dance Variety</i>						
<i>Program</i>						
6.	Guess the Dancer! 2022	Guess the dancer challenge	Seasonal	July 2022	Jiangsu Satellite TV	Revenue sharing model
7.	Street Dance of China 2022	Street dance competition show	Seasonal	August 2022	Youku	Revenue sharing model
8.	Great Dance Crew 2023	Dance variety program	Seasonal	1st quarter 2023	A top online video platform	Revenue sharing model
<i>Talent Show</i>						
9.	China’s Got Talent 2023	Talent show	Seasonal	1st quarter 2023	A leading satellite TV network	Revenue sharing model
10.	HAHA A Day (百川可短鎮)	Variety program featuring talents	Seasonal	August 2022	Douyin	Commissioned production model
11.	Program B	Outdoor variety program featuring talents	Seasonal	1st quarter 2023 or after	A top online video platform	Commissioned production model
<i>Talk Show</i>						
12.	Program C	Talk show	Seasonal	4th quarter 2022 or 1st quarter 2023	A leading satellite TV network or a top online video platform	Revenue sharing model

After June 30, 2022 and until the date of this document, we released five of the 12 pipeline programs. Although we expect to release the remaining seven variety programs at their expected release time, we cannot guarantee that we will be able to release them or release them on their expected release time listed above. For risks relating to our program pipeline, see “Risk Factors — Risks Relating to Our Business and Industries — Information on our pipeline programs may not prove to be accurate or indicative of our future results of operations.”

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Production Process

In general, our production and operation process includes four stages, namely, the development and project approval stage, pre-production stage, production stage and post-production stage. The major stages and the time frame of our production and operation process are set out below.



Project Development and Approval

The development and project approval stage typically involves the following steps:

- *Concept Formulation.* We seek to develop concepts that are original, marketable and cater to the broader audience. To achieve this goal, we engage our business development team to research on the market demand and leverage our experienced in-house director’s team to formulate creative program concepts that can meet such demand.
- *Advertiser and Platform Research.* We generally have initial communications with media platforms, who intend to place advertisements in our variety programs, and advertising clients, which will distribute our variety programs, to pre-sell our variety programs at an early stage of content development. When a project moves beyond a conceptual stage, our business development team and our director’s team will start actively communicating with potential advertisers to understand their

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marketing objectives and tailor the program concept according to such objectives. Once we have found the most important advertiser for a program concept, usually the title sponsor, we will start negotiating the commercial terms with the investing media platform.

- *Project Approval.* Once we have reached a preliminary understanding with the investing media platform on the basic commercial terms of collaboration, the program concept will be internally assessed and approved. Our project approval committee will assess the marketability of the program concept and the expected profit before approving a project.

Pre-Production

The pre-production stage generally involves the following steps:

- *Budget Formulation and Initiation of Production.* After a program concept is approved, the director of the program will formulate a preliminary production budget and discuss it with the chief financial officer and the chief executive officer. Once they agreed with the preliminary production budget, the director of the program would then discuss with different parties such as distribution platforms and advertisers based on the preliminary production budget and the program concept. During the discussion, our director's team will prepare the program script, design major scenes and settings, and decide on the major cast members. For music and dance competition shows, our director's team will also be responsible for coordinating the talent discovery process and selecting the contestants that will participate in the program. The preliminary production budget and the program details will be reviewed and adjusted on a rolling basis depending on various factors, such as the availability of major cast members, and suggestions or requirements of distribution platforms or advertisers. Once the relevant parties have substantially agreed on the program details, the production budget would be revised accordingly. The final production budget would be co-signed by the director of the program and approved by the chief financial officer and the chief executive officer.
- *Program Promotion.* We actively promote our variety programs online before our programs broadcast to attract attention from target audience. We conduct interviews with and upload edited clips of the program to various media platforms. We also engage the investing media platform to carry out promotional activities both online and offline.
- *Production Project Filing.* The investing media platform on which the program will be broadcast is responsible for filing the production project with the local counterpart of the NRTA once a production project is officially initiated. During the Track Record Period, none of the variety programs we produced was subject to any adverse action by the NRTA.

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- *Talent Discovery.* For music competition shows, dance competition shows and talent shows, our director's team will, through our extensive network accumulated over the years, conduct multiple rounds of talent discovering events in addition to the pre-production process described above. We have built an extensive network through our business partners and contestants involved in previous seasons to help us identify emerging artists to participate in our competition shows as contestants. We will sign an agreement with each contestant individually, which typically provides that the contestant needs to attend all the production sessions as we may request and participate in marketing activities in association with the programs. Contestants will also grant us a worldwide, indefinite license to the recordings of their performance during the production of the programs.

We also invite established performing artists to serve as mentors in our competition shows or as guests/hosts for our non-competitive shows. Benefiting from our well-established brand and our track record of producing hit variety programs, our programs have a strong appeal to celebrities. We select suitable celebrities to feature in our variety programs and sign contracts with them, usually through talent coordination companies or the investing media platforms.

Production

Generally, the production stage begins when we start filming the programs after we reached a consensus with the investing media platform. During the production process, our directors give directions to the entire technical crew and oversee the artistic and technical elements of program production, in order to translate a concept into a completed program. Our operations team will work with the director's team to ensure that we can fulfill our contract obligations to the advertisers in the programs as negotiated.

Post-Production

The post-production and distribution stage generally involves the following steps:

- *Editing.* After principal photography is completed, the directors and the post-production team will select the scenes to assemble the final product. Our post-production professionals will perform a series of tasks, such as video and sound editing and adding special visual effects.
- *Quality Control and Content Examination.* Once the post-production work is completed, the investing media platform, the key personnel of our content production professionals and our senior executives will jointly conduct an overall evaluation of the content of the programs based on the applicable laws and regulations. Typically, the final say on program approval is owned by the investing media platform, either along or jointly with us.

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- *Delivery.* The delivery schedule is mutually agreed by the investing media platform and us. Typically, we will deliver the master tapes or transmit the signals of our variety programs on a rolling basis to the investing media platform, with remaining episodes of the season to be produced and delivered after the first episode airs. The investing media platform will send the program to the NRTA for approval before the program is released.
- *Program Evaluation.* After a program airs, we will closely monitor the performance of the program together with the investing media platform. In particular, we may adjust the program content, storyline, and shooting and editing method for the remaining episodes based on viewership data and feedback from viewers.

Media Platforms

We distribute our variety programs through major TV networks and leading online video platforms.

TV Networks

For commercial reasons, first run of a variety program is usually limited to satellite TV networks, which have a massive audience and cover almost every corner of the country. The Big Five Satellite TV Networks in China consistently broadcast some of the highest-rated TV variety programs during primetime hours, making their primetime advertising slots highly desirable.

We have fostered long-term cooperative relationships with four of the Big Five Satellite TV Networks in China over the past decade. Our “Sing! China” program, which we produced for and jointly invested in with Zhejiang Satellite TV, became an instant hit after its release. Other variety programs we produced such as “Guess the Singer!” and “China’s Got Talent” have also won national fame. Because of our ability to continually produce original content, our variety programs have repeatedly been broadcast during the primetime slots of the Big Five Satellite TV Networks in China and other satellite TV networks.

Online Video Platforms

Relatively new as compared to satellite TV networks, online video platforms have experienced fast growth in recent years. Traditionally, online video platforms source content by licensing streaming rights for popular variety programs from content production companies or TV networks, but their demand for original, made-for-internet variety programs is increasing as they compete with TV networks for audience. This demand has brought online video platforms to us for original content.

We first produced “Street Dance of China 2018” on commission in 2018 for Youku, a leading online video platform, which became a phenomenal success for made-for-internet variety programs. We also produced “Talk One on One 2021,” an on-the-street talk show for Xigua Video, which is first of its kind and became an instant hit after its release. Built upon

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the success of these made-for-internet programs, we plan to expand our cooperation with online video platforms. Among 32 variety programs released during the Track Record Period, 20 of them were made-for-internet programs.

Among online video platforms, short video platforms in particular are vying to grab audience’s attention with fast content and have experienced explosive growth in recent years. In order to set up more channels to reach our target audience, we have worked with leading short video platforms in China, including Douyin and Toutiao, to set up our own channels and offer edited short-video clips of our variety programs. As of the Latest Practicable Date, our flagship channels on Douyin and Toutiao, “Sing! China” and “Canxing Music Show,” have gained more than 5.6 million and 1.7 million subscribers, respectively. We will continue building our cooperative relationship with short video platforms, in order to capitalize on their rapid growth and diversify our revenue source.

Cooperation Models

We typically carry out our cooperation with TV networks and online video platforms under two models: revenue sharing and commissioned production. Below is a description of the two models.

Revenue Sharing Model

Under the revenue sharing model, we jointly invest in a program with the investing media platform and are entitled to a portion of the advertising revenue of the program. Typically, both we and the investing media platform conduct sales and marketing for the program to generate advertising revenue from the sales of TV commercial slots, sponsorships and product placements.

Under the revenue sharing model, there are two types of arrangements: profit allocation arrangement and revenue allocation arrangement. Under the revenue sharing model, the investing media platforms are our customers. We are responsible for producing and delivering variety programs to the investing media platforms for broadcasting. Accordingly, the total production cost of the program is recognized as our cost of sales under both the profit allocation arrangement and the revenue allocation arrangement. The profit allocation arrangement and the revenue allocation arrangement are merely different methods of settlement with investing media platforms. Under the profit allocation arrangement, our revenue is composed of the portion of the revenue allocated to us and the payments made to us by the investing media platforms, the net result of which is a sharing of the net profit from the arrangement by the investing media platforms and us. We are able to negotiate revenue sharing arrangements with major TV networks and leading online video platforms, because of our strong brand effect and past track record. Among the 32 variety programs released during the Track Record Period, 15 of them were produced under the revenue sharing model.

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Under the revenue sharing arrangement, we enter into a contract with the investing media platform, which usually contains the following key terms:

- *Profit Allocation and Revenue Allocation.* Under the profit allocation arrangement, we are solely responsible for the production cost and our revenue is composed of the portion of the revenue allocated to us and the payments made to us by the investing media platforms, and the net result of which is a sharing of the net profit from the arrangement by the investing media platforms and us. Our percentage of profit typically ranged between 40% and 70% during the Track Record Period. In most cases, the profit allocation between the parties was 50-50 during the Track Record Period. Under the profit allocation arrangement, the payments that the investing media platforms made to us represent the platforms' consideration for our service, and are calculated by multiplying the total production cost of the variety programs by the investing media platforms' percentage of profit as set out in the respective contracts.

Under the revenue allocation arrangement where we are also solely responsible for the production cost, the percentage of the revenue we are entitled to typically ranged between 65% and 80% during the Track Record Period.

- *Revenue Pool.* In general, the revenue pool includes all revenue from advertising and sponsorship sales, such as the sale of naming rights, titles sponsorships, affiliations, TV commercials and product placements. The amount of revenue to be shared by parties is usually determined and settled after the program is broadcast.
- *Cost Recovery.* Investing parties are typically entitled to recover their investment before any revenue is allocated.
- *Payment.* Under the profit allocation arrangement, the investing media platforms make their payments in installments as set out in the contract. The investing media platforms typically make 30% of their total payments to us within 15 working days after the signing of the contract, 30% after the initial broadcast of the first episode of the program and 30% after the initial broadcast of the first half of the program. After the completion of the initial broadcast of the program, parties will have an accounting of the production cost, and the remaining of the platforms' payments will be paid after the accounting process completes. With respect to revenue allocation, investing parties usually have the accounting and settlement of payments on a monthly basis after half of the program have been broadcast. This allocation process typically continues until parties have received all the proceeds from advertising customers and after all the revenue generated have been allocated between the investing media platforms and us.

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- Ownership of Intellectual Property Rights.* Intellectual property rights are allocated between parties on a case-by-case basis. If the investing media platform is a satellite TV network, typically the investing TV network owns the TV broadcasting rights. The internet broadcasting rights, which are the rights to license the program to online video platforms for streaming after it is first broadcast on TV, and the rights to produce and sell tie-in products are usually exclusively owned by us. If the investing media platform is an online video platform, the program will typically be broadcast online only and all internet broadcasting rights are owned by the investing online video platform. If the investing media platforms include both a satellite TV network and an online video platform, the initial broadcast of the program will take place on the TV network and the online video platform simultaneously, and all internet broadcasting rights are typically owned by the investing online video platform. The following table summarizes the ownership of broadcasting rights of the variety programs we produced under the revenue sharing model during the Track Record Period.

<u>Investing Media Platforms</u>	<u>Owner(s) for TV Broadcasting Rights</u>	<u>Owner(s) of Internet Broadcasting Rights</u>
TV Networks	TV networks	Our group
Online video platforms	N/a	Online video platforms
TV networks and online video platforms	TV networks	Online video platforms

We calculate our expected profit based on the estimated advertising sales, the estimated production cost and the percentage of our revenue allocation. For programs where we own the internet broadcasting rights of the program, we will also consider the revenue generated from licensing the internet broadcasting rights in determining whether to undertake the project. We did not obtain external financing on a project basis during the Track Record Period.

- Termination.* Typically, either we or the investing media platform can terminate the agreement upon the counterparty’s material breach or the failure to cure thereof.

During the Track Record Period, the contract size of our variety programs produced under the revenue sharing model, which is our program budget based on the contracts signed, ranged between RMB28.0 million and RMB375.6 million, with an average contract size of approximately RMB154.6 million and an average production duration of approximately four months. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material cost overrun or contract termination by the investing media platforms with our programs produced under the revenue sharing model. Certain of our variety programs produced under the revenue sharing model experienced a delay ranging from one to two months in their production and broadcasting schedules in 2020 and 2021, as compared to 2019, due to the negative effect of COVID-19 and the continuous measures to combat it. We did not experience any termination of contracts or programs under the revenue sharing model by investing media platforms during the Track Record Period.

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The primary source of the revenue of variety programs produced under the revenue sharing model is advertising sales and such revenue is recognized at a point in time when the variety program is transferred to and accepted by the investing media platform. For variety programs which we own the internet broadcasting rights, revenue from licensing of the internet broadcasting rights is recognized at the point in time when the licensed content is made available for the licensing partner’s use.

Below is a quantitative illustration of allocation arrangements with investing media platforms for variety programs under the revenue sharing model.

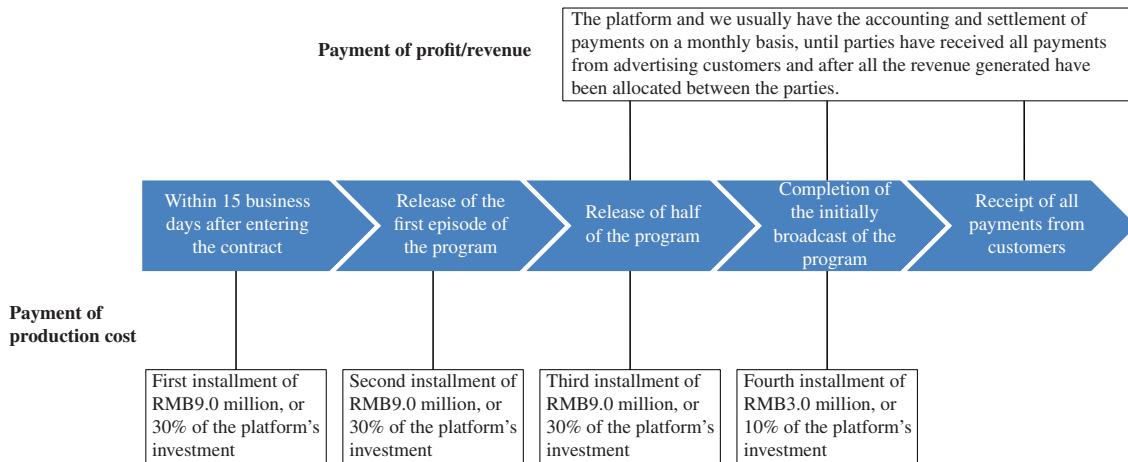
	<u>Profit Allocation</u>	<u>Revenue Allocation</u>
Revenue from advertising sales	RMB100.0 million	RMB100.0 million
Cost of production	RMB60.0 million (all borne by the Company during the production process)	RMB50.0 million (all borne by the Company during the production process)
Allocation percentage	(a) Company: 50% of the revenue (RMB50.0 million) Platform: 50% of the revenue (RMB50.0 million) (b) Investing media platform agrees to pay the Company an amount equal to 50% of the cost of production (RMB30.0 million)	Company: 70% of the revenue (RMB70.0 million) Platform: 30% of the revenue (RMB30.0 million)
Our accounting treatment	The Company recognizes revenue of RMB80.0 million ⁽¹⁾ and cost of sales of RMB60.0 million	The Company recognizes revenue of RMB70.0 million and cost of sales of RMB50.0 million

Note:

- (1) Under the profit allocation arrangement, our revenue is composed of the portion of the revenue allocated to us, which is RMB50.0 million, and the payments made to us by the investing media platform, which is RMB30.0 million. The result is equal to the sum of the profit allocated to us, which is RMB20.0 million, and the total cost of production of RMB60.0 million.

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With respect to allocation of revenue or profit, the investing media platform and we usually have the accounting and settlement of payments on a monthly basis after half of the program has been broadcast. This allocation process typically continues until parties have received all the proceeds from customers and after all the revenue generated have been allocated between the investing media platforms and us. Under the profit allocation arrangement, the platforms also make their payments in installments as set out in the contracts. Below is an illustration of a typical payment process under the revenue sharing model, assuming that the total production cost is RMB60.0 million.



Commissioned Production Model

We also produce programs for TV networks by commission. Our commission is usually determined upon factors such as estimated production cost and our target profit margin, and is set out in the contract entered into by the investing media platform and us. When we work on a commissioned project, we develop and produce the variety program according to the specific requirements of the investing media platform in return for a fixed commission. We typically involve in the pre-production, production and post-production stages of the process. To a lesser extent, we may sometimes assist the investing media platform with project planning and development. Depending on the terms of the contract, the filming schedule, budget plan and major cast members may need to be approved by the investing media platform before principal photography starts.

Under the commissioned production model, the investing media platform is responsible for investing in, developing and distributing such programs. As a result, we are able to secure the distribution of such programs and receive a portion of the production fees in installments at an early stage, which helps us maintain our liquidity and ensures stability in revenue generation. When we first entered the made-for internet market in 2018, we cautiously chose to produce programs under the commissioned production model to ensure our revenue stability. As we have quickly established ourselves in the made-for-internet market and have fostered business relationships with customers, we also choose, after careful evaluation, to collaborate with online video platforms under the revenue sharing model from time to time, which potentially has more upside as compared to the commissioned production model. Among the 32 variety programs released during the Track Record Period, we produced 17 of them under the commissioned production model.

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We generally enter into a commissioned production contract with investing media platforms under the commissioned production model. In general, the contract will include the following essential terms:

- *Commission fee.* Our commission fee is set out in the agreement and usually comprises of: (i) the personnel cost of our directors and other content production staff; (ii) the cost of post-production editing; (iii) the cost for third-party procurements of lighting, setting, production equipment, rental for production studios, and hotel and traveling services; and (iv) the remuneration to well-established performing artists who will star in the programs. We typically determine the commission fee based on the costs we expect to incur for the production of our programs and our expected profit margin.
- *Payments.* Payments are generally made in installments, although payment milestones may vary from deal to deal. Typical payment milestones include the signing of the commissioned production contract, the completion of the production of a certain number of episodes, the completion of the production of the whole program, the initial broadcasting of the program, and the completion of the initial broadcast of the program. The percentage of down payment we received during the Track Record Period ranges between 7% to 40%, and the number of payment milestones ranges between two to four.
- *Right of First Refusal.* We are typically provided with a right of first refusal to co-invest with the investing media platform in the program’s subsequent seasons under the revenue sharing model.
- *Ownership of Intellectual Property Rights.* In general, all intellectual property rights on the commissioned program are owned by the investing media platform, including the TV broadcasting rights and the internet broadcasting rights. The following table summarizes the ownership of broadcasting rights of the variety programs we produced under the commissioned production model during the Track Record Period.

<u>Investing Media Platforms</u>	<u>Owner(s) for TV Broadcasting Rights</u>	<u>Owner(s) of Internet Broadcasting Rights</u>
TV networks	TV networks	TV networks
Online video platforms	Online video platforms	Online video platforms
TV networks and online video platforms	TV networks	Online video platforms

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- *Termination.* Either we or the investing media platform is entitled to terminate the agreement upon the counterparty’s material breach or the failure to cure thereof. The investing platforms can also terminate the agreement without cause upon advanced notice, provided that the investing media platform shall pay us all production cost incurred.

During the Track Record Period, the contract size of our variety programs produced under the commissioned production model, which is our commission fee based on the contracts signed, ranged between RMB7.5 million and RMB99.0 million, with an average contract size of RMB36.6 million and an average production duration of approximately four months. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material cost overrun or contract termination by the investing media platform with our programs produced under the commissioned production model. Certain of our variety programs produced under the commissioned production model experienced a delay ranging from one to two months in their production and broadcasting schedules in 2020 and 2021, as compared to 2019, due to the negative effect of COVID-19 and the continuous measures to combat it. We did not experience any termination of contracts or programs under the commissioned production model by investing media platforms during the Track Record Period.

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.

Variety Program IP Licensing

We further extend the audience reach of our variety program IPs and diversify our revenue source through IP licensing activities.

Licensing of Broadcasting Rights

We own the internet broadcasting rights for most programs we produced under the revenue sharing model with TV networks. We also own the broadcasting rights to license some of our variety programs to be broadcast on airlines and non-satellite TV networks. We license the rights to various online video platforms and airlines both inside and outside China, as the popularity of our variety programs reaches beyond China’s borders. Having established an extensive licensing network, our variety programs were available in multiple countries, including China, the United States, Canada, Singapore, Malaysia and Qatar.

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The following table sets forth the programs we produced under the revenue sharing model during the Track Record Period.

No.	Program Name	Investing Media Platforms	Owner(s) of TV Broadcasting Rights	Owner(s) of Internet Broadcasting Rights
1.	CHUANG (這!就是原創)	Youku	–	Investing media platform
2.	Street Dance of China 2019 (這!就是街舞2019)	Youku	–	Investing media platform
3.	China’s Got Talent 2019 (中國達人秀2019)	Dragon Satellite TV	Investing Media Platform	Our group
4.	Guess the Singer! 2019 (蒙面唱將猜猜猜2019)	Jiangsu Satellite TV	Investing media platform	Our group
5.	Sing! China 2019 (中國好聲音2019)	Zhejiang Satellite TV	Investing media platform	Our group
6.	A Class 2019 (同一堂課2019)	Zhejiang Satellite TV	Investing media platform	Jointly owned by investing media platform and our group
7.	Sing! China 2020 (中國好聲音2020)	Zhejiang Satellite TV	Investing media platform	Our group
8.	Street Dance of China 2020 (這!就是街舞2020)	Youku	–	Investing media platform
9.	Guess the Dancer! 2020 (蒙面舞王2020)	Jiangsu Satellite TV	Investing media platform	Our group
10.	Guess the Singer! 2020 (蒙面唱將猜猜猜2020)	Jiangsu Satellite TV	Investing media platform	Our group
11.	Sing! China 2021 (中國好聲音2021)	Zhejiang Satellite TV	Investing media platform	Our group
12.	Street Dance of China 2021 (這!就是街舞2021)	Youku	–	Investing media platform
13.	Let’s Dance! 2021 (師父! 我要跳舞了2021)	Youku	–	Investing media platform
14.	Guess the Dancer! 2021 (蒙面舞王2021)	Jiangsu Satellite TV	Investing media platform	Our group
15.	Likes! Talent (點讚!達人秀)	Douyin and Jiangsu Satellite TV	Investing media platform	Investing media platform

We generally enter into a licensing agreement with licensing partners under which the licensing partner agrees to pay us a fixed licensing fee for a specified term. The licensing fee is usually determined on factors including prior commercial arrangements, the market standard for the same type of variety programs and the expected level of popularity. The terms of such licenses vary case by case, with the average term ranging from two to three years. Payments of licensing fees are usually made in installments throughout the duration of a license. For certain programs, the investing TV networks have the right to receive part of the licensing fees we received from the licensees, depending on the allocation of IP rights under our revenue sharing arrangements with the TV networks.

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Licensing of Program Format

We also license our program format, which epitomize our originality and creativity. We licensed the program format of our “Sing My Song” variety program to a content production company in Vietnam, which is the first international adaptation of a Chinese variety program, setting a record in the Chinese variety program market. We also licensed the program format of our “Little Masters” (拜見小師傅) variety program to a Singaporean media company.

Licensing of the Right to Host Offline Entertainment Events

For music competition shows, dance competition shows and talent shows, there are separate offline entertainment events associated with them. These offline entertainment events are held both before and after the programs to provide the opportunities for audience to enjoy music and dance performances and interact with our managed artists.

The popularity of our offline entertainment events has drawn attention from corporate sponsors and advertising agencies alike. We granted our licensing partner the right to host the offline entertainment events in exchange for a fixed licensing fee. The licensing partner is responsible for organizing the events and has exclusive ownership of the advertising sales. Through these events, we are able to grow our audience base and diversify our revenue model.

Content Production and Operations Team

We have built a large in-house team of professionals for the successful creation of variety programs, including a director’s team, an operations team and a technical team. By combining the industry expertise and years of experience of the team members, we ensure that our programs are produced with high quality. Our content production team can be subdivided into four teams, which are set forth below.

Director’s Team

The success of our variety programs is built upon the high degree of professionalism and deep understanding of the entertainment industry of our directors. The director’s team is led by the well-recognized directors, including Mr. Jin Lei (金磊), Mr. Xu Xiangdong (徐向東), Ms. Shen Ning (沈寧), Mr. Wu Qunda (吳群達), Mr. Zhang Li (章驪), Mr. Wang Chenchen (王晨辰), Mr. Sun Ruiqing (孫瑞青) and Mr. Zheng Yi (鄭益), each with decades of experience in the entertainment industry and a proven track record. The program they produced, such as “Sing! China,” “Sing My Song,” “Street Dance of China,” “Guess the Singer!,” “China’s Got Talent,” have a profound influence on China’s variety program market. The above-mentioned directors are our employees and we have cooperated with them for over nine years on average. We have provided them with rich industry resources, such as the opportunities to direct large-scale variety programs, which is closely associated with their career success. In addition, they benefit from the professional support from our operations team and post-production team. Some of the directors were also among our management as of the Latest Practicable Date. Based on the above, our Directors believe that our relationship with the directors will remain relatively stable in the foreseeable future.

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We also actively cultivate talented people to join our director’s team. We have built up a system where established directors work side by side with new directors on the same projects, serving as mentors to the new directors. This mentoring system helps quickly acclimate new directors to the job and allows transfer of valuable skills and knowledge to the next generation of directors in the team.

As we produce many popular variety programs, such as “Sing! China” and “Street Dance of China,” new directors have unparalleled opportunities to learn, grow and take the lead. They have access to top-notch skills and industry resources in China’s variety program market, facilitating their growth. The fresh ideas, experience and enthusiasm brought by the new directors in turn inject new blood into our director’s team, which is critical for our capacity to continually create original content that caters to the younger audience. In recent years, we have seen more and more new directors taking a leading role in the creation of variety programs, such as Mr. Wang Chenchen and Mr. Zheng Yi. The table below sets forth some of our directors and the variety programs they produced.

Director	Programs
Mr. Jin Lei ⁽¹⁾	“China’s Got Talent” “Sing! China” “Brilliant Chinese — Path to Glory 2014” “Brilliant Chinese — Path to Glory 2015” and “Shine! Super Brothers”
Mr. Xu Xiangdong ⁽²⁾	“Let’s Shake It” “So You Think You Can Dance” (中國好舞蹈) “Guess the Singer!” and “Guess the Dancer!”
Mr. Lu Wei ⁽³⁾	“Brilliant Chinese — Path to Glory 2017” “Street Dance of China 2018” “Street Dance of China 2019” “Street Dance of China 2020” “Great Challenge” “Arrival of the Best-Seller!” and “Let’s Dance!”
Ms. Shen Ning ⁽⁴⁾	“China’s Got Talent” “Sing! China” “Sing My Song 2017” “Little Masters (拜見小師父)” “Let’s Band” and “Sing Along the Way”
Mr. Wu Qunda ⁽⁵⁾	“China’s Got Talent” “Sing! China” “Sing My Song 2015”, “CHUANG” and “King Cross 2020”
Mr. Zhang Li ⁽⁶⁾	“Super Star Singer — Road to Grammy (中國之星)” “Brilliant Chinese — Path to Glory 2015,” “SING! KIDS” (歌聲的翅膀) “Rave Now” “China’s Got Talent” “Shifu Go Go Go!” and “Shine! Super Brothers”
Mr. Wang Chenchen ⁽⁷⁾	“Guess the Singer!” (as executive director) and “Street Dance of China” (as head writer)
Mr. Sun Ruiqing ⁽⁸⁾	“Jin Xing Show” and “Miao Fu Show”
Mr. Zheng Yi ⁽⁹⁾	“A Class” “The Great Wall” and “Talk One on One 2021”

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Notes:

- (1) Mr. Jin Lei directed one, two and one of our variety programs in 2019, 2020 and 2021, respectively. He has been working with us for approximately 10 years.
- (2) Mr. Xu Xiangdong directed one, two and one of our variety programs in 2019, 2020 and 2021, respectively. He has been working with us for approximately 10 years.
- (3) Mr. Lu Wei directed three, three and four of our variety programs in 2019, 2020 and 2021, respectively. He has been working with us for approximately 10 years.
- (4) Ms. Shen Ning directed one, one and one of our variety programs in 2019, 2020 and 2021, respectively. She has been working with us for approximately 10 years.
- (5) Mr. Wu Qunda directed two, three and one of our variety programs in terms of revenue contribution in 2019, 2020 and 2021, respectively. He has been working with us for approximately 10 years.
- (6) Mr. Zhang Li directed two, one and two of our variety programs in terms of revenue contribution in 2019, 2020 and 2021, respectively. He has been working with us for approximately 10 years.
- (7) Mr. Wang Chenchen directed two, three and two of our variety programs in 2019, 2020 and 2021, respectively. He has been working with us for approximately nine years.
- (8) Mr. Sun Ruiqing participated in screenwriting for several of our variety programs during the Track Record Period. He has been working with us for approximately nine years.
- (9) Mr. Zheng Yi directed two, two and three of our variety programs in 2019, 2020 and 2021, respectively. He has been working with us for approximately seven years.

As most of our variety programs, especially super large programs are co-directed by a team of experienced directors, we do not place reliance on any particular director to produce a certain variety program. In addition, we are dedicated to building a stable talent pipeline to train and promote more talented directors. We continue to recruit new directors, letting them participate in the production of our popular variety programs and work alongside the more experienced directors.

Operations Team

Our operations team is responsible for business development and operations of our entertainment IPs. Our experienced business development team has fostered long-term cooperative relationships with a broad array of well-known domestic and international brands in various sectors. They also conduct regular visits to our existing customers and work closely with our director’s team to attract new customers. Leveraging the successful track record and great industry reputation of our renowned directors, our business team has successfully attracted a wide selection of advertising clients for our variety programs. Serving as the contact point for directors, media platforms and advertising clients, they coordinate the production and promotion of our variety programs.

BUSINESS

The strong IP operation capabilities of our operations team are essential to the successful commercialization of our entertainment IPs and enable us to maintain a competitive advantage. We continuously create, develop and build cooperative relationships with business partners based on our IPs, in areas such as licensing of the right to host offline entertainment events, artist management, and arts training and education. The extensive cooperation in turn enhances the commercial value of our variety programs. Benefiting from the strong IP operation capabilities of our operations team, we are able to explore additional monetization opportunities and further promote our entertainment IPs.

Technical Team

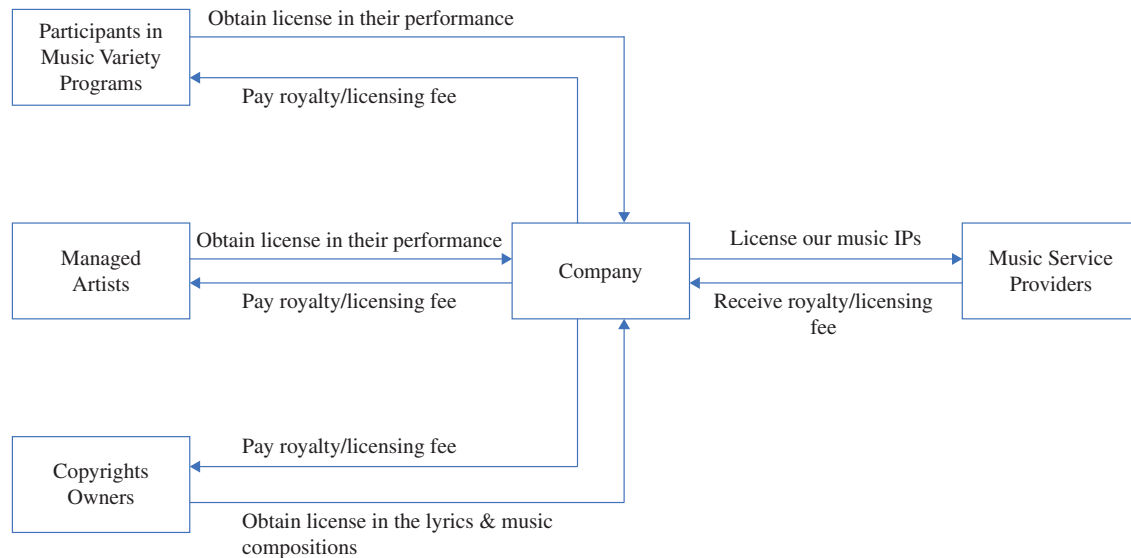
We have built and maintained a large and dedicated technical team to ensure that we have maximum control over the production and post-production editing process. Unlike many content development companies that rely heavily on outsourcing, we engage our in-house technical crew for our variety programs. Our in-house team works with a project from its start till completion and knows all the details of a program, enabling them to work on a deep level of understanding. Having worked with our director’s team for years, our in-house technical crew are best positioned to implement the ideas of the directors. The professionalism of our in-house technical crew and their frictionless communications with the director’s team is our core competitiveness.

Our technical team include technical directors, art directors, camera operators, lighting crew, production designers, audio technicians and sound recording experts. A variety of patents created by the technical team in lighting and stage have become the highlights of our variety programs. Once production is wrapped up, all the footage and assets will be brought to our post-production professionals for editing. Our highly professional post-production professionals will be responsible for assembling footage shot by shot, adding music and subtitles, and incorporating other visual and sound effects. All these elements will be woven together to create a multisensory experience for the audience after the post-production workflow.

BUSINESS

Music IP Operation and Licensing

We produce music recordings and music compositions during the production of our music variety programs and for our managed artists. We license the music IPs we produced to music service providers such as online music platforms, media companies and karaoke operators for licensing fees and/or royalties. The following is an illustration of our music IP operation and licensing.



The following table sets out a breakdown of our revenue generated from music IP operation and licensing 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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
Online music platforms	207.7	86.9%	180.9	83.3%	76.9	65.0%	25.3	56.1%	9.1	46.8%
Media companies ⁽¹⁾	4.2	1.7%	4.8	2.2%	4.5	3.9%	2.2	4.9%	1.0	5.2%
Karaoke operators	27.2	11.4%	31.6	14.5%	36.9	31.2%	17.6	39.0%	9.4	47.9%
Total	239.1	100.0%	217.3	100.0%	118.3	100.0%	45.2	100.0%	19.5	100.0%

Note:

- (1) Media companies include mobile value-added services providers and other companies that provide cultural or media service.

BUSINESS

During the Track Record Period, our 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 because (i) we produced “CHUANG,” a super large music variety program in 2019, and generated licensing revenue from the music recordings produced during the program; but we did not produce any subsequent season of this program in 2020; (ii) we produced less music recordings for “Guess the Singer!” program in 2020 than in 2019, primarily due to a delay in the production and broadcasting schedule of “Guess the Singer! 2020” under the negative effect of COVID-19. Such decreases were partially offset by an increase in our licensing revenue generated from licensing our existing music IPs. Our 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 because (i) we did not produce any music IPs in relation to “Guess the Singer!” in 2021; (ii) there was a decrease in the licensing fee for the music IPs we produced during the production of “Sing! China 2021;” and (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 RMB18.0 million in the same year. Our revenue generated from music IP operation and licensing decreased by 56.9% from RMB45.2 million for the six months ended June 30, 2021 to RMB19.5 million for the six months ended June 30, 2022, primarily due to 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.

Among our revenue generated from music IP operation and licensing, our revenue generated from online music platforms decreased from RMB207.7 million in 2019 to RMB180.9 million in 2020, and further decreased to RMB76.9 million in 2021. Such revenue decreased from RMB25.3 million in the six months ended June 30, 2021 to RMB9.1 million in the same period in 2022. The reasons of the decreases in our revenue from online music platforms were the same as the reasons for the decreases of our total revenue generated from music IP operation and licensing. Among our revenue generated from music IP operation and licensing, our revenue generated from karaoke operators increased from RMB27.2 million in 2019 to RMB31.6 million in 2020, and further increased to RMB36.9 million in 2021. Such increases were mainly due to an increase in compensation we received from lawsuits against other karaoke operators to defend our music IPs, which was recognized as our revenue as such compensation represents charges for the unlicensed use of our music IPs, in line with our revenue recognition policy. Our revenue generated from karaoke operators decreased from RMB17.6 million in the six months ended June 30, 2021 to RMB9.4 million in the same period in 2022 mainly 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 contracts 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.

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Music IP Library

We offer a diverse range of recorded music content which we license to various customers. As of June 30, 2022, our music library contains 8,549 music IPs, consisting of (i) audio-visual recordings of live performances produced during the creation of our music variety programs, (ii) audio-visual recordings produced for our managed artists, and (iii) lyrics and music compositions we licensed or acquired. The songs in our music IP library represent a variety of themes such as latest top hits, time favorites and movie soundtracks. They cover a broad range of music genres, including pop, rock, hip hop, R&B, jazz and electronic music in various languages, including Mandarin, Cantonese and English.

The following table sets out the breakdown of the number of our music works and their movements in our music library during the Track Record Period:

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Number of audio-visual recordings produced during the creation of our music variety programs ⁽¹⁾	3,112	3,342	3,546	3,546
Number of audio-visual recordings produced for our managed artists ⁽²⁾	2,384	2,707	3,016	3,158
Lyrics and music compositions licensed or acquired ⁽³⁾	1,574	1,713	1,960	1,845
Total number of music IPs at the end of the year/period	7,070	7,762	8,522	8,549

Notes:

- (1) In producing music variety programs, we record and edit the live performances by the participants during the production of the programs. Participants refer to those artists who participated in and performed during the production of our music variety programs, such as “Sing! China,” “Guess the Singer!” and “Sing My Song.” Before the program is filmed, we will secure a license of the lyrics and music compositions of the songs that will be performed during the program from the copyright holders, typically large music recording companies, for a fixed license fee. We will also secure a license from the participants of the exclusive right in the recording of their performance, usually with an indefinite term. The licenses from the copyright owners and the contestants typically allows us to use the lyrics, music compositions and performance in a specific program and for uses related to such program.

Our music production team will record the performance during the production of the variety programs and create a finished version in the form of audio-visual recordings. We own the rights in such recordings and license them to music service providers for purposes such as streaming and downloading, usually for a fixed minimum guaranteed amount plus revenue sharing arrangements.

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- (2) We produce songs and albums for artists who have entered into an artist management contract with us. Our music production team will procure original lyrics and music compositions, usually music works that haven't been published, for each managed artist based on their vocal prowess and characteristics. We will secure a license of such lyrics and music compositions from the copyright owners, such as large music recording companies, independent music studios or our managed artists who are also songwriters. We will also secure an exclusive license in the recording of the artists' performance, usually for an indefinite term. We typically pay the copyright holders in the form of a fixed licensing fee and the managed artists in the form of royalties.

Our music production team will help the managed artists record their songs and albums in studio and produce a finished version. We own the rights in the audio-visual recordings and license them to music service providers for purposes such as streaming and downloading, usually for a fixed minimum guaranteed amount plus revenue sharing arrangements.

- (3) We license lyrics and music compositions from multiple sources such as large recording companies and independent music studios. Such licenses are usually non-exclusive and are typically for a fixed term or on a project basis. Many of our managed artists and contestants in our music variety programs are also songwriters themselves and grant us an exclusive license on the lyrics and music compositions they created, either for a fixed term or an indefinite term.

We typically own the right to sub-license the lyrics and music compositions in our music IP library to music service providers, usually for a fixed minimum guaranteed amount plus revenue sharing arrangements.

Copyright Ownership

As a completed music work comprises lyrics, music composition and artist performing the combination of the foregoing, in our process of music production, we, as the producer, would first obtain the copyright or license from the music providers, comprising of the lyricists, music composers and performers.

Before we commence the recording of a music work, we shall first obtain the copyright in the lyrics and the music compositions from copyright holders, such as large music recording companies and independent music studios. To a lesser extent, we also obtain copyright in lyrics and music compositions from our managed artists and program participants who are also songwriters. We shall also obtain the copyright in the recording of the performance of the music work from the program participants, if the music work is produced for a variety program, or from our managed artists, if the music work is produced for him or her. With the consents from the relevant parties, we can start the production process and produce a completed music work that combines lyrics, music compositions and performance. Upon completion of the music work, we will be the sole copyright owner of such completed music work.

As the producer of the completed songs and music videos, we have the right of producer of audio and video recordings, which allows us to grant our customers the right to replicate, publicize, or transmit the completed songs and music videos to the public through information networks and receive remuneration. Program participants and our managed artists, whose performance is recorded in the completed music works, enjoys the right of performer, which entitles them to be identified as the performer, license us their performance to make audio and video recordings, and obtain remuneration pursuant to the contract they entered with us. The copyright holders of the lyrics and compositions have the right to license us the lyrics and music compositions to make audio and video recordings and obtain remuneration pursuant to the contract they entered with us. For detail, please see "Regulations — Regulations in relation to intellectual property — Copyright."

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Music Providers

Our music providers include copyright holders of lyrics and music compositions, participants in our music variety programs and our managed artists. The details of our contract with them are set forth below.

Copyright Holders of Lyrics and Music Compositions

We maintain long-term and good working relationships with approximately seven to ten large music recording companies during the Track Record Period. To a lesser extent, we also acquire licenses from independent music studios and songwriters. During the Track Record Period, we collaborated with over 100 independent music studios and songwriters. Below is a summary of the salient terms in our licensing contracts with them:

- *Scope of License.* The copyright holder typically agrees to grant us a non-exclusive license on the copyrights it owned in the music works set out in the agreement, including copyright in lyrics and music compositions. Under the license, we are granted various right, including the network transmission right, which enables us to license our music works produced based on the lyrics and music compositions to our customers. The copyright holder may limit our use of the lyrics and music compositions to a certain purpose, such as the production of music works for our variety programs or our managed artists.
- *Term of the License.* The license is usually for an agreed term, which ranges from one year to three years.
- *Licensing Fee.* Typically, the copyright holder charges us a one-off, fixed licensing fee for each song it licensed. The total amount of the licensing fee is determined by the number of the songs licensed, the licensing fee for each licensed song, and the percentage of ownership the copyright holder owns in each song. During the Track Record Period, the licensing fee typically ranged between RMB10,000 and RMB80,000 per song during the license period.
- *Copyright in Completed Works.* With respect to the completed music works we produced based on the licensed lyrics and music compositions, we enjoy the right of audio-video producer. As the producer of the completed songs and music videos produced by us, we exclusively enjoy the proprietary right attached to them, such as information network transmission right, the right of reproduction, right of publication, whereas the copyright holder is entitled to the right to receive remuneration as agreed with us.
- *Termination.* Parties can terminate the contract early upon material breach of the other party.

BUSINESS

Program Participants

During the Track Record Period, we produced 514, 230, 204 music recordings of the live performances of program participants during the production of our variety programs in 2019, 2020 and 2021, respectively. We did not produce any program music recordings in the six months ended June 30, 2022, as all of our music variety programs are scheduled to be produced and broadcast in the second half of 2022. Below is a summary of the salient terms in our contracts with them:

- *Scope of License.* Upon participation in the production of our variety programs, program participants shall exclusively license the copyright in the music works that incorporate his or her performance during the production of the variety program to us.
- *Copyright in Completed Works.* With respect to the completed music works we produced based on the participant's performance of the songs, we enjoy the right of audio-video producer. As the producer of the completed songs and music videos produced by us, we exclusively enjoy the proprietary right attached to them, such as information network transmission right, the right of reproduction, right of publication, whereas the participant is entitled to the right of performer, and the right to receive remuneration as agreed with us. Participants typically grant us an exclusive license in the recording of their performance for an indefinite term for free.
- *Copyright in Lyrics and Music Compositions.* As the producer, we are responsible for obtaining the license in the lyrics and compositions that will be performed by the participants in the variety program. For participants who are also the copyright holder of the lyrics and music compositions to be performed, we would typically obtain a license from the participants to use the lyrics and music compositions in the performance and the completed music recordings. Such license is typically for an indefinite term and for free.
- *Term of the Contracts.* In general, contracts with variety program participants do not have a specific term. Pursuant to the contracts, participants usually agree to participate in the production of a specific variety program and attend all promotional work in association with the program, during the production process.
- *Termination.* We have the right to unilaterally terminate the agreement.

BUSINESS

Managed Artists

During the Track Record Period, we had 162, 159, 157 and 154 managed artists and produced 295, 323, 309 and 142 music recordings for them in 2019, 2020, 2021 and during the six months ended June 30, 2022, respectively. Below is a summary of the salient terms in our artist management contract with them:

- *Scope of License.* For artists who entered an artist management contract with us, they shall grant us an exclusive license in their copyright in the music works produced during the term of the artist management contract, including songs and music videos, that incorporate his or her performance.
- *Copyright in Completed Works.* With respect to the completed music works we produced based on the artist's performance of the songs, we enjoy the right of audio-video producer. As the producer of the completed songs and music videos produced by us, we exclusively enjoy the proprietary right attached to them, such as information network transmission right, the right of reproduction, right of publication, whereas the artist is entitled to the right of performer and the right to receive remuneration as agreed with us. The artists typically grant us an exclusive license in the recording of their performance for an indefinite term. The artists are entitled to receive royalties from us, which were typically 10% of the licensing revenue we generated from the license.
- *Copyright in Lyrics and Music Compositions.* For the artist who is singer-songwriter, thus copyright holder of lyrics and music compositions, we would also obtain an exclusive license in the lyrics and music compositions for an indefinite term. The artist has the right of authorship and the right to receive royalties from us, which were typically 50% of the licensing revenue we generated from the license.
- *Term of Artist Management Contract.* Typically, the term of the artist management agreements is nine years. We have a right of first refusal to renew the contract after it expires.
- *Termination.* We can terminate the contract if the artist commits a breach.

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Our PRC Legal Advisor is of the view that the risks relating to claims of ownership of music works by our music providers that will materially affect our Group’s operation and financial performance are remote, because we have put continuous efforts and implemented internal policies during the production of our music works to avoid potential infringement on third party’s intellectual property rights, and have set up task forces within our legal team and music production team to oversee the intellectual property issues during our daily operation. For example, for music works produced in association with our variety programs, the lyrics and music compositions have to be pre-approved by the intellectual property task force within the music production team, which will be responsible for identifying the relevant copyright holders and obtaining their consent, before they can be used in the programs. The task force within our legal team will conduct a comprehensive review on the program and identify any intellectual property issues. In addition, we require our intellectual property task forces to conduct review on our variety programs and the music works on an on-going basis after the programs and music works are published. In the event that the task force identifies any potential copyright infringement issues, it will take remedial measures to minimize the risks. Furthermore, we have engaged external legal counsel to (i) provides case support, contract review and legal feasibility analysis with respect to important copyright issues, and (ii) provide our management members, legal department and other relevant departments with trainings on legal risk management, who will communicate important legal compliance requirements to employees through internal meetings.

During the Track Record Period and up to the Latest Practicable Date, there were only four instances where copyright holders initiated lawsuits against us for copyright infringement in relation to the music artwork used in the variety programs we produced. Two of the four lawsuits have been closed in settlement or in favor of us as of the Latest Practicable Date, and the settlement payment involved was RMB15,000 in total. In the two pending lawsuits, we were sued as a co-defendant with a satellite TV network, and the claims were RMB800,000 in total. The lawsuits are immaterial to our Group as a whole.

Taking into consideration our implemented internal control measures, the insignificant amount of claims of the music IP related disputes during the Track Record Period and our Group’s financial condition, our PRC Legal Advisor is of the view that the risks related to claims of ownership of music works by music providers that may materially affect our Group’s operation and financial performance are remote. For more information, see “Regulations — Regulations in relation to intellectual property.”

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Notable Music IPs

The following is a selective list of the notable music IPs we produced:



Artist: Ms. Wu Mochou (吳莫愁)
Title of the work: “The 90’s Power” (90後力量)
Type: Album
Publish date: July 2015



Artist: Mr. Zhou Shen (周深), Mr. Li Wei (李維)
Title of the work: “Aftertaste” (回味)
Type: Album
Publish date: Aug 2015



Artist: Ms. Wu Mochou (吳莫愁)
Title of the work: “More Real” (造作)
Type: Album
Publish date: Dec 2017



Artist: Ms. Curley G (希林娜依•高)
Title of the work: “Season of Particles” (顆粒季)
Type: Single
Publish date: July 2018

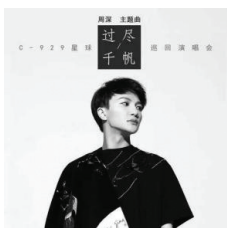


Artist: Mr. Jiang Dunhao (蔣敦豪)
Title of the work: “Youth • Secrets” (少年•心事)
Type: Album
Publish date: August 2018

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Artist: Mr. Zahi Bing Zo (紮西平措)
Title of the work: “Sing My Song” (唱一首自己的歌)
Type: Single
Publish date: March 2019



Artist: Mr. Zhou Shen (周深)
Title of the work: “When All Sails Are Gone” (過盡千帆)
Type: Single
Publish date: November 2019



Artist: Ms. Wu Mochou (吳莫愁), Mr. Li Qi (李琦), Mr. Zhang Hengyuan (張恒遠), Mr. Yu Feng (余楓), Mr. Xia Heng (夏恒), Mr. Wang Xiaotian (王曉天), Ms. Guo Qin (郭沁), Mr. Jiang Dunhao (蔣敦豪), Mr. Zahi Bing Zo (紮西平措), Mr. Danzeng Nima (旦增尼瑪), Ms. Xing Hanming (邢晗銘) and Ms. Mamcù (斯丹曼簇)
Title of the work: “The World Wakes For You” (世界為你醒來)
Type: Single
Publish date: February 2020



Artist: Mr. Zhou Shen (周深)
Title of the work: “Hint” (暗示)
Type: Single
Publish date: April 2020

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Artist: Mr. Za Xi Ping Cuo (紮西平措)
Title of the work: “Clouds” (雲)
Type: Single
Publish date: October 2020



Artist: Ms. Huang Xiaoyun (黃霄雲)
Title of the work: “Huang XiaoYun’s Neverland” (黃霄雲的 NEVERLAND)
Type: Album
Publish date: November 2020



Artist: Mr. Zhang Lei (張磊)
Title of the work: “No Sail” (無帆)
Type: Single
Publish date: May 2021



Artist: Ms. Xing Hanming
Title of the work: “Dream” (夢)
Type: EP
Publish date: May 2021

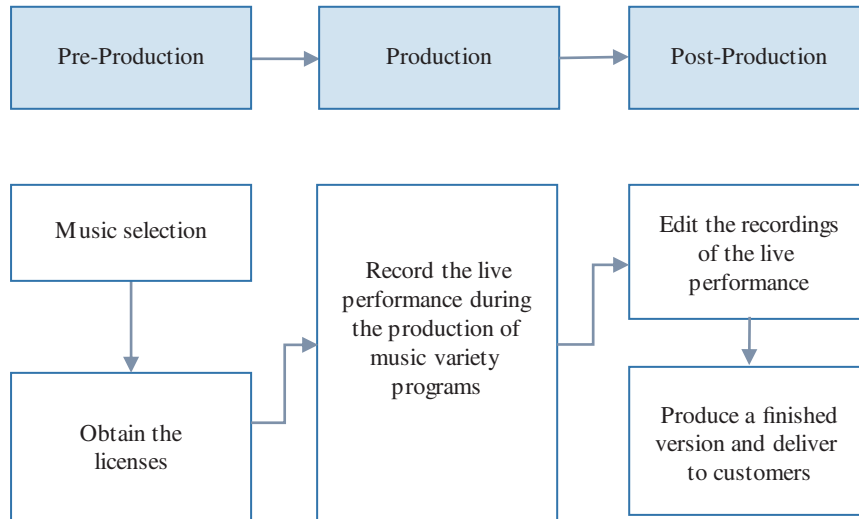
Production and Licensing

We have established a professional music production team to continually expand and diversify our music IP library. We license our music IPs to various music service providers, including leading online music platforms and karaoke operators. Our production of music IPs falls under two categories: the production of audio-visual recordings during the creation of our music variety programs and the production of audio-visual recordings for our managed artists.

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Audio-visual Recordings Produced During the Creation of Our Music Variety Programs

In creating music variety programs, such as “Sing! China,” “CHUANG” and “Sing My Song,” we have produced audio-visual recordings of the live performances of the contestants.



Pre-Production

The pre-production stage generally involves the following steps:

- *Music Selection.* In determining which songs to be performed by the participants in a music variety program, our director’s team will work together with the participants, the coaches and the online music platforms. The insights of the parties coupled with the assistance of our highly experienced in-house music production team enable us to help the participants choose the most appealing songs for the variety programs.
- *Obtain the Licenses.* After we determine which songs to use for the music variety programs, our music IP team within the legal department will work to obtain a license from the copyright owners to use the lyrics and the music compositions, as well as a license from the participants of the rights in their performance.

Production

During the production of the music variety programs, the recording engineers from our music production team will set up recording equipment and record the songs performed by the participants for post-production editing. Our music production team will monitor the whole production process to ensure the quality of the recordings.

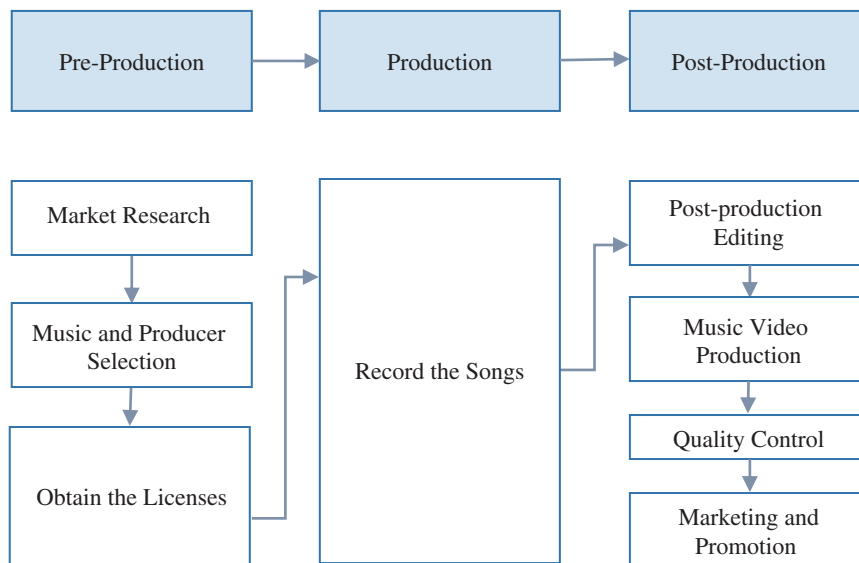
BUSINESS

Post-Production

On the post-production stage, the sound engineers will edit the recordings of the live performance to lower the background noises in the recording, reduce difference between the loudest and quietest parts, and adjust and enhance the volume level, dynamics, and panoramic position during the process. This practical and aesthetic editing process is required to enhance the quality of the recordings and produce a finished version that is appealing to listeners. After the post-production editing is completed, we will deliver a finished version of the audio-visual recordings to our customers.

Audio-visual Recordings Produced for Managed Artists

In addition to the music IPs produced during the creation of our music variety programs, we produce original albums and singles for our managed artists.



Pre-Production

The pre-production stage generally involves the following steps:

- *Market Research.* Before we initiate a music production project, our music production team will conduct extensive research on the market trends and the styles and characteristics of our managed artists, and formulate a preliminary project plan. After they identified the managed artist, the producer, the music genre and the distribution channels that suit the plan, the music production team will initiate the project.

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- *Music and Producer Selection.* Our music production team will assist our managed artists in finding and selecting potential songs to record. We leverage our close connection with well-respected recording companies and independent music studios and songwriters to procure original music works for our artists. In the meantime, many of our managed artists are also songwriters themselves.
- *Obtain the Licenses.* Pursuant to the artist management contracts we entered with our managed artists, we have an exclusive license on their performance. Many of them also grant us an exclusive license on the lyrics and music compositions they created. If lyrics and music compositions are created by third-parties, or if the recordings are based on existing songs, our music IP team will negotiate and obtain the necessary license from the third-party copyright owners.

Production

After the songs are selected, our managed artists will work with our music production team or third-party producers to create a sample recording of the music, called a music demo. Our music production team will further arrange the verses and chorus in the demo by selecting the instruments playing in each section. After the arrangement is completed, the artists will work with our music production team to record the songs.

Post-Production

- *Post-production Editing.* During post-production, our sound engineers will edit the performance as well as various instruments that are used to perform a song. They will perform a series of tasks such as editing and mastering. They also constantly experiment with various post-editing techniques to optimize the effects.
- *Music Video Production.* In cases where customers ask for a video recording, the artists will work jointly with the producers, our music production team and our content production team to jointly produce the video content. Our experienced directors and scenarists will come up with the scripts and create the video with the help of our cinematographers. Our post-production team will complete the work by combining the video content and the music.
- *Quality Control.* Our music production team, the artists and the producers will work jointly and carefully to assess the quality of each recording before they are delivered to the customers.
- *Marketing and Promotion.* We also work with the artists to create various marketing materials, such as album cover, portrait shots, posters and advertorials and deliver them to the customers together with the finished version of the audio-visual recordings and the music videos. We also work with the customers to promote the music works through a wide variety of channels, including short video platforms and social media platforms after the delivery.

BUSINESS

Licensing to Music Service Providers

We have established long-term cooperation relationships with leading online music and audio entertainment platforms in China, such as TME, NetEase Cloud Music and Migu Music, as well as mobile value-added services providers in connection with the digital distribution of our music IPs. We enter into license agreements to make our music available for access in digital formats, such as streaming, downloads and/or ringtones. As we license the music IPs to our customers, we will receive a fixed fee or royalty fee based on their usage on a case-by-case basis. We typically receive accounting from customers on a quarterly basis, detailing the distribution activity.

Key terms of our licensing agreements with online music platforms include:

- *Licensed right.* We typically grant our IP licensing partners a non-exclusive license to display or otherwise use our music IPs for streaming, downloads and/or ringtones. The music works we license usually include those already exist in our music IP library and those that will be produced, licensed or acquired by us during the term of the license.
- *Term.* The term of our licensing agreements typically ranges from two to five years, which may be extended upon the agreement of both parties.
- *Fee arrangement.* We typically receive a fixed minimum guaranteed licensing fee plus performance-based licensing fee from our music IP licensing partners. The fixed minimum guaranteed licensing fee is usually paid in installments, which are collected upfront at the signing of the licensing agreement and/or annually during the term of the agreement. The performance-based licensing fee varies case by case, usually based on factors such as the subscription fee and the number of plays or downloads.

During the Track Record Period, we had only generated revenue from fixed minimum guaranteed amount, the amount of which typically ranged from RMB30 million per contract to RMB80 million per contract.

- *Intellectual property rights.* We typically own and license our rights in the audio-visual recordings to our music IP licensing partners, as well as our rights in the lyrics and music compositions we licensed or acquired from the copyright owners.
- *Termination.* Either we or our IP licensing partners are entitled to terminate the agreement upon the counterparty’s material breach or the failure to cure thereof.

BUSINESS

In addition to online music platforms, we also adapt music works into a version suitable for karaoke use and license them to karaoke operators. In addition to the production process outlined above, our music production team will also remove the vocals from the original track, combine the instrumental with the lyric video, add subtitles and convert the recordings in the right format to play. After the completion of the foregoing, the audiovisual recordings will be delivered to karaoke operators across the country and our sound engineers will provide technical support and maintenance to each store.

During the Track Record Period, we entered into music license agreement with karaoke operators to license our music recordings for a licensing fee during a fixed period. We currently offer more than 3,000 karaoke songs covering a broad range of genres, and we continue to review and update our karaoke song library to keep it fresh, current and popular.

Key terms of our licensing agreements with karaoke operators include:

- *Licensed right.* We typically grant karaoke operators a non-exclusive license to publicly broadcast our music IPs for karaoke use.
- *Term.* The term of the licensing agreements varies case by case, typically around one year.
- *Fee arrangement.* Under our licensing agreements with karaoke operators, we typically receive a fixed licensing fee. Payments are usually made in installments.
- *Intellectual property rights.* We typically own and license the rights in our music IPs to the karaoke operators.
- *Termination.* Either we or the karaoke operators are entitled to terminate the agreement upon the counterparty’s material breach or the failure to cure thereof.

As of June 30, 2022, we had 13 music licensing agreements with online music platforms and mobile value-added services providers, which were currently in effect. The table below sets for the number of music licensing agreements that will expire in 2022 or thereafter:

	2022	2023	2024	2025	2026 or after
Online music platforms and mobile value-added services providers	6	2	1	1	3

BUSINESS

Film and Drama Series IP Operation and Licensing

Leveraging our extensive film library, experienced in-house professional teams and our long-term cooperative relationships with media platforms, we are actively making inroads into the fields of film licensing and drama series production and licensing.

The following table sets out a breakdown of our revenue generated from film and drama series IP operation and licensing by licensed 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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
Mainland China	31.8	27.7%	105.4	60.5%	7.5	8.7%	7.5	33.5%	0.2	1.5%
Overseas	83.2	72.3%	68.8	39.5%	78.9	91.3%	14.9	66.5%	13.5	98.5%
Total	115.0	100.0%	174.2	100.0%	86.4	100.0%	22.4	100.0%	13.7	100.0%

Our revenue generated from licensing our film and drama series IPs to the mainland China market increased from RMB31.8 million in 2019 to RMB105.4 million in 2020, and then decreased to RMB7.5 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 in 2020 upon delivery of the licensed films to the platform, in line with our revenue recognition policy. Our revenue generated from licensing our film and drama series IPs to the mainland China market decreased from RMB7.5 million in the six months ended June 30, 2021 to RMB0.2 million in 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. Our revenue generated from licensing our film and drama series IPs to the overseas market decreased from RMB83.2 million in 2019 to RMB68.8 million in 2020, mainly because we entered into a new film IP licensing contract in 2019 to stream our film and drama series IPs in the overseas market and recognized all the licensing revenue in 2019. Our revenue generated from licensing our film and drama series IPs to the overseas market increased from RMB68.8 million in 2020 to RMB78.9 million in 2021, mainly due to an increase in revenue we recognized in 2021 for licensing our film and drama series IPs to an overseas customer.

BUSINESS

Film IP Library and Licensing

As of June 30, 2022, we had a large film library consisting of 757 Chinese films. The library is built mainly to present popular films produced in Hong Kong in the past few decades, which we acquired in 2010 and is currently owned by FSML. We own the right to license all the films in our film IP library for reruns and the rights to produce remakes and remastered copies of some of the films.

We generally license our films to domestic and overseas TV networks and online video platforms for reruns in exchange for a fixed licensing fee during a specified term. The licensing fee is usually determined on factors including the number of films licensed and the length of the licensing period. The term of the licenses varies case by case. In 2020, we have entered into cooperation with ByteDance to broadcast the films in our film IP library.

Key terms of the licensing agreements typically include:

- *Licensed Right.* The licensing agreements with the media platforms generally provide the licensing media platforms with the broadcasting rights, which allows media platforms to rerun the films.
- *Term.* The term of the licensing agreements varies case by case.
- *Fee Arrangement.* Under our licensing agreements with our IP licensing partners, we typically receive a fixed licensing fee. Payments are usually made in installments.
- *Ownership of IP Rights.* We own the right to license all the films in our film IP library for reruns and the rights to produce remakes and remastered copies of some of the films.
- *Termination.* Either we or our IP licensing partners are entitled to terminate the agreement upon the counterparty’s material breach or the failure to cure thereof.

In addition to licensing our films for reruns, we have entered an agreement under which we will jointly invest in the remakes of our films, which will be released on online video platforms.

Drama Series Production and Licensing

To further develop our content production and operation capabilities and diversify our program portfolio, we are actively expanding our business in the field of drama series production and licensing.

BUSINESS

Drama Series Production

We set up a drama series development team in 2018 and produced “Reading Class (閱讀課),” a romantic TV drama series, during the Track Record Period based on our original screenplay. “Reading Class” is our first original drama series, starring Ms. Song Zuer (宋祖兒), Mr. Hou Minghao (侯明昊), Mr. Sun Jian (孫堅) and our managed artist, Ms. Chen Bing (陳冰). “Reading Class” had a total budget of approximately RMB94.0 million. We concluded the filming of “Reading Class” in October 2020 and the post-editing process in August 2021. We obtained the TV Series Distribution Permit (電視劇發行許可證) for “Reading Class” by the end of September 2021. It is expected to be released simultaneously on a leading satellite TV network and a leading online video platform in China. According to the F&S Report, it is an industry norm for a drama series to take two years or longer between the conclusion of filming and initial broadcasting.

Pre-production

We have set up a dedicated development division to help us originate or purchase script concepts and liaise with suitable scriptwriters to write the scripts. The chief producers will formulate production budgets and choose the cast according to genre of scripts and production budgets. We will file the production project proposed with the local counterpart of the NRTA once a production project is officially initiated.

Production

We assign in-house directors, producers and project coordinators to manage and monitor the entire program production process and to ensure that our programs are of high quality and efficiently produced. Our experienced in-house technical crew is responsible for a wide range of tasks, such as lighting, choreography, studio set design and talent coordination.

Post-Production

Our experienced in-house production team is usually heavily involved in the post-production process, including editing, sound mixing, color adjustment and subtitling. After master tapes of our drama series are ready, they are submitted to NRTA for final review and approval to obtain a TV Series Distribution Permit (電視劇發行許可證). This review process generally takes approximately one month. The TV Series Distribution Permits must be obtained prior to sending master tapes to our customers for broadcasting. During the Track Record Period, we did not encounter any production process delay during the NRTA examination process and were not subject to any adverse action by NRTA.

BUSINESS

Drama Series Licensing

We own all the IP rights in “Reading Class” and are in the process of negotiating with leading TV networks and online video platforms to license the broadcasting rights. In addition, we co-produced “The Glory and the Dream” (光榮與夢想), a drama series depicting the social changes in China in the 1920s and 1930s, which was broadcast on Dragon Satellite TV, Beijing Satellite TV and the Top Three Online Video Platforms in China in May 2021.

Other IP-Related Business

Leveraging our wide array of entertainment IPs, we have spanned our business to various IP-related fields, such as artist management, arts education and training, concert organization and production, mobile apps, consumer products and themed attractions.

Artist Management

We aim at discovering and cultivating emerging performing artists through our music and dance variety programs, and arrange them to provide performing services to corporate customers, advertising agencies and media platforms. We usually enter into a multi-year artist management contract with the artists and our talent management team will provide support to them in areas such as marketing, promotion, monetization and career training. They work with our managed artists to schedule concerts, tours, in-person appearances and endorsement deals for our customers. They also work with the music production team to produce and release singles and albums for the artists.

Artist Management Contract

Key terms of our artist management contract typically include:

- *Term.* Typically, the term of the artist management agreements is nine years. We have a right of first refusal to renew the contract after it expires.
- *Artist Management Service.* We are in close contact with various corporate customers, advertising agencies and media platforms, and arrange our managed artists to participate in the customers’ concerts, tours, in-person appearances and endorsement deals. We also produce singles and albums for the artists and facilitate them in arranging schedules and communicating with customers and media.
- *Fee Arrangement.* We share the income we received from customers with our managed artists pursuant to the percentages set out in the agreement.
- *Ownership of IP Rights.* We own a exclusive license of indefinite term on the artist’s works produced during the term of the agreement.
- *Termination.* We can terminate the contract if the artist commits a breach.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable labor laws, rules and regulations in all material aspects, and our Directors were not aware of any disputes, including any incidents of or complaints for work overload and unlawful labor practices between our managed artists and us. Our PRC Legal Advisor is of the view that, as of the Latest Practicable Date, they were not aware of any cases where we were punished by governmental authorities for material violation of applicable labor laws, rules or regulations.

Artists Overview

We had a deep roster of 154 outstanding performing artists as of June 30, 2022. We are proud to have helped promote the performing careers of many rising stars and will continue to identify and cultivate aspiring artists.

Key Managed Artists

Some of our key artists include, in alphabetical order: Ms. Chen Bing (陳冰), Ms. Curley G (希林娜依•高), Ms. Huang Xiaoyun (黃霄雲), Mr. Jiang Dunhao (蔣敦豪), Mr. Li Qi (李琦), Mr. Lil-Em (那吾克熱•玉素甫江), Ms. Liu Xuejing (劉雪婧), Ms. Pan Hong (潘虹), Ms. Su Yunying (蘇運瑩), Mr. Tenzin Nyima (旦增尼瑪), Ms. Wu Keyue (伍珂玥), Ms. Xing Hanming (邢晗銘), Ms. Yu Zibei (于梓貝), Mr. Zahi Bing Zo (紮西平措), and Mr. Zhang Lei (張磊). Among our contracts with the above-mentioned artists, three will expire between 2022 and 2023, seven will expire between 2024 and 2025, four will expire between 2026-2027, and one will expire after 2028.

All of the artists listed above were featured in one or more of our variety programs, including “Sing! China,” “Guess the Singer!” “Guess the Dancer!” and “Arrival of the Best-Seller!” Ms. Chen Bing (陳冰) also performed in our drama series “Reading Class.” In addition to performance in the variety programs and drama series produced by us, our artist management team also actively pursues opportunities for our managed artists to attend commercial performances and business promotion activities, enter into endorsement deals with corporate customers, perform in soundtracks for movies and drama series, and perform in various variety programs and drama series that are produced by other content producers and media platforms.

Case Studies

One prominent example of how we helped an aspiring performing artist reach a nationwide audience is young pop star Ms. Curley G. She started out as a talented singer participating as a contestant in our “Sing! China 2017” and gained much popularity among the audience. We produced and released her first original song “Season of Particles” in 2018 and her first album “Can’t Stop” in 2020.

BUSINESS

Another example is Ms. Huang Xiaoyun, who participated in “Sing! China 2015” and again in “Sing! China 2021” as an assistant judge. Our artist management team secured the opportunities for Ms. Huang Xiaoyun to participate in several hit music variety programs, including “Singer 2020” (歌手•當打之年2020), “New Voice for Guidance” (新聲請指教), “Guess the Singer! 2020” and “Sound of My Dream 2018” (夢想的聲音2018). “Stars and Sea” (星辰大海), a song she performed, was played more than nine billion times online as of June 30, 2022. In 2021, we published her first album, “Huang Xiaoyun’s Neverland,” to further promote her music career. In addition, our artist management team actively identifies opportunities for Ms. Huang Xiaoyun to participate in drama series production. For example, she starred in “Schrödinger’s Cat” (薛定諤的貓) and “Young & Cool” (少年有點酷), two drama series broadcast on Youku, one of the Top Three Online Video Platforms in China.

Concert Organization and Production

Leveraging our rich expertise in event planning and our deep roster of managed artists, we have established a concert organization and production business. We are engaged by a wide array of customers, including well-known music service providers and advertising agencies, to organize concerts. We are responsible for a series of tasks such as artist invitation, stage setting, sound engineering and process planning. We typically receive a portion of the ticket sales from the customers in return. We also organize concerts by ourselves and are entitled to all the ticket sales of such events.

Arts Education and Training

Undergraduate Program

In 2018, we cooperated with Shanghai Institute of Visual Arts, or SIVA, which is an independent third party, and co-founded the Pop Music School to provide undergraduate education. Being the first of its kind in the city, the school offers a curriculum covering two majors: pop music and street dance. SIVA provides the premises for the school and is responsible for its daily operations. We are responsible for the expenses in relation to the teaching facilities and teaching personnel, and provide the school with various teaching resources. In return, we share in the revenue generated by the school pursuant to a percentage set out in the agreement with SIVA.

The school welcomed its first batch of students majoring in singing and dancing in 2018. Since then, we have experienced steady growth in the number of students enrolled. In 2018, 2019, 2020 and 2021, 54, 113, 168 and 224 students were enrolled in our undergraduate program, respectively.

As advised by our PRC Legal Advisor, the undergraduate program provided in the form of school-enterprise cooperation (校企合作) with SIVA is not subject to foreign investment restriction under the Negative List. To the best knowledge and belief of our Directors, the undergraduate program does not fall within the “prohibited” or “restricted” category under the Negative List as advised by our PRC Legal Advisor.

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Arts Training

Leveraging the brand effect of our singing and dance competition shows, we also provide training in singing and dance to the general public, which are not subject to enrollment limits. Our arts training programs serve children and adults who want to develop a personal interest or further improve their skills of singing and dancing, and engage musicians and dancers as instructors.

In addition to offline arts training, we also provide online pop music and street dance classes on the “Sing! China” app we developed. Users can download the app and access the online classes at a fixed rate. For detail, please see “— Mobile Apps — ‘Sing! China’ App.”

Mobile Apps

To provide a platform for audience to interact with each other, we have developed and launched a mobile app, “Sing! China” app, and a WeChat mini-app, “Zongbache” mini-app.

“Sing! China” App

Online “Sing! China” Social Community

In July 2020, we launched “Sing! China” app, our self-developed online community mobile app for audience to access information and updates about our “Sing! China” variety program and engage in social interaction with other audience alike. It connects audience with celebrities, who used to be contestants and coaches in our “Sing! China” variety program and provides a platform where audience can quickly and conveniently disseminate program information in various formats. By strengthening the connection among audience, celebrities and content, the platform helps build a vibrant audience base for our variety programs.

Application Features and Vibrant Audience Base

“Sing! China” app features a wide range of social functions. Well-known singers who used to perform in “Sing! China” variety program as contestants or coaches can give online singing classes. Users can share their music performances, either in audio or video formats, and “Sing! China” app provides various music rankings to make the process more engaging. Users can participate in online singing battles, comment on and give likes to other’s singing performances and share their own performance on social media platforms such as WeChat. By virtue of its social media nature, “Sing! China” app has become the online social community for audience of “Sing! China” variety program. As of June 30, 2022, we had more than 1.2 million registered users on “Sing! China” app.

Moreover, “Sing! China” app also serves as a key online portal for applying to attend the offline entertainment events in association with our “Sing! China” variety program. We also invite popular singers who attended our past programs to interact with the users in real-time to boost the program’s popularity.

BUSINESS

Through “Sing! China” app, we can proactively launch marketing for upcoming shows and build momentum to contribute to early success. More importantly, we can effectively keep the audience engaged after the show is over and create a vibrant audience base for our “Sing! China” variety program, which is critical for expanding our monetization opportunities.

The screenshots below illustrate the key features of our “Sing! China” app’s interface and functions.



During the Track Record Period, we generated revenue from our operation of the “Sing! China” app through providing online music training courses at a price ranging from RMB12 to RMB999 per course. Our users may also subscribe for membership at a price of RMB19.9 per month.

Cooperation Agreement with AVP License Holder

As advised by our PRC Legal Advisor, according to the Administrative Regulations on Internet Audio-Visual Program Service (the “Audio-Visual Regulations”), an internet audio-visual program service provider shall obtain an Audio-Visual Permit issued by the competent authorities of radio, film and television or complete certain registration procedures with the competent authorities of radio, film and television, and the applicants for the AVP license are required, among others, to be either state-owned or state-controlled entity. As our Company is not owned or controlled by the state, we have entered into a cooperation agreement effective from September, 2021 with a third party in the PRC that holds a valid AVP License. Under the agreement, the video channel of our “Sing! China” app is redirected to the auto channel of their platforms, which displays our video content. According to our PRC Legal Advisor and the PRC Legal Advisor to the Sponsors, such arrangement did not violate PRC laws and the Group did not need to obtain its own AVP License under such arrangement.

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The salient terms of the agreement are as follows:

- *Nature.* The video channel of our platforms is redirected to the auto channel of their platforms, which displays our video content.
- *Term.* The term of the agreement is from August 1, 2021 to December 31, 2023 with an automatic renewal provision for a further year.
- *Fee Arrangement and Settlement.* We agreed to pay the third party a fixed percentage of the revenue we generated from our “Sing! China” app, which shall be settled on a monthly basis.
- *Termination.* The agreement can be terminated upon mutual negotiations.

Our Directors confirm that the relationship between the two entities have been cordial, and our Directors do not foresee any major obstacles where the current arrangement cannot continue in the future. In the unlikely event that we are no longer able to cooperate with this partner, our Directors confirm that there are no material obstacles for us to cooperate with other platforms who hold an AVP License. According to F&S, there are over 500 entities in the PRC that has an AVP License which can potentially replace our Company’s current third party video platform partner that possesses AVP License in terms of licensing.

“Zongbache” WeChat Mini-app

“Zongbache” is a WeChat mini-app we developed that serves as an online community for all of our variety programs other than “Sing! China,” which is released in August 2020. Through our “Zongbache” mini-app, audience of our variety programs, such as “Street Dance of China” and “Shine! Super Brothers,” can access information and updates of the programs and interact with other audience. Registered users can post their comments regarding a program or participating starts using the “Quanzi” feature and they can comment on, vote for and like the dance performances posted by each other. We also regularly give up free tickets to our variety program to our registered users as prizes, effectively enhancing the stickiness of our users.

Moreover, the “Zongbache” mini-app also serves as the application portal for people who are interested in participating for our competition shows. By closely linking us with our audience and potential participating contestants, “Zongbache” mini-app helps us gain insights into market updates and customer preference, which in turn enables us to constantly develop and promote popular variety programs. As of June 30, 2022, “Zongbache” had more than 68,000 registered users.

During the Track Record Period, we generated revenue from our operation of the “Zongbache” mini-app through providing membership subscription at a price ranging from RMB38 to RMB58 per month.

BUSINESS

As of the Latest Practicable Date, there had been no data tax in PRC that would require companies who operate apps and mini-apps which possess a large amount of personal data to give part of their revenue from operations to the sources of the personal data, or data tax. Our primary business is operation and licensing of variety programs, which is our main revenue source. Since the launch of the “Sing! China” app and the “Zongbache” mini-app, our revenue generated from “Sing! China” app was approximately RMB752,000 and our revenue generated from “Zongbache” mini-app was approximately RMB275,000 as of June 30, 2022, the aggregate amount of which only accounted for less than 0.6% of our total revenue for the six months ended June 30, 2022. Because of the foregoing, our Directors and our PRC Legal Advisor are of the view that in the occasion that a data tax will be levied, it will not have any material adverse impact on the business operations or financial position of us.

Based on the due diligence work conducted by the Joint Sponsors and having taking into account, among others, (i) the grounds as set out above, and (ii) the view of the PRC Legal Advisor, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ above in any material aspect.

Consumer Products

We license our entertainment IPs generated in relation to our content production to consumer products brands in various sectors, including cosmetics, food and beverages, clothing and fashion items. We grant our licensing partners the right to use promotional materials based on our program IPs in exchange for licensing fees. We also engage third party suppliers to produce clothing, fashion items and other tie-in merchandise centered around our entertainment IPs, and sell them on our “Zongbache” mini-app and on online retail platforms such as Tmall.

Themed Attractions

Leveraging our IP resources and strong brand effect, we have expanded into the themed attraction business with an asset-light model focused on IP licensing. We cooperate with tourist attractions, such as Madame Tussauds Shanghai Wax Museum, and license them the right to recreate the scenes and props of our variety programs. In addition, we have obtained the land-use right of a land parcel in Songjiang, Shanghai with an area of approximately 66,000 square meters. We plan to use this land to build our “Songjiang Star Variety Program, Film and Drama Series Production Base” (“Songjiang Base”). In addition, we plan to build tourist attractions based on our variety program IPs. As of June 30, 2022, we had incurred RMB196.7 million for the project, primarily consisting of the cost of the land, property tax and construction cost. We expect to further incur approximately RMB58.8 million in the second half of 2022, RMB310.0 million in 2023 and RMB577.0 million after 2023 for the Songjiang Base. We expect the construction to be completed in the second half of 2023. We plan to fund approximately RMB831 million by bank loans and the rest by our own funds.

BUSINESS

Currently, we rent studios from third parties for the production of our variety programs. We also incur considerable expenses for hotels and temporary offices for program participants and staff during the production process. In addition, we sometimes encounter the problem of lack of available production studios, which affect our production schedule. We plan to build a production base, spanning across several independent film production studios, all of which are well equipped. With our own production studio, we can have better control over the production environment and process, alter the studios to fit better with the program ideas, and experiment with new settings and techniques with ease. We also plan to build offices for post-production editing as well dormitories that can host program participants. By having production related work done in the same place, we believe we can improve our operational efficiency and lower production cost in the long run. Songjiang Base is located in Shanghai, one of the most well-connected cities in China, and in Songjiang District, which can be conveniently reached by public and private transportation, making it an ideal location for the production of super large variety programs that involve a large audience and numerous participants. We expect Songjiang Base to serve as the main production base for our variety programs starting from 2023, after the construction completed.

Building on our variety program IPs, we plan to build various themed attractions on Songjiang Base. Tourists can observe the production of variety programs on site, purchase tie-in merchandise based on our variety programs and have other entertainment experience, such as taking street dance and music classes, underpinned by our entertainment IPs.

AWARDS AND RECOGNITIONS

The table below sets forth our major awards received since our establishment:

<u>Year</u>	<u>Variety Program/Group Entity Receiving Award</u>	<u>Awards/Recognitions and Issuing Authority</u>
2019	Nomination	Top 30 National Cultural Enterprises (全國文化企業30強) issued by Guangming Daily (光明日報社) and Economic Daily (經濟日報社)
2019	“CHUANG”	Best Director (Non-Fiction) China (2019) (2019非虛構類節目最佳導演獎) issued by Infocomm Development Authority of Singapore (新加坡資訊通信媒體發展局), 2019 Annual Award for Ingenious Director (2019年度匠心導演) and 2019 Annual Award for Ingenious Music (2019年度匠心音樂) issued by China TV Artists Association (中國電視藝術家協會)
2019	“A Class 2019”	Best Children’s Program (One-off/Series) China (2019) (2019最佳兒童節目獎) issued by Infocomm Development Authority of Singapore (新加坡資訊通信媒體發展局)
2019	“Rave Now”	2019 Annual Award for Ingenious Director (2019年度匠心導演) and 2019 Annual Award for Ingenious Music (2019年度匠心音樂) issued by China TV Artists Association (中國電視藝術家協會)

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Year	Variety Program/Group Entity Receiving Award	Awards/Recognitions and Issuing Authority
2019	“Street Dance of China 2019”	2019 Annual Award for Ingenious Photography (2019年度匠心攝影), 2019 Annual Award for Ingenious Program (2019年度匠心作品) and 2019 Annual Award for Ingenious Producer (2019年度匠心製作人) issued by China TV Artists Association (中國電視藝術家協會), 2019 Annual Award for Influential Program (2019年度節目) issued by NRTA (國家廣播電視總局)
2019	“Sing! China 2019”	2019 Annual Award for Outstanding Program (TV地標(2019)—製作機構年度優秀節目) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)
2019	“Arrival of the Best-Seller! 2019”	2019 Annual Award for Outstanding Online Audio-visual Program (TV地標(2019)—年度優秀網絡視聽節目) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)
2019	Canxing Culture	Media & Entertainment Industry Report’s 2019 Annual Award for Influential Enterprise (2019《綜藝報》年度企業) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)
2020	“The Great Wall”	26th Shanghai TV Festival — Nominee for Magnolia Award for Best Television Variety Program (第26屆白玉蘭最佳電視綜藝節目提名) issued by Organizing Committee of Shanghai TV Festival China (上海電視節組委會)
2020	Canxing Culture	2020 Annual Award for Excellent Talent Developer in Changning District (長寧區2020年度人才開發優秀單位) issued by Bureau of Human Resources and Social Security in Changning District (長寧區人力資源和社會保障局)
2020	Tribute Video to Wuhan in “Sing! China 2020” (2020好聲音致敬武漢中插)	2020 Annual Award for Outstanding Recreation Short Film (2020年短視頻單元文娛類年度傑出作品) issued by China Federation of Radio and Television Associations (中國廣播社會組織聯合會)
2020	“Sing! China 2020”	“TV Landmark” (2020) — Annual Outstanding Program Award for Production Company (2020年度製作機構優秀節目) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)
2020	“Street Dance of China 2020”	“TV Landmark” (2020) — Annual Outstanding Online Audio-visual Program Award (2020年度優秀網絡視聽節目) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)
2021	“Street Dance of China 2020”	“Global Recommendation — Annual Multi-Season Variety Program” issued by China Alliance of Radio Film and Television Production Committee (中國廣播電視社會組織聯合會電視製片委員會)
2021	“The Great Wall”	“Global Recommendation — Annual Innovative Variety Program” issued by China Alliance of Radio Film and Television Production Committee (中國廣播電視社會組織聯合會電視製片委員會)
2021	Canxing Culture	“TV Landmark” (2021) — Annual Outstanding Award for Production Company (2021年度優秀節目製作機構) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)

BUSINESS

Year	Variety Program/Group Entity Receiving Award	Awards/Recognitions and Issuing Authority
2021	“Sing! China 2021”	“TV Landmark” (2021) — Annual Outstanding Program Award for Production Company (2021年度製作機構優秀節目) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社)
2021	“Street Dance of China 2021”	“TV Landmark” (2021) — Annual Outstanding Online Audio-visual Program Award (2021年度優秀網絡視聽節目) issued by NRTA (國家廣播電視總局) and China Radio Film and TV Magazine (中國廣播影視雜誌社), China Hip Hop Awards Ceremony 2021 — Annual Outstanding China Hip Hop Program Award (中國街舞盛典2021年度中國街舞優秀綜藝節目) issued by China Hip Hop Awards Ceremony Committee (中國街舞盛典組委會)

OUR CUSTOMERS

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) advertisers seeking to promote their products and services through product placements or TV commercials; (iii) music service providers that license our music IPs; (iv) TV networks and online video platforms that license our films or engage us to produce and distribute drama series; (v) corporate customers, advertising agencies and media platforms that engage us and our managed artists for concerts, tours, and in-person appearances; (vi) students who enroll in our arts education program or attend our arts training classes; and (vii) consumer products brands that license our IPs. For the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, our revenues attributable to our five largest customers in each year/period during the Track Record Period were RMB1,366.1 million, RMB1,087.9 million, RMB867.1 million and RMB142.4 million, respectively, which accounted for approximately 75.6%, 69.7%, 77.0% and 78.0% of our total revenue for the same periods, respectively.

As of the Latest Practicable Date, we maintained stable relationship with our top five customers ranging from approximately three years to ten years. The credit term with our five largest customers is typically one month after they receive our invoice, depending on the specific payment terms in each contract, and we generally settle with them by bank transfer. As of the Latest Practicable Date, none of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of the issued share capital of the Company as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.

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The following table sets forth details of our five largest customers during the Track Record Period:

Our Group’s five largest customers for the year ended December 31, 2019

<u>Rank</u>	<u>Customer</u>	<u>Nature of revenue</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>% of our total revenue</u>	<u>Commencement of business relationship (since or before)</u> <i>(Year)</i>	<u>Customer background</u>
1	Customer A	Variety program IP production, operation, and licensing; other IP-related business	472,976	26.2%	2012	One of the Top Three Online Video Platforms in China owned by a technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999, and its subsidiaries.
2	Customer B	Variety program IP production, operation, and licensing; other IP-related business	359,579	19.9%	2012	A state-owned radio and television media group located in Hangzhou, Zhejiang Province, founded in 2001. It operates ten TV networks, including one of the Big Five Satellite TV Networks in China.

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Rank	Customer	Nature of revenue	Revenue <i>(RMB in thousands)</i>	% of our total revenue	Commencement of business relationship (since or before) <i>(Year)</i>	Customer background
3	Customer C	Music and variety program IP production, operation, and licensing; other IP-related business	257,001	14.2%	2013	A technology and social media conglomerate located in Shenzhen, Guangdong Province, listed on the Hong Kong Stock Exchange and founded in 1998 and its subsidiaries. They operate one of the Top Three Online Video Platforms in China.
4	Customer D/ Supplier A	Variety program IP production, operation, and licensing; other IP-related business	162,044	9.0%	2013	A state-owned radio and television media group located in Shanghai, founded in 2001. It operates 26 TV networks, including one of the Big Five Satellite TV Networks in China.
5	Customer E/ Supplier B	Variety program IP production, operation, and licensing; other IP-related business	114,485	6.3%	2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China.
			<u>1,366,085</u>	<u>75.6%</u>		
	Total		<u><u>1,806,593</u></u>	<u><u>100%</u></u>		

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Our Group’s five largest customers for the year ended December 31, 2020

Rank	Customer	Nature of revenue	Revenue	% of our total revenue	Commencement of business (since or before)	Customer background
			<i>(RMB in thousands)</i>		<i>(Year)</i>	
1	Customer A	Variety program IP production, operation, and licensing; other IP-related business	396,304	25.4%	2012	One of the Top Three Online Video Platforms in China owned by a technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999, and its subsidiaries.
2	Customer B	Variety program IP production, operation, and licensing; other IP-related business	235,916	15.1%	2012	A state-owned radio and television media group located in Hangzhou, Zhejiang Province, founded in 2001. It operates ten TV networks, including one of the Big Five Satellite TV Networks in China.
3	Customer C	Music and variety program IP production, operation, and licensing; other IP-related business	178,042	11.4%	2013	A technology and social media conglomerate located in Shenzhen, Guangdong Province, listed on the Hong Kong Stock Exchange and founded in 1998, and its subsidiaries. They operate one of the Top Three Online Video Platforms in China.

BUSINESS

Rank	Customer	Nature of revenue	Revenue <i>(RMB in thousands)</i>	% of our total revenue	Commencement of business relationship (since or before) <i>(Year)</i>	Customer background
4	Customer F	Variety program IP production, operation, and licensing; film and drama series IP operation and licensing	156,111	10.0%	2016	A technology and social media conglomerate located in Beijing, founded in 2012 with its registered capital amounted to US\$300 million and its subsidiaries. They operate one of the leading short video platforms in China.
5	Customer E/ Supplier B	Variety program IP production, operation, and licensing; other IP-related business	121,479	7.8%	2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China.
			<u>1,087,852</u>	<u>69.7%</u>		
	Total		<u><u>1,559,945</u></u>	<u><u>100%</u></u>		

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Our Group’s five largest customers for the year ended December 31, 2021

Rank	Customer	Nature of revenue	Revenue <i>(RMB in thousands)</i>	% of our total revenue	Commencement of business relationship (since or before) <i>(Year)</i>	Customer background
1	Customer A	Variety program IP production, operation, and licensing; other IP-related business	403,142	35.8%	2012	One of the Top Three Online Video Platforms in China owned by a technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999, and its subsidiaries.
2	Customer B	Variety program IP production, operation, and licensing; other IP-related business	159,596	14.2%	2012	A state-owned radio and television media group located in Hangzhou, Zhejiang Province, founded in 2001. It operates ten TV networks, including one of the Big Five Satellite TV Networks in China.
3	Customer F	Variety program IP production, operation, and licensing; other IP-related business	120,668	10.7%	2016	A technology and social media conglomerate located in Beijing, founded in 2012 with its registered capital amounted to US\$300 million and its subsidiaries. They operate one of the leading short video platforms in China.

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Rank	Customer	Nature of revenue	Revenue <i>(RMB in thousands)</i>	% of our total revenue	Commencement of business relationship (since or before) <i>(Year)</i>	Customer background
4	Customer E/ Supplier B	Variety program IP production, operation, and licensing; other IP-related business	93,012	8.3%	2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China.
5	Customer C	Variety program IP production, operation, and licensing; other IP-related business	90,683	8.0%	2013	A technology and social media conglomerate located in Shenzhen, Guangdong Province, listed on the Hong Kong Stock Exchange and founded in 1998, and its subsidiaries. They operate one of the Top Three Online Video Platforms in China.
			<u>867,101</u>	<u>77.0%</u>		
	Total		<u><u>1,126,746</u></u>	<u><u>100.0%</u></u>		

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Our Group’s five largest customers for the six months ended June 30, 2022

Rank	Customer	Nature of revenue	Revenue <i>(RMB in thousands)</i>	% of our total revenue	Commencement of business relationship (since or before) <i>(Year)</i>	Customer background
1	Customer A	Variety program IP production, operation, and licensing; other IP-related business	76,536	41.9%	2012	One of the Top Three Online Video Platforms in China owned by a technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999, and its subsidiaries.
2	Customer F	Variety program IP production, operation, and licensing; other IP-related business	42,679	23.4%	2016	A technology and social media conglomerate located in Beijing, founded in 2012, with its registered capital amounted to US\$300 million and its subsidiaries. They operate one of the leading short video platforms in China.
3	Customer G	Variety program IP production, operation, and licensing	12,382	6.8%	2016	An IP operation and advertising company located in Zhuhai, Guangdong Province, with its registered capital amounted to RMB50 million.

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Rank	Customer	Nature of revenue	Revenue <i>(RMB in thousands)</i>	% of our total revenue	Commencement of business relationship (since or before) <i>(Year)</i>	Customer background
4	Customer C	Music IP operation and licensing; other IP-related business	8,057	4.4%	2013	A technology and social media conglomerate located in Shenzhen, Guangdong Province, listed on the Hong Kong Stock Exchange and founded in 1998, and its subsidiaries. They operate one of the Top Three Online Video Platforms in China.
5	Customer H	Other IP-related business	2,779	1.5%	2019	An education institution focusing on providing undergraduate arts training located in Shanghai, with its registered capital amounted to RMB50 million.
			<u>142,433</u>	<u>78.0%</u>		
	Total		<u><u>182,600</u></u>	<u><u>100.0%</u></u>		

BUSINESS

Overlapping of Customers and Suppliers

During the Track Record Period, some of our TV network customers procuring our services in association with variety program production and operation were also our suppliers who (i) provide us with timeslot for TV commercials; (ii) identify and negotiate with performing artists that meet our requirement for our variety programs; or (iii) provide us with production and/or post-production services. To the best knowledge and belief of our Directors, during the Track Record Period, there were four entities, which were among our five largest customers and also our suppliers, or among our five largest suppliers and also our customers. The following table sets forth the details:

Customer/ Supplier	Ranking	Year/ period of being a customer	Revenue	% of our total revenue	Nature of revenue	Year/ period of being a supplier	Purchase	% of our total purchase	Nature of purchase
		(Year/ period)	(RMB in thousands)			(Year/ period)	(RMB in thousands)		
Customer B	Among five largest customers in 2019, 2020, 2021	2019	359,579	19.9%	Variety program IP production, operation, and licensing; other IP-related business	2019	6,807	0.6%	Program technical equipment rental service
		2020	235,916	15.1%		2020	4,524	0.5%	
		2021	159,596	14.2%		2021	5,316	0.7%	
		1H2022	110	0.0%		1H2022	33	0.0%	
Customer D/ Supplier A	Among five largest customers in 2019 and five largest suppliers in 2019, 2020, 2021 and the six months ended June 30, 2022	2019	162,044	9.0%	Variety program IP production, operation, and licensing; other IP-related business	2019	59,957	5.7%	Program technical equipment rental service
		2020	1,395	0.1%		2020	35,998	3.8%	
		2021	66	0.0%		2021	46,374	5.9%	
		1H2022	53	0.0%		1H2022	16,872	13.7%	
Customer E/ Supplier B	Among five largest customers in 2019, 2020, 2021 and five largest suppliers in 2019, 2020, 2021 and the six months ended June 30, 2022	2019	114,485	6.3%	Variety program IP production, operation, and licensing; other IP-related business	2019	36,342	3.4%	Guest invitation service and program technical equipment rental service
		2020	121,479	7.8%		2020	36,796	3.8%	
		2021	93,012	8.3%		2021	81,295	10.3%	
						1H2022	11,578	9.4%	
Supplier I	Among five largest suppliers in 2021	2021	33,399	3.0%	Music IP operation and licensing	2021	11,608	1.5%	Music IP licensing
		1H2022	2,358	1.3%					

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Notes:

- (1) Customer B is the investing media platform for some of our music variety programs. During the production of the programs, we rented technical equipment, such as broadcasting vans, from the platform that is necessary for program production and transmission.
- (2) Customer D/Supplier A is the investing media platform for some of our talent shows. During the production of the programs, we rented technical equipment, such as broadcasting vans, from the platform that is necessary for program production and transmission.
- (3) Customer E/Supplier B is the investing media platform for some of our music and dance variety shows. During the production of the programs, we rented technical equipment, such as broadcasting vans, from the platform that is necessary for program production and transmission. In addition, we invited certain guests to perform in such variety programs through the platform.
- (4) Supplier I is a music IP operation company located in Guangzhou, Guangdong Province. We license our music IPs to Supplier I for karaoke use. At the same time, Supplier I helps us defend our music IPs against other karaoke operators who infringe our music IP rights and we share the compensation when the suit is successfully brought.

Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. In light of our premium industry resources and market leading position, we have established solid business relationships with our overlapping customers and suppliers. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant times, conducted in the ordinary course of business under normal commercial terms and on arm's length basis. As of the Latest Practicable Date, none of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of the issued share capital of the Company as of the Latest Practicable Date, had any interest in any of our overlapping customers and suppliers during the Track Record Period.

According to F&S, it is common in the processes of variety program production and distribution that a TV network can be both a customer and a supplier of a variety program producer and/or distributor because TV networks procure program production services from variety program producers and distributors, and they can also provide certain services to variety program producers, such as TV advertising, guest invitation and TV program production equipment rental.

BUSINESS

Payment Terms and Credit Management

We have established an internal policy to monitor our receivables and working capital on an on-going basis to minimize potential credit risks. Our accounting team works closely with our legal team and business development team to evaluate the credit worthiness of each customer to minimize the risk of overdue payments. They review and update the amount and age of our receivables on a daily basis and send regular reminders to our business development team to collect outstanding fees. Our accounting team also formulates monthly reports on receivables, oversees the collection process and keeps track of any instances of overdue payments. In addition, our internal policy has set out appropriate measures to take when overdue payments occur and when provision for impairment of trade receivables should be made. Our customers usually settle our fees by way of bank transfer. In general, the credit period granted by us is 30 days from the date of billing to our customers.

OUR SUPPLIERS

During the Track Record Period, our suppliers primarily consisted of (i) media platforms and advertising agencies that provide us with time slots for commercials; (ii) third-party service providers providing production services for our variety programs; (iii) talent coordination companies or media platforms for program casting; and (iv) composers and lyricists who license their rights to us. We generally work with suppliers on a project basis and enter into contracts for each program setting out the scope of work, price, payment schedule and other commercial terms.

The credit period with our five largest suppliers generally ranges from three months to six months depending on the specific payment terms in each contract and we generally settle with them by bank transfer. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our purchases attributable to our five largest suppliers in each year/period during the Track Record Period were RMB172.3 million, RMB176.3 million, RMB174.8 million and RMB40.0 million, respectively, which accounted for approximately 16.3%, 18.4%, 22.1% and 32.4% of our total purchase for the same periods, respectively.

As of the Latest Practicable Date, none of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of the issued share capital of the Company as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period. The following table sets forth details of our five largest suppliers during the Track Record Period:

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Our Group’s five largest suppliers for the year ended December 31, 2019

Rank	Supplier	Nature of purchase	Purchase	Commencement of business % of relationship our total (since or purchase before)	Supplier background
			<i>(RMB in thousands)</i>	<i>(Year)</i>	
1	Supplier A/ Customer D	Program technical equipment rental service	59,957	5.7% 2013	A state-owned radio and television media group located in Shanghai, founded in 2001. It operates 26 TV networks, including one of the Big Five Satellite TV Networks in China
2	Supplier B/ Customer E	Guest invitation service and program technical equipment rental service	36,342	3.4% 2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China
3	Supplier C	Consulting service regarding the stage lighting, choreography, scenery and scripts	33,796	3.2% 2018	A media company located in the Netherlands which provides program production and consulting services
4	Supplier D	Airline tickets	22,048	2.1% 2015	A travel agency located in Shanghai
5	Supplier E	Guest invitation service and program production service	20,151	1.9% 2019	A culture and media company located in Beijing
			<u>172,294</u>	<u>16.3%</u>	
	Total		<u><u>1,060,327</u></u>	<u><u>100%</u></u>	

BUSINESS

Our Group’s five largest suppliers for the year ended December 31, 2020

Rank	Supplier	Nature of purchase	Purchase <i>(RMB in thousands)</i>	% of our total purchase	Commencement of business relationship (since or before) <i>(Year)</i>	Supplier background
1	Supplier F	TV commercial slots	56,604	5.9%	2019	A state-owned satellite TV network located in Beijing, founded in 1979. It operates one of the Big Five Satellite TV Networks in China
2	Supplier B/ Customer E	Guest invitation service and program technical equipment rental service	36,796	3.8%	2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China
3	Supplier A/ Customer D	Program technical equipment rental service	35,998	3.8%	2013	A state-owned radio and television media group located in Shanghai, founded in 2001. It operates 26 TV networks, including one of the Big Five Satellite TV Networks in China
4	Supplier C	Consulting service regarding the stage lighting, choreography, scenery and scripts	29,942	3.1%	2018	A media company located in the Netherlands which provides program production and consulting services
5	Supplier G	Guest invitation service	16,981	1.8%	2020	A film and drama series production company located in Qingdao, Shandong Province
			<u>176,321</u>	<u>18.4%</u>		
	Total		<u><u>959,743</u></u>	<u><u>100%</u></u>		

BUSINESS

Our Group’s five largest suppliers for the year ended December 31, 2021

Rank	Supplier	Nature of purchase	Purchase <i>(RMB in thousands)</i>	% of our total purchase	Commencement of business relationship (since or before) <i>(Year)</i>	Supplier background
1	Supplier B/ Customer E	Guest invitation service and program technical equipment rental service	81,295	10.3%	2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China
2	Supplier A/ Customer D	Program technical equipment rental service	46,374	5.9%	2013	A state-owned radio and television media group located in Shanghai, founded in 2001. It operates 26 TV networks, including one of the Big Five Satellite TV Networks in China
3	Supplier C	Consulting service regarding the stage lighting, choreography, scenery and scripts	19,875	2.5%	2018	A media company located in the Netherlands which provides program production and consulting services
4	Supplier H	Consulting service regarding the props and scenery of the stage, and costumes and styling of program participants	15,600	2.0%	2020	A BVI entity which provides variety program consulting and design services regarding stage wear and props
5	Supplier I	Music IP licensing	11,608	1.5%	2018	A music IP operation company located in Guangzhou, Guangdong Province
			<u>174,752</u>	<u>22.1%</u>		
	Total		<u><u>789,396</u></u>	<u><u>100.0%</u></u>		

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Our Group’s five largest suppliers for the six months ended June 30, 2022

Rank	Supplier	Nature of purchase	Purchase (RMB in thousands)	% of our total purchase	Commencement of business relationship (since or before) (Year)	Supplier background
1	Supplier A/ Customer D	Program technical equipment rental service	16,872	13.7%	2013	A state-owned radio and television media group located in Shanghai, founded in 2001. It operates 26 TV networks, including one of the Big Five Satellite TV Networks in China
2	Supplier B/ Customer E	Guest invitation service and program technical equipment rental service	11,578	9.4%	2015	A state-owned radio and television media group located in Nanjing, Jiangsu Province, founded in 2002. It operates 11 TV networks, including one of the Big Five Satellite TV Networks in China
3	Supplier J	Program filming service	5,009	4.1%	2022	A media company located in Hangzhou, Zhejiang Province
4	Supplier K	Program production service	3,302	2.7%	2022	A culture and media company located in Beijing
5	Supplier L	Program studio rental service	3,236	2.6%	2013	A digital technology company located in Shanghai
			<u>39,997</u>	<u>32.4%</u>		
	Total		<u>123,336</u>	<u>100.0%</u>		

During the Track Record Period, we maintained good relationships with our suppliers and did not have any material disagreements or disputes with any of these suppliers. We have not experienced any material delay in the supply or service provided or difficulties in engagement of suitable service providers and have not had to return defective supplies.

BUSINESS

Quality Control

We have adopted strict quality control guidelines and procedures during the entire life cycle of the production of variety programs, music works, drama series and other IP-related products. In addition, we have also applied quality control measures to our procurement.

Variety Programs

With respect to variety programs, our project approval committee assesses the quality of each program concept before the production stage begins. Our director’s team oversees the quality of the program throughout the production process and we designate quality control staff for each important aspect such as sound effect, stage effect, casting and post-production editing. We also invite industry experts to advise on the quality of the variety program after the post-production work is complete, and the investing media platform, the key personnel of our content production professionals and our senior executives will conduct thorough reviews of the program before it is sent to the media platform for broadcasting.

Music Works

With respect to music works, our music production team is responsible for quality control through the production stage. After a music work is completed, the music production team and the managed artists will jointly evaluate the quality of the work before it is released.

Drama Series

With respect to drama series we produced, the producer is responsible for the overall quality of the series and works jointly with the director’s team to monitor the quality and the progress of the production process. We also designate quality control staff for each specific task to ensure the quality of the series.

Consumer Products

With respect to other IP-related products produced by our licensing partners, we work with trustworthy licensing partners possessing a reliable corporate background, trading history and reputation. With respect to other IP-related products produced by our suppliers, we regularly inspect the products and assess their quality.

Procurement

We have also adopted strict internal examination guidelines and procedures for our procurement. We assign in-house quality control staff to carefully assess the quality of the services or products of third-party suppliers on a regular basis and provide constructive feedback timely.

BUSINESS

MARKETING AND PRICING

Sales and Marketing

Our marketing activities are primarily planned and carried out by our business development team. Our business development team is composed of professionals with rich industry experience. The business development team keeps in close and regular contact with customers and has fostered long-term cooperative relationships with a broad array of well-known domestic and international brands in various sectors. In addition to keeping close contact with existing customers, our business development team also actively explores new advertising clients and distribution channels.

Our renowned director’s team routinely conducts visits to advertisers and media platforms together with our business development team. Leveraging their successful track record, great industry reputation and decades of experience working closely with well-known brands, our director’s team lends a strong support to the marketing efforts. Combining the expertise of our business development team and our director’s team enables us to successfully attract a wide selection of advertisers for our variety programs, which constitutes our core competitiveness.

Pricing

Variety Programs

Under the revenue sharing model, we generally consider the total investment, the IP rights allocation, the investing media platforms and the expected level of popularity in pricing the programs. Our revenue from a program depends primarily on the estimated total advertising sales of the program and our estimated costs. Under the commissioned production model, we generally consider the estimated production costs and our target profit margin. When online video platforms license our programs after they are first broadcast on TV networks, we typically consider the market rate for such fees based on the program type, the expected level of popularity and the media platforms in determining the licensing fees. In licensing the right to host offline entertainment events in association with our variety programs, we consider the benefit to our variety program production, the market standard and the expected profit of the licensing party in determining the licensing fees.

Music

In determining the licensing fee and royalties (if any), we usually consider factors such as the licensing media platforms, the expected popularity, and the prevailing market price.

BUSINESS

Film and Drama Series

In determining the licensing fee, we usually consider our production costs and target profit margin, the licensing media platforms and our past commercial arrangements, and the prevailing market price.

Other IP-related Business

Artist Management

In general, we receive service fees from customers who engage our managed artists for concerts, tours, in-person appearances and endorsement deals. We usually consider our target profit margin, the customers and our past commercial arrangements, and the prevailing market price in determining the service fees.

Arts Education and Training

With respect to arts education, the tuition fee for enrolling in the Pop Music School is set by SIVA. With respect to arts training, we typically charge a fixed fee for each course or a fixed monthly fee. We typically consider our service cost, target profit margin and the prevailing market price in determining the price for our arts training classes.

Mobile App and WeChat Mini-app

We do not charge audience for access to our “Sing! China” app or “Zongbache” mini-app. For audience who take online singing classes on our “Sing! China” app, we generally charge a fixed fee for each course taken. We usually consider our service cost, target profit margin and the prevailing market price in determining the price for our online classes.

Consumer Products

In general, we receive fixed licensing payments from licensing partners negotiated on a case-by-case basis. The licensing fees may vary based on our IP production costs and target profit margin, the licensing partner and our past commercial arrangements, and the prevailing market price.

SEASONALITY

The development, production and distribution of variety programs are subject to seasonality. Most large-scale variety programs are typically broadcast between May and October each year, due to the audience’s preferences and the broadcast 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. For details, see “Financial Information — Key Factors Affecting Our Results of Operations — Seasonality.”

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INTELLECTUAL PROPERTY

Intellectual property is fundamental to our success and competitiveness. We rely on a combination of copyrights, trademarks, patents, domain names and confidentiality or licensing agreements with our employees, customers, suppliers and other third parties to protect our intellectual property. As of the Latest Practicable Date, as advised by our PRC Legal Advisor, we obtained in the PRC (i) 40 copyright registration certificates in relation to films or works made in a manner analogous to film-making; (ii) 64 copyright registration certificates in relation to recordings; (iii) 97 copyright registration certificates in relation to software; (iv) 29 copyright registration certificates in relation to artworks; (v) one copyright registration certificates in relation to graphics; and (vi) one copyright registration certificate in relation to written works; and (vii) three copyright registration certificates in relation to work of other kinds. In addition, we had 567 registered trademarks, 15 registered domain names and 40 registered patents in the PRC as of the Latest Practicable Date.

In relation to the registration of our copyrights for our variety programs, music works and drama series, it is of the opinion of our PRC Legal Advisor that registration of the copyrights of such works are not mandatory as the copyright of such works is deemed to belong to and owned by the producer. Therefore, as we produce our own variety programs, music works and drama series, and regardless of whether the copyrights of such works have been registered or not, we own the copyrights.

We have stringent internal measures to safeguard our intellectual property rights. Our legal department keeps track of and regularly reviews the status of our variety program IPs, music IPs, film IPs and drama series IPs and use a mix of legal and administrative proceedings as well as negotiations to protect our intellectual property rights. For example, our legal department reviews the contracts with our customers to ensure there are appropriate copyright protection terms. In addition, whether such works are registered or not, we can present ourselves as copyright owners and can use legal and administrative proceedings as well as negotiations to settle any copyright infringements that we may encounter. During the Track Record Period, we took proactive measures to identify and enforce our rights against unauthorized use of clips of our variety programs, as well as unauthorized use of our music IPs in karaoke stores, through legal proceedings.

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we were not subject to, nor were we party to, any intellectual property rights infringement claims or litigations within the PRC that we believe would have any material adverse effect on our business, results of operations, financial condition or reputation. During the Track Record Period and up to the Latest Practicable Date, we were not subject to, nor were we party to, any material intellectual property rights infringement claims or litigations outside the PRC. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industries — Failure to create, operate and protect the intellectual property rights of our IPs could have a negative impact on our business, competitive position and prospects.”

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As of the Latest Practicable Date, we were the defendant in one pending litigation with Munhwa Broadcasting Corporation regarding “King of Mask Singer (蒙面歌王).” This proceeding is a dispute regarding contract payments, which do not challenge our intellectual property rights. For details, see “— Compliance and Litigation — Ongoing Litigations — The Ongoing Litigation with MBC Initiated in July 2020.”

RESEARCH AND DEVELOPMENT

Our research and development activities primarily include the development of new technologies in program production, in fields such as filming, TV transmission and postproduction editing. Our technical team also continually experiments with different settings, lights, sound costumes and props ideas to create the scenic designs that go well with our variety programs. In addition, they try out different studios and facilities to achieve better effect.

We also spent a significant effort to rapidly roll out and test updates to our “Sing! China” app and “Zongbache” mini-app, in order to continually improve user experience and engagement. During the Track Record Period, in addition to regular and frequent improvements to our mobile apps, our research and development team undertook multiple major development projects to develop features, functions and services tailored to the needs of our user base, such as personalized content recommendation system and interactive functions and features such as comment, like and billboard as a tool for content creation by users.

LICENSES AND PERMITS

As advised by our PRC Legal Advisor, we had obtained all material licenses, permits and approvals required for our operations, which were valid and remained in effect as of June 30, 2022 and up to the Latest Practicable Date. The table below sets forth the major licenses and permits held by us relating to our business and operations as of the Latest Practicable Date (apart from those pertaining to general business requirements):

No.	Type of License/permit	Issuing authority	Validity period	Holder
1.	Radio and Television Program Production and Operation Permit (廣播電視節目製作經營許可證)	Shanghai Municipal Radio and Television Bureau (上海市廣播電視局)	April 1, 2021 to March 31, 2023	Canxing Culture

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No.	Type of License/permit	Issuing authority	Validity period	Holder
2.	Radio and Television Program Production and Operation Permit (廣播電視節目製作經營許可證)	Shanghai Municipal Radio and Television Bureau (上海市廣播電視局)	April 1, 2021 to March 31, 2023	Canxing Film
3.	Television Drama Production Permit (Class B) (電視劇製作許可證(乙種))	Shanghai Municipal Radio and Television Bureau (上海市廣播電視局)	June 16, 2020 to June 15, 2021	Canxing Film
4.	Radio and Television Program Production and Operation Permit (廣播電視節目製作經營許可證)	Shanghai Municipal Radio and Television Bureau (上海市廣播電視局)	April 1, 2021 to March 31, 2023	Beiyi Culture
5.	Internet Cultural Business License (網絡文化經營許可證)	Shanghai Municipal Administration of Culture and Tourism (上海市文化和旅遊局)	August 23, 2022 to August 23, 2025	Canxing Culture
6.	Internet Content Provider (ICP) License (增值電信業務經營許可證) ⁽¹⁾	Shanghai Communications Administration (上海市通信管理局)	May 14, 2021 to May 14, 2026	Canxing Culture
7.	Internet Content Provider (ICP) License (增值電信業務經營許可證) ⁽²⁾	Shanghai Communications Administration (上海市通信管理局)	May 21, 2021 to May 21, 2026	Beiyi Culture
8.	Commercial Performance License (營業性演出許可證)	Shanghai Municipal Administration of Culture and Tourism (上海市文化和旅遊局)	January 26, 2022 to January 26, 2024	Canxing Culture

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No.	Type of License/permit	Issuing authority	Validity period	Holder
9.	Commercial Performance License (營業性演出許可證)	Shanghai Municipal Administration of Culture and Tourism (上海市文化和旅遊局)	December 17, 2021 to December 17, 2023	MXQY

Notes:

- (1) We applied for and obtained an ICP license for Canxing Culture in May 2021, in order to carry out the operations of the “Sing! China” app. As we later decided to display video content on the “Sing! China” app, we engaged an independent third party which holds an AVP license that entitles them to provide such services, and ceased operations under our own ICP license. As of the Latest Practicable Date, we did not have any current plan, nor did we expect, to carry out any operations under the ICP license of Canxing Culture.

Our PRC Legal Advisor is of the view that before we obtained the ICP license in May 2021 and collaborated with a third party in September, 2021, we lacked the ICP license and the AVP license that are necessary to operate the “Sing! China” app in full compliance. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any investigation, penalty or recourse with respect to our operation of “Sing! China” app.

- (2) We currently offer video content on our “Zongbache” WeChat mini-app under the ICP license we applied for and obtained in May, 2021. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any investigation, penalty or recourse with respect to our operation of “Zongbache” mini-app.

Our PRC Legal Advisor conducted telephone consultations with NRTA and Shanghai Municipal Administration of Culture and Tourism in relation to the operation of our WeChat mini-app, respectively. NRTA is the competent authority of regulating internet audio-visual program services. Shanghai Municipal Administration of Culture and Tourism is the competent authority being responsible for the supervision and administration in relation to internet cultural activities carried out by our Company within its jurisdiction. Our PRC Legal Advisor obtained the contact information of the interviewees through the official website of the government authorities, which are the official consultation channels provided by the relevant authorities. According to the telephone consultation with the NRTA, WeChat mini-app operators currently are not required to apply for AVP License, therefore we currently are not required to obtain an AVP License to display video content on our “Zongbache” mini-app. In addition, according to the consultation with Shanghai Municipal Administration of Culture and Tourism, as we only upload short videos and behind-the-scenes to our “Zongbache” mini-app, which are not full length variety shows, we are not required to obtain an Internet Cultural Business License to display video content on our “Zongbache” mini-app.

We monitor the validity status of our licenses and permits, and make timely applications for the renewal of relevant licenses and permits prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses and permits for our business operations during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisor is of the view that, there is no material legal impediment in renewing these licenses and permits as they expire in future as long as we are in compliance with applicable laws, regulations and rules. However, we cannot assure you that we will be able to obtain or renew such licenses or permits in a timely manner or at all in the future. In addition, as our business expands, we expect to apply for additional licenses and permits as necessary. But we cannot assure you that we will be able to obtain such licenses or permits in

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a timely manner or at all in the future. See “Risk Factors — Risks Relating to Our Business and Industries — The PRC government regulates the video content market and Internet industry extensively, and we are subject to laws, regulations and government actions based on the business we operate.”

COMPETITION

We compete with various players in each sector of China’s pan entertainment industry in which we operate our businesses. With respect to variety programs, we believe that our main competitors are independent video content producers and media platforms that have the capabilities to produce variety programs. In 2021, the market share of top five independent producers and operators reached 3.6% with revenues generated from variety programs of RMB2.0 billion, indicating its highly fragmented landscape, while our Company ranked first among the market players without proprietary broadcasting channels in China in 2021 and accounted for 1.6% of total variety program market.

With respect to music IP operation and licensing, our directors believe we face competition from other record labels who have a larger pool of music IPs. The music market in China is highly fragmented, with the market share of top ten markets players amounting to 7.6% in terms of revenue in 2021, while our Company ranked seventh and accounted for 0.4% of the total music market.

In relation to films and drama series IP operation and licensing, our directors believe we face competition from large-scale privately-owned film and drama series production companies that possess similar production as well as distribution capabilities. The film and drama series markets in China are fragmented, with the market share of top five market players being 18.2% and 16.0% in terms of revenue in 2021, respectively.

We believe market competition is based on the quality of the content, brand recognition, IP operation capabilities, as well as distribution capabilities. We believe our competitive edge lies in our large and diversified pool of entertainment IPs, capabilities to produce original content, diversified distribution channels and monetization approaches, and our professional and experienced content production team and business development team. Our long-standing relationships with top TV networks and leading online video platforms in China are also a crucial enabler for us to achieve the market-leading position. See “Industry Overview” for a more detailed discussion regarding the markets in which we operate, their top market players as well as our market shares in the relevant markets.

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EMPLOYEES

As of June 30, 2022, we had 419 full-time employees and substantially all of them were based in mainland China. The following table sets forth the number of our employees by function as of June 30, 2022:

	Number of employees	% of total
Content development, operations and artist management	248	59.2%
Distribution, sales and marketing	53	12.6%
Research and development	70	16.7%
Administrative, finance and human resources	48	11.5%
Total	419	100.0%

INSURANCE

During the Track Record Period, we maintained third-party liability insurance against risks during the production of variety programs and injury insurance for actors who participated in the program production. We do not, and are not required by PRC laws to, maintain any business interruption insurance or key man life insurance. See “Risk Factors — Risks Relating to Our Business and Industries — Our limited insurance coverage could expose us to significant costs and business disruption.”

Our Directors believe that our insurance coverage is sufficient and adequate, and in line with the industry norm. We periodically review and will make necessary and appropriate adjustments to our insurance coverage. During the Track Record Period and up to the Latest Practicable Date, we had not made any material claim under our insurance policies.

PROPERTIES

We leased a property in Huangpu District, Shanghai, with an aggregate gross floor area of approximately 3,700 square meters from independent third parties. Our leased properties are mainly used as our office premises and as of the Latest Practicable Date, our lease agreements have expiration dates ranging from December 23, 2022 to July 30, 2048. As of the Latest Practicable Date, we own the land-use right of a land parcel in Songjiang, Shanghai, where we plan to build our Songjiang Base with a size of 66,400 square meters. For more details of our Songjiang Base, see “— Our Businesses — Other IP-Related Business — Themed Attractions.”

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COMPLIANCE AND LITIGATION

We may be subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time.

Ongoing Litigations

As of the Latest Practicable Date, we were the defendant in two material pending litigations with an aggregate claim amount of approximately RMB127.0 million.

The ongoing litigation with MBC initiated in July 2020

Our cooperation with Munhwa Broadcasting Corporation (“MBC”) lasted for less than two years, between May 2015 to November, 2016. During this period, we cooperated with MBC in the production of two variety programs, “King of Mask Singer (蒙面歌王)” season one and “Great Challenge (了不起的挑戰).” We had also entered into contracts with MBC, under which MBC agreed to provide production consulting services for four variety programs, namely “King of Mask Singer” seasons two to four in 2015 (the supplemental agreement of which was entered into in October 2016) and “Outdoor Reality Show (戶外真人秀)” in October 2016. As MBC did not provide production consulting services as agreed, our cooperation with MBC ceased in November, 2016 and we had not maintained any business relationship with MBC since then.

In February 2016, we entered into an agreement with MBC (the “February 2016 Agreement”), under which MBC agreed to provide program licensing services in exchange for a program licensing fee of US\$2.8 million per season to jointly produce seasons two to four of a variety program, “King of Mask Singer” with us. The key terms of the February 2016 Agreement include:

- *Term of Contract.* Three years from January 1, 2016 to December 31, 2018.
- *Program Format Licensing.* MBC shall license the program format of “King of Mask Sing” to us, so that we have the exclusive right to use the original program format to produce a Chinese version of “King of Mask Singer” seasons two to four, which was scheduled to be made in 2016, 2017 and 2018, respectively.
- *Production Consulting Services.* MBC agreed to send a team of its production professionals, including directors, lighting designers, cinematographers and production designers, to China to provide consulting services to us during our program production and participate in the program production. We are entitled to up to 12 on-site consultations with MBC’s directors during the term of the contract, and the other professionals are obligated to participate in the production of all episodes of the three programs.
- *Fee Arrangement.* We agreed to pay MBC a fee of US\$2.8 million per season. We paid MBC a down payment of US\$4.2 million.

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- *Intellectual Property.* We co-own the copyrights and neighboring rights, such as the right enjoyed by producers of audio and video recordings to allow others to replicate, publicize, or transmit the recordings to the public through information networks and receive remuneration, of the three programs with MBC.
- *Notice of Termination.* The February 2016 Agreement does not provide short notice of termination.

In June 2016, the NRTA issued a notice that limited the number of programs based on foreign program format that can be broadcast on satellite TV networks to one per year. This limitation also applies to programs co-developed with foreign parties in which the Chinese party does not own the intellectual property rights in the program. Against this background, we entered into a supplemental agreement with MBC in October 2016 (the "Supplemental Agreement"). Under the Supplemental Agreement, parties clarified that the service to be provided under the February 2016 Agreement was production consulting services and parties agreed to co-develop a music variety program in 2016 and two subsequent seasons. The Supplemental Agreement will be automatically terminated if we cannot obtain regulatory approval for the subsequent seasons. To minimize our potential loss resulted from the fact that we had already made US\$4.2 million down payment to MBC under the February 2016 Agreement, and after harsh business negotiation with MBC, we entered into an agreement with MBC in the same month (the "October 2016 Agreement"). Under the October 2016 Agreement, US\$2.6 million of the down payment we already made to MBC under the February 2016 Agreement was to be returned to us, but only in the form of down payment for a new variety program, "Outdoor Reality Show," to be jointly produced by MBC and us.

The key terms of the Supplemental Agreement are as follows:

- *Scope of Service.* Parties clarified that the service to be provided under the February 2016 Agreement is production consulting services and parties agreed to co-develop a music variety program in 2016 as well as two subsequent seasons.
- *Fee Arrangement.* The fee that MBC is entitled to is lowered to US\$1.6 million for the music variety program to be produced in 2016. MBC agreed to return the remaining US\$2.6 million in our down payment, which was used to settle our down payment for Outdoor Reality Show in the same year.
- *Intellectual Property.* The copyright of the music variety program to be produced in 2016 belongs to us, including but not limited to the program format, logo and program name.
- *Term.* The term remains the same as the February 2016 Agreement.
- *Termination.* The Supplemental Agreement provided that the obligations of both parties would not apply to any subsequent seasons of the music variety program, if we could not obtain the written approval from competent government authorities approving joint development of variety programs by Chinese companies and Korean companies. As such written approval was not obtained in 2017 or 2018, we did not produce any subsequent seasons of the music variety programs or pay production consulting services fee to MBC in this regard.

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Despite the signing of the Supplemental Agreement, under which MBC agreed to co-develop a music variety program with us in 2016, and the down payment of US\$1.6 million we paid, MBC failed to provide the production consulting services as agreed.

From 2016 to 2018, we developed and produced “Guess the Singer! 2016,” “Guess the Singer! 2017” and “Guess the Singer! 2018” without the involvement of MBC. In July 2020, MBC brought a lawsuit against us to the Primary People’s Court of Xuhui District of Shanghai Municipality for breach of contract, claiming an aggregate amount of approximately RMB110.0 million from us, consisting of (i) program licensing fee, (ii) revenues generated from the licensing of broadcasting rights, advertising sales, and licensing of tie-in merchandise in relation to “Guess the Singer! 2016,” “Guess the Singer! 2017” and “Guess the Singer! 2018” which we produced, and (iii) damages for breach of contract, liquidated damages for late payment and litigation expenses (the “July 2020 Litigation”). In January 2021, we filed a counterclaim against MBC, requesting MBC to return the US\$1.6 million we paid as part of the down payment and to pay us US\$480,000 in damages for breach of contract. As of the Latest Practicable Date, the lawsuit was in the first instance and the court did not render judgment on this case. As advised by our litigation counsel, the court is expected to enter into judgment in 2022.

Our litigation counsel has advised us that the lawsuit brought by MBC regarding “Guess the Singer!” against us is without merits because (i) “Guess the Singer!” is a variety program independently developed and produced by us, and (ii) the idea of letting people sing with mask on is not protected by PRC copyright law. Our Directors, PRC Legal Advisor and our litigation counsel are of the view that “Guess the Singer!” is distinctly different from “King of Mask Singer” in many ways:

- *Non-competitive Nature.* “King of Mask Singer” is a music competition show, where participants, who are professional singers, compete with each other for the champion title. The program format is that of a singing competition show. In contrast, “Guess the Singer!” does not involve competition between participants or championship title.
- *Program Format.* In “King of Mask Singer,” there are six participants in every episode, each of which will give a solo performance in competing with each other. Whereas in “Guess the Singer!” the number of participants ranges between six to eight and the performance are given in solo, duet or chorus. As there is no competition in the program, the performances of the participants are purely for entertaining.
- *Selection of Participants.* In “King of Mask Singer,” all participants are professional singers. But in “Guess the Singer!” we involve a wide selection of participants from various professions, including but not limited to singers, actors and actresses, athletes, entrepreneurs and social media celebrities. As “Guess the Singer!” is a guess challenge rather than a competition show, it is designed in a way to feature people from different backgrounds so as to surprise and entertain the audience.

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Based on the due diligence work conducted by the Joint Sponsors and having taking into account, among others, (i) the grounds as set out above, and (ii) the view of the PRC Legal Advisor and the Company’s litigation counsel, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

Our litigation counsel has advised us that (i) we did not breach the agreements with MBC and the variety programs in dispute did not infringe the intellectual property rights of MBC; and (ii) the amount claimed by MBC in the lawsuit is unreasonably high and groundless, and the possibility that the competent courts will support such amount in full is remote.

Certain Registered Shareholders of Canxing Culture, namely SH Xingtou, SH Zhouxing and Mr. Tian, have provided an undertaking to jointly and severally indemnify us, in proportion to their respective shareholding percentage in Canxing Culture, against any losses arising from this ongoing litigation with MBC to the extent of the amount awarded in the final judgment or settlement of this litigation.

Our Directors are of the view that this ongoing lawsuit would not have a material impact on our operations or financial condition because as advised by our PRC Legal Advisor and our litigation counsel, (i) the claims of MBC are without merits; (ii) the claims of MBC only involve disputes regarding contract payments under the “February 2016 Agreement” and the “Supplemental Agreement,” and do not involve our ownership of intellectual property rights in “Guess the Singer! 2016,” “Guess the Singer! 2017,” or “Guess the Singer! 2018;” (iii) we independently produced “Guess the Singer! 2016,” “Guess the Singer! 2017,” and “Guess the Singer! 2018,” which are our original variety programs, and have the copyright in the trademarks, program scripts, and program settings in association with such programs; (iv) the aggregate amount demanded by MBC in the “King of Mask Singer” case is approximately RMB110.0 million; even if the courts award any damages to MBC in the final judgment, we would have sufficient resources to pay any damages related to the lawsuit considering our sizable revenue and sufficient cash on hand; (v) in our past contract disputes with MBC, MBC had consistently claimed a much higher amount than what was awarded in the final settlement or judgment; for example, in our concluded contract dispute with MBC in 2020 regarding the first season of “King of Mask Singer,” MBC’s initial claim is more than six times the amount awarded to it by China International Economic and Trade Arbitration Commission (CIETAC); in our concluded contract dispute with MBC in 2019 regarding “Great Challenge (了不起的挑戰),” MBC’s initial claim is more than six times the amount awarded by the First Intermediate People’s Court of Shanghai Municipality; and in our concluded contract dispute with MBC in 2022 regarding “Outdoor Reality Show,” MBC’s initial claim is more than four times the amount awarded by the First Intermediate People’s Court of Shanghai Municipality and the Shanghai High People’s Court; (vi) we do not have on-going cooperation arrangements with MBC since November 2016; and (vii) SH Xingtou, SH Zhouxing and Mr. Tian have provided an undertaking to jointly and severally indemnify us against any losses arising from this ongoing litigation with MBC to the extent of the amount awarded in the final judgment or settlement of this litigation.

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Because MBC’s claims are without merits, and the amount claimed by MBC is unreasonably high and groundless, our litigation counsel has advised us that the possibility that the competent court will support such amount in full is remote. Based on the foregoing, we did not make provision for this ongoing lawsuit, taking into consideration of the view of our litigation counsel.

Based on the due diligence work conducted by the Joint Sponsors and having taking into account, among others, (i) the grounds as set out above, (ii) the indemnity undertaking provided by certain Registered Shareholders of Canxing Culture, and (iii) the view of the PRC Legal Advisor and the Company’s litigation counsel, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

The ongoing litigation with Hummingbird Music Ltd. (蜂鳥音樂有限公司, or “Hummingbird”)

In 2016, an artist participated in the production of three episodes of “Heroes of Remix (蓋世英雄),” one of our variety programs. In July 2022, the artist’s then management company, Hummingbird, brought a lawsuit against us at the Primary People’s Court of Changning District of Shanghai, claiming performance service fee of RMB16.3 million and attorney’s fee of RMB200,000. We are actively defending ourselves against Hummingbird’s claims based on the argument that the parties did not reach an agreement and enter into a legally-binding contract. As of the Latest Practicable Date, the lawsuit was in the first instance and the court did not render judgment on this case.

We did not pay the artist as the artist had not asserted the right to payment for performance. We have maintained a good cooperative relationship with the artist, who participated in two variety programs we produced in 2021 and 2022 after “Heroes of Remix.” For both programs, we paid the performance fees to the artist’s current management company without any disputes.

Our Directors and PRC legal Advisor are of the view that Hummingbird does not have a valid claim, as our litigation counsel has advised us that the claims by Hummingbird are without merits, because (i) Hummingbird’s claims are time-barred; (ii) there was no effective performance contract between Hummingbird and us; and (iii) Hummingbird does not have the right to receive performance service fee on behalf of the artist, as its management contract with the artist had terminated several years before Hummingbird brought this lawsuit. Our litigation counsel further advised us that the amount claimed by Hummingbird in the lawsuit is unreasonably high and groundless, and the possibility that the competent court will support such amount in full is remote. Based on the foregoing, we did not and will not make provision for this ongoing litigation.

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Our Directors are of the view that this ongoing lawsuit would not have a material adverse impact on our operations or financial condition, because (i) as advised by our litigation counsel, the claims of Hummingbird are without merits; (ii) the claims of Hummingbird only involve dispute regarding contract payment and do not involve our ownership of intellectual property rights in the relevant variety program; (iii) even if the court awards any damages to Hummingbird in the final judgment, we would have sufficient resources to pay any damages related to the lawsuit considering our sizable revenue and sufficient cash on hand; (iv) we had not have on-going cooperation arrangements with Hummingbird since 2016; and (v) SH Xingtou, SH Zhouxing and Mr. Tian have provided an undertaking to jointly and severally indemnify us, in proportion to their respective shareholding percentage in Canxing Culture, against any losses arising from this ongoing litigation with Hummingbird to the extent of the amount awarded in the final judgment or settlement of this litigation.

As of the Latest Practicable Date, we were not aware of any other artists or artist management companies that may initiate similar claims against us. We adopted an internal control policy in October 2016 to regulate our contracting process with artists who participate in the production of our variety programs or their management companies. Pursuant to the policy, (i) we shall designate specific personnel to negotiate performance service contracts; (ii) the legal team is responsible for drafting the performance service contract template and for overseeing the contracting process; (iii) we shall keep a record of all performance service contracts; (iv) for artists that are managed by artist management companies, we shall only enter into performance service contract with their respective artist management companies; and (v) performance service contracts shall be reviewed and approved by the chief director of the relevant variety programs, the legal team, as well as our chief financial officer or chief executive officer.

The ongoing litigation in relation with music IP infringement

During the Track Record Period and up to the Latest Practicable Date, there were two pending lawsuits where copyright holders initiated lawsuits against us for copyright infringement. In the two pending lawsuits, we were sued as a co-defendant with a satellite TV network, and the claims were RMB800,000 in total.

Our Directors are of the view that this ongoing lawsuits would not have a material impact on our operations or financial condition considering (i) implemented internal control measures, (ii) the insignificant amount of claims of the music IP related disputes during the Track Record Period and (iii) our financial condition. As advised by our PRC Legal Advisor, the risks of such claims of ownership of music works by music providers that may materially affect the Group's operation and financial performance are remote.

Concluded Litigations and Arbitration

During the Track Record Period and up to the Latest Practicable Date, we were involved in the following concluded material litigations and arbitration.

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The litigation with MBC concluded in August 2022

In October 2016, we entered into the October 2016 Agreement with MBC, under which MBC agreed to provide production consulting services to jointly develop a variety program, “Outdoor Reality Show (戶外真人秀),” with us. The key terms of the October 2016 Agreement are as follows:

- *Scope of Service.* MBC agreed to co-produce a variety program, “Outdoor Reality Show,” with us.
- *Fee arrangement.* MBC will receive a joint development fee in the aggregate amount of RMB50 million, which will be paid in installments upon the satisfaction of certain milestones. The down payment of RMB20 million was settled using the down payment MBC returned to us under the Supplemental Agreement.
- *Intellectual Property.* We are the sole owner of the copyrights in the program “Outdoor Reality Show,” including but not limited to the program format, logo and program name.
- *Term.* The term of the agreement is from October 9, 2016 to December 31, 2016.
- *Termination.* If the production or broadcasting of “Outdoor Reality Show” is terminated for regulatory reasons, such as a failure to obtain the written approval from competent government authorities approving the variety programs which would be jointly produced by Chinese companies and Korean companies, the agreement will be terminated. MBC will return part of the joint development fee as agreed between parties.

However, MBC did not collaborate with us to develop “Outdoor Reality Show” or render us development services as agreed after signing the October 2016 Agreement. As a result, “Outdoor Reality Show” had never been developed or produced. We initiated a lawsuit against MBC in April 2019 at the First Intermediate People’s Court of Shanghai Municipality for a judgment ordering MBC to return us the production consulting services fee of US\$2.6 million and pay the damages for breach of contract of US\$520,000 (the “April 2019 Litigation”). In July 2020, MBC filed a counterclaim against us, claiming that it participated in the production of “Awesome Challenge — Amazing (我們的挑戰),” a variety program developed and produced by us. MBC claimed an aggregate amount of approximately RMB47.5 million from us, primarily covering production fee, penalty for breach of contract, accrued interests for overdue payment. MBC provided (i) WeChat messages between MBC and us, in which the parties brainstormed the theme, filming location and guest selection of a variety program, and (ii) MBC employees’ travel history to and from the PRC, as the basis for its counterclaim. In September 2021, the First Intermediate People’s Court of Shanghai Municipality, in its capacity as the court of first instance, ruled that (i) “Awesome Challenge — Amazing” bears resemblance to “Outdoor Reality Show,” the program contemplated under the October 2016 Agreement, and (ii) MBC had partially participated in the production of “Awesome Challenge — Amazing” based on the WeChat messages and the travel history provided by MBC. The court ordered us to pay production consulting services fee of RMB10 million and accrued interest for overdue payment to MBC. The court overruled other claims of MBC and ours.

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We made a provision of RMB10.0 million for the judgment as of June 30, 2022. We had appealed against the judgment of the first instance on October 11, 2021. On November 11, 2021, we were notified that MBC had appealed against the judgment of the first instance on October 13, 2021. The Shanghai High People’s Court, which is the court of the second instance, affirmed the ruling of the court of the first instance in August 2022. SH Xingtou, SH Zhouxing and Mr. Tian have provided an undertaking to jointly and severally indemnify us, in proportion to their respective shareholding percentage in Canxing Culture, against any losses arising from this April 2019 Litigation to the extent of the difference between the amount awarded in the final judgment of this litigation and the provision of RMB10.0 million, which we had made for this litigation as of the date of the undertaking. As of the Latest Practicable Date, we had not paid the RMB10.0 million awarded by the court, as we were awaiting MBC to provide us with its account information.

The arbitration with MBC concluded in April 2020

In May 2015, we entered into an agreement with MBC, under which we licensed the program format from MBC to produce “King of Mask Singer (蒙面歌王)” season one and entered into two supplemental agreements in the same month (collectively, the “May 2015 Agreement”). Under the May 2015 Agreement, we will pay MBC a licensing fee for the program format and share with MBC the revenue of the program from advertising sales and broadcasting right licensing, after deducing costs in association with program production. We and MBC had disputes regarding how much MBC is entitled to with respect to the revenue generated from advertising sales of the program. In March 2019, the CIETAC accepted MBC’s submission to arbitration for breach of contract regarding the May 2015 Agreement (the “March 2019 Arbitration”). MBC claimed an aggregated amount of RMB35.0 million. In April 2020, the CIETAC awarded RMB5.8 million to MBC, which is less than one sixth of the amount claimed by MBC, and the arbitration was subsequently concluded.

The litigation with MBC concluded in June 2021

In June 2015, we entered into an agreement with MBC, under which we licensed the program format from MBC to produce “Great Challenge (了不起的挑战),” and one supplemental agreement in May 2016 (collectively, the “June 2015 Agreement”). Under the June 2015 Agreement, we will pay MBC a licensing fee for the program format and a production service fee, and share with MBC the revenue of the program from advertising sales and broadcasting right licensing, after deducing costs in association with program production. We and MBC had disputes regarding how much MBC is entitled to with respect to the revenue generated from advertising sales and licensing of broadcasting rights of the program. In January 2019, MBC initiated a lawsuit against us for breach of the June 2015 Agreement, with respect to the allocation of revenue from advertising sales and broadcasting right licensing of the program at the First Intermediate People’s Court of Shanghai Municipality (the “June 2015 Litigation”). MBC claimed an aggregate amount of RMB49.3 million. In June 2021, the First Intermediate People’s Court of Shanghai Municipality awarded an aggregate amount of RMB8.1 million to MBC, which is less than one sixth of the amount claimed by MBC, and the litigation was subsequently concluded.

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Our Directors and our PRC Legal Advisor are of the view that the above-mentioned concluded arbitration and litigation would not have a material impact on our operations or financial conditions, because (i) the claims raised in the settled arbitration and litigation by MBC only involve disputes regarding contract payment, but not ownership of intellectual property rights in our variety programs; and (ii) as of the Latest Practicable Date, the March 2019 Arbitration and the June 2015 Litigation were concluded and fully settled, and there were no further disputes with respect to the matters involved; and (iii) our Directors confirmed that we have made a provision of RMB10.0 million for the April 2019 Litigation.

Based on the due diligence work conducted by the Joint Sponsors and having taking into account, among others, (i) the grounds as set out above, and (ii) the view of the PRC Legal Advisor, nothing has come to the attention of the Joint Sponsors that would reasonably cause the Joint Sponsors to disagree with the Directors’ view above in any material aspect.

The above-mentioned ongoing and concluded arbitration and litigations with MBC are all disputes regarding contract payments and do not involve disputes over ownership of intellectual property rights. Other than this, we believe that the March 2019 Arbitration and the June 2015 Litigation were not similar in nature with the July 2020 Litigation or the April 2019 Litigation. The former concerns variety programs based on program formats we licensed from MBC. In contrast, the latter concerns variety programs that are developed by us.

We implemented internal control policy to better standardize our contracting process and to prevent the recurrence of similar disputes in 2016. Pursuant to the policy, (i) our legal team shall participate in whole process of contract negotiation and to identify potential legal risks; and (ii) our management shall oversee the performance and fulfillment of the contracts, and address potential problems in a timely manner. During the Track Record Period and up to the Latest Practicable Date, we did not enter any contracts which resulted in similar disputes in relation to program production.

To the knowledge of our Directors, there was no other pending or foreseeable litigation, arbitration or administrative proceeding against us or any of our Directors that could cause a material and adverse effect on our business, financial conditions or results of operations during the Track Record Period and up to the Latest Practicable Date. See “Risk Factors — Risks Relating to Our Business and Industries — Legal disputes or proceedings may expose us to liabilities, divert our management’s attention and adversely affect our reputation.”

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we had generally complied with the relevant PRC laws and regulations in all material respects.

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Operation of Apps

In July 2020, we launched “Sing! China” app, our self-developed online community mobile app for audience to access information and updates about our “Sing! China” variety program. In May 2021, we applied for and obtained an ICP license for Canxing Culture in order to carry out the operations of the “Sing! China” app. As we later decided to display video content on the “Sing! China” app, we ceased its operations under our own ICP license and engaged an independent third party which holds an AVP license that entitles them to provide such service in 2021. As of the Latest Practicable Date, we did not have any plan, nor did we expect, to carry out any operations under the ICP license of Canxing Culture.

In August 2020, we launched the “Zongbache” WeChat mini-app to provide audience with information and updates of our variety programs other than “Sing! China” variety programs. In May 2021, we applied for and obtained an ICP license for Beiyi Culture in order to carry out the operations of the “Zongbache” WeChat mini-app.

Our PRC Legal Advisor is of the view that we had not obtained the ICP license before May 2021, and did not hold the AVP license before September 2021, and both ICP license and AVP license are necessary to operate the “Sing! China” app in full compliance. In addition, our PRC Legal Advisor is of the view that before we obtained the ICP license in May 2021, we had not obtained the license that is necessary to operate the “Zongbache” mini-app in full compliance.

As advised by our PRC Legal Advisor, (i) according to the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), unauthorized operation of internet information services without obtaining an ICP license, or provision of services beyond the licensed scope can subject a company to various penalties, including rectification within a certain period of time, confiscation of illegal income, imposition of a fine that is between three times and five times the amount of illegal income, and/or termination of the illegal operations, if the non-compliance is serious and (ii) according to Administrative Regulations on Internet Audio-Visual Program Services (《互聯網視聽節目服務管理規定》) and Regulations on Radio and Television Administration (Revised in 2020) (《廣播電視管理條例》(2020年修訂)), a company that provides internet audiovisual program services without an AVP license may be subject to penalties including warning, rectification, and/or a fine of up to RMB30,000 by relevant authorities. If the non-compliance is serious, the company may also be subject to termination of the illegal operations, confiscation of equipment used in illegal operations, and imposition of a fine that is between one to two times the total amount of the relevant investment.

During the respective non-compliance periods of our mobile app and WeChat mini-apps, the amount of our revenue generated from the operation of our mobile app and WeChat mini-apps were approximately RMB752,000 and RMB275,000, respectively, and our investment in “Sing! China” app was approximately RMB2.0 million. Our PRC Legal Advisor is of the view that, based on the amount of revenue generated from and the amount of investment in app and mini-apps provide by us, the maximum exposure for our non-compliance is approximately RMB9.0 million as of the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any investigation, penalty or recourse with respect to our operation of mobile app or WeChat mini-apps.

We have put continuous efforts and implemented a series of internal control measures to strengthen our internal control measures and prevent the recurrence of similar non-compliances. For example, our management communicates important legal compliance requirements during internal meetings on a regular basis. Our legal department is responsible for the management of compliance affairs through contract management process and provide legal consultations in the normal course of our business operations. In addition, we engaged third-party legal counsels to provide legal support and services, including providing contract review services, legal feasibility analysis for our business plans, and legal-related risk trainings to our legal department and other relevant departments.

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With regard to the internal control measures set out above, after undertaking relevant due diligence, including but not limited to discussions with the Company, the PRC Legal Advisor to the Company and the internal control consultant, and subject to the full implementation and enforcement of these measures, nothing has come to the attention of the Joint Sponsors that would cause them to cast doubt on the adequacy of the enhanced measures for the prevention of recurrence of the non-compliances.

DATA PROTECTION AND PRIVACY

We are committed to complying with data privacy laws and protecting the security of users’ data, and have implemented policies for data-related operations within the Company. We operate our proprietary mobile app, the “Sing! China” app, and a WeChat mini-app, the “Zongbache” (綜巴車) mini-app, to offer an engaging social network platform for our audience. As of June 30, 2022, there were more than 1.2 million registered users on the “Sing! China” app and more than 68,000 registered users on the “Zongbache” mini-app. We collect certain user data from users of our “Sing! China” app and “Zongbache” mini-app, such as user’s name, cell phone number, gender, place of birth, among others. We have adopted an access control policy that enables us to grant limited authorization to our employees holding specific positions at specific levels to access and process customer data on a need-to-know basis, who shall use such data only for the purposes of performing their work assignments in authorized workplaces. We have also implemented an encryption program that encrypts the sensitive and confidential information stored by us, and a data desensitization program that desensitize confidential and sensitive data.

We are committed to complying with data privacy laws and protecting the security of users’ data. Our data usage and privacy policy, which is provided to every user of our “Sing! China” app and “Zongbache” mini-app, describes our data use practices and how privacy works on the apps. Specifically, we provide users with prior notice as to what data are being collected and we require users’ consent before the data is collected. Users are also required to acknowledge the terms and conditions of the user agreement before using our apps. We undertake to manage and use the data collected from users in accordance with applicable laws and make reasonable efforts to prevent the use, loss, or leak of user data without users’ approval except under legal requirement.

We have a dedicated data security team who are responsible for enforcing procedures regarding the management of data security. The team consists of four full-time employees with an average of approximately 16 years of experience in the internet and/or information security industry. Some of them also had received relevant qualifications such as Qualification Certificate of Computer and Software Technology Proficiency (計算機技術與軟件專業技術資格(水平)考試). Our dedicated data security team maintains cyber security, application security and data security through various technologies including encryption, anti-virus software and firewall, to safeguard the customers’ data security and integrity in avoidance of any data breach, cyber attack or loss of confidential information. Our internal departments and personnel are required to comply with our data security regulations in relation to information system security, including those with respect to storage, transmission, processing and

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destruction of classified information. In addition, we include confidentiality clauses in our labor contracts, which prohibits our employees from disclosing any confidential information relating to their work and customers without our consent.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to promoting corporate social responsibility and sustainable development as well as integrating these principles into all major aspects of our business operations. We consider corporate social responsibility as part of our core growth philosophy that will be pivotal to our ability to create sustainable value.

Environmental Sustainability

Risks and opportunities

As a result of global warming, extreme weather and climate conditions, such as blizzards, typhoons and rainstorms, are becoming more frequent. Associated physical damage, transition risks and shift in market perception and preference of the public towards more environmentally friendly products and services have all made climate change a prominent issue for businesses. For example, we may suffer economic losses if outdoor variety programs we produce, co-produce or co-invest in are delayed or canceled due to extreme weather. The sudden cancelation or postponement of such events will incur extra costs and may affect our revenue. In addition, when our managed artists provide services to customers, such as participating in offline business promotion activities, other commercial activities, or performing in movies, drama series and variety programs, the timely completion of such services may be hindered by extreme weather events, which may cause a disruption to our artist management activities. We will closely monitor the daily observatory prediction, and notify our employees and personnel promptly with necessary measures in case of extreme weather conditions to mitigate such risks.

We are also subject to transition risks, which refer to financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate regulation and policy, market sentiment and customer preference. We will reflect on the market perception of environmental issues, and climate-related regulatory and policy changes on a regular basis in order to mitigate transition risks. In the medium to long term, governments may change existing or enact new environmental, social and climate-related laws and regulations, which may affect our business, results of operations and financial position directly or indirectly. We take these issues into account when developing our business strategies and may adjust our strategy to changing environmental, social and climate-related landscape.

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Commitment to environmental protection

We are committed to promoting sustainable development and corporate social responsibility as well as integrating these principles into all major aspects of our business operations. While our business operations do not produce pollutants that directly affect the environment, we have established comprehensive internal governance regarding environmental, social and corporate governance (“ESG”) issues or risks.

Our Board of Directors has a collective and overall responsibility for formulating, adopting and reviewing our ESG vision, policy and target, and evaluating, determining and addressing our ESG-related risks. In particular, our Board of Directors assumes the responsibilities of identifying and addressing risks and opportunities that may affect our operations and performance with respect to ESG matters, including but not limited to the following:

- developing and adopting our ESG policies, strategies and targets;
- reviewing our performance against ESG-related targets; and
- revising relevant strategies when we discover significant deviations from the ESG targets.

In addition, our Board of Directors may assess or engage independent third parties to evaluate our ESG risks and review our existing strategy, target and internal controls. We plan to set up a sub-committee of our Board of Directors to be responsible for the execution of our ESG-related policies after [REDACTED], which will be led by chief executive officer of our Company. Our production management personnel will be the main personnel executing our ESG policies in our daily business operations.

As our business does not relate to manufacturing and production, we do not have any direct negative impacts on the environment, but we will regulate ourselves to reduce indirect negative impacts on the environment in future operations. In implementing our ESG related strategies, we use key performance indicators (“KPIs”) to evaluate ESG results annually in order to help ensure we meet our requirements and take corrective actions when necessary. In setting targets for the ESG-related KPIs, we have taken into account their respective historical levels and our future business expansion with a view of to achieve sustainable development.

The total resources used by our head office in Shanghai in 2021 in our usual and ordinary course of business operations were as follows:

- *Electricity consumption.* We have monitored our electricity consumption levels and implement measures to improve energy efficiency. In 2021, our electricity consumption level was approximately 771,425 kWh, representing approximately 212.2 kWh/Meter².

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- *Paper consumption.* We encourage the use of online system for internal administrative procedures to reduce the use of paper documents, and we avoid waste of paper by promoting printing on both sides. In 2021, we used approximately 0.3 million sheets of paper in total.
- *Health and safety.* We are committed to offering a fair, safe and caring working environment to our employees. During the Track Record Period and up to the Latest Practicable Date, there was no work-related fatality case and the number of days of absence due to work-related injuries was nil.

Internal control measures

We have implemented internal policies to reduce our environmental impact and carbon footprint, including (a) imposing temperature controls for air conditioning; (b) encouraging the use of online system for internal administrative procedures; (c) reducing the use of paper documents and promoting printing on both sides; (d) actively using online office and video conference technologies to reduce on-site meetings; (e) avoiding waste of food during the filming process; and (f) placing waste sorting bins and conducting waste classification training.

We pay close attention to the regulatory development in the pan-entertainment industry to comply with any updated laws, regulations and policies. Our in-house legal staff are responsible for keeping abreast of the regulatory development in relation to our business and operations. In addition, we also provide opportunities to our employees to attend forums, workshops and external trainings on these related topics.

Caring for Our Employees

We are committed to cultivating a collaborative company culture underpinned by honesty, innovation and passion. We hire employees based on their merits and it is our corporate policy to offer equal opportunities to our employees regardless of gender, age, race, religion or any other social or personal characteristics. As of June 30, 2022, 244 out of 419, or 58.2% of our total employees were female. We value the contribution of each employee in different roles and strive to provide an environment that inspires teamwork. We want our employees to treat each other with care and respect and have the opportunity to apply their talent to work. We have established labor union since 2018 to formulate and execute policies to protect our employees' labor rights and benefits. We continue to foster a positive working atmosphere that enables us to build a collaborative team with operational excellence.

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Health, Safety, Social and Environmental Matters

We are endeavoring to promote positive social values through the significant influence of our programs. We produced some episodes or content of our variety programs with the theme of environmental protection to raise people’s awareness on this topic, such as some dances in “Street Dance of China 2021” and “China’s Got Talent 2019.”

We believe the power of performing arts in encouraging people. To show the tribute to the healthcare workers and volunteers who fought at the forefront of the pandemic battle, we held the annual final competition of “Sing! China 2020” in Wuhan and produced a tribute video. For details, see “— Awards and Recognitions.”

We are equally committed to promoting corporate social responsibility through charitable endeavors and by extending the benefits of our ecosystem to the society. We promoted the care for the elderly in a dance in “Street Dance of China 2019.” We held live charity concert on May 1st, 2022 on the theme of spreading love and happiness with music to the society. Any illegal behaviors of the artists we collaborated with are strictly prohibited in accordance with our agreements with them. In addition, we formulate the voting mechanisms in our programs in compliance with applicable rules and regulations. We discourage and do not allow any fan’s off-site voting, ranking list and other support activities in our programs.

Our business does not involve significant health, work safety or environmental matters, other than being in compliance with applicable PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

We face a variety of risks in our daily business operations, including operational risk, regulatory compliance and legal risk, financial reporting and credit risk, intellectual property rights risks, information system risks and human resource risk. We have established a risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems. Our management proactively monitors the risks we are faced with and ensures our risk management policies and protocols are effectively implemented.

We have adopted and implemented the following risk management policies and protocols.

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Operational Risk Management

We are faced with operational risks relating to our daily operations, which primarily arise from inadequate or failed internal controls and systems, human errors, IT system failures or external events. We consider these operational risks to be the key risks in our business and believe that, with adequate operational policies and procedures, these inherent risks can be controlled and mitigated. To ensure effective risk management, we have put in place a detailed risk management policy which sets out the main operational risks and risk control measures of each department within the Company. We conduct risk management evaluation on an annual basis and our internal audit department will report the evaluation results to our Directors for further improvement.

Regulatory Compliance and Legal Risk Management

We are subject to extensive and evolving regulatory requirements, including requirements to obtain and renew certain licenses, permits, approvals and certificates for our business operations. In order to manage our ongoing compliance with the laws and regulations applicable to our business effectively, we have implemented several internal control measures. Our legal department is responsible for reviewing and approving contracts, monitoring updates to and changes in laws and regulations applicable to our business and operations. In addition, we require our legal department to review the status of our licenses and permits on a regular basis and ensure we obtain requisite licenses to operate our business and we have the up-to-date understanding with the applicable requirements.

Financial Reporting and Credit Risk Management

We have established an internal policy to monitor our receivables and working capital on an on-going basis to minimize potential credit risks. Our accounting team performs ongoing credit evaluations of our counterparties and works closely with our legal team and business development team to evaluate the credit worthiness of each customer to minimize the risk of overdue payments. See “— Our Customers — Payment Terms and Credit Management” in this section for more information about our efforts and measures in credit risk management.

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policy and budget management policy. We also have various procedures in place to implement our accounting policies, and our finance department reviews our management accounts based on such procedures. Specifically, we have adopted the Financial Accounting Management Policies (《財務會計管理制度》) and the Major Accounting Process Accounting Reporting Process (《重大會計處理會計報告流程》), which incorporated the relevant requirements under the Listing Rules and have been reviewed by our internal control advisor.

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We have also established an internal audit team which will perform internal review over our financial reporting process annually. The scope of work of our internal audit team includes, without limitation, preparing periodic reports for the review of the audit committee, proposing appropriate measures in response to risk exposure where necessary, and continuously monitor major risks related to our operations and internal control systems. In addition, we have established an audit committee which reviews and oversees the compliance, accounting policies and financial reporting procedures and the implementation of such policies and procedures performed by the internal audit team with appropriate qualifications and adequate experience in internal control and risk management industry.

Intellectual Property Rights Risk Management

We have devoted ourselves to establishing and maintaining intellectual property rights risk management and internal control procedures to protect our intellectual property rights and prevent liabilities resulting from infringement of third-party intellectual property rights. Our legal team is responsible for reviewing and approving contracts and protecting our legal rights, including intellectual property rights. Our legal department also assists our business department in ensuring that all necessary applications or filings for trademark, copyright and patent registrations have been timely made to the competent authorities, and that our intellectual properties are under the protection of relevant laws and regulations. See “— Intellectual Property” in this section for more information about our efforts and measures in intellectual property rights risk management.

Information System Risk Management

Sufficient maintenance, security and protection of our data and other related information are critical to our business. We have implemented various internal procedures and controls to ensure that our data are protected and that leakage and loss of any information is avoided. See “— Data Protection and Privacy” in this section for more information about our efforts and measures in information system risk management.

Human Resources Risk Management

We have in place an employee handbook and a code of conduct which have been distributed to all of our employees. The handbook contains internal rules and guidelines regarding anti-corruption, conflicts of interests, work ethics, confidentiality, data security and intellectual property protection. We provide employees with regular training as well as guidance on the requirements contained in the employee handbook. In particular, we have in place an anti-bribery and corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conduct and our anti-bribery and corruption measures. We make our internal reporting channel open and available for our employees to report any bribery and corruption acts on an anonymous basis.

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To improve our risk management and internal control systems, we have engaged an internal control advisor to make recommendations to us on, amongst others, measures over internal compliance, accounting policies, human resources, research and development, information system, and on-going measures to monitor the effectiveness of the policies, procedures and measures of our Company.

Corporate Governance Measures

We have established an Audit Committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The qualifications and experiences for each of the members in the Audit Committee are set out in the section headed “Directors and Senior Management” in this document. Upon [REDACTED], our Group will comply with the risk management and internal control provision in Appendix 14 to the Listing Rules.

Upon [REDACTED], the Audit Committee will take lead to ensure that our Board reviews the effectiveness of our Group’s risk management and internal control systems and reports at least annually to our Shareholders. The review will cover topics on all material controls, including financial, operational and compliance controls; the adequacy of resources, staff qualifications and experience and training programs; and budget of our Company’s accounting, internal audit and financial reporting functions. Upon [REDACTED], our Company will conduct the said review and make disclosures in compliance with risk management and internal control provisions pursuant to Appendix 14 to the Listing Rules. Based on the above, our Directors are of the view that adequate risk management and internal control systems and corporate governance measures are in place for our business operations.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

Certain businesses currently operated by us in the PRC are subject to foreign investment restrictions and license requirements (the “**Relevant Businesses**”). As a result of the restrictions imposed by the PRC laws, we are unable to own or hold any direct equity interest in our Consolidated Affiliated Entities. Accordingly, the term ‘ownership’ or the relevant concept, as applied to our Company with respect to our Consolidated Affiliated Entities in this document, refers to an economic interest in the assets or businesses through the Contractual Arrangements without holding any equity interest in our Consolidated Affiliated Entities. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities, are narrowly tailored to achieve our business purpose and minimize the potential for conflict with relevant PRC laws.

The agreements underlying the Contractual Arrangements provide a mechanism through which: (i) economic benefits of the Consolidated Affiliated Entities are able to be transferred to us through the Exclusive Consulting and Service Agreement; and (ii) we are able to control the Consolidated Affiliated Entities through the Exclusive Purchase Option Agreement, the Equity Pledge Agreement, and the Voting Right Trust Agreement. Pursuant to the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group through Shanghai Jiuwu Yisheng, our wholly foreign owned enterprise (the “**WFOE**”), and all risks arising from the businesses of the Consolidated Affiliated Entities are also effectively borne by our Group. Accordingly, our Directors consider that it is fair and reasonable for the WFOE to be entitled to all economic benefits generated by the business operated by the Consolidated Affiliated Entities through the Contractual Arrangements as a whole.

CONTRACTUAL ARRANGEMENTS

PRC LAWS RELATING TO FOREIGN INVESTMENT RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (外商投資准入特別管理措施(負面清單)(2021年版)) (the “**Negative List**”), which was promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. Negative List sets forth the industries in which foreign investment is restricted or prohibited. A summary of our businesses that are subject to foreign investment restriction or prohibition in accordance with the Negative List and other applicable PRC laws and regulations is set forth below.

<u>Categories</u>	<u>Relevant Businesses</u>
Prohibited Business	<i>Radio and television program production</i> Our Relevant Businesses involve video and audio content operation and production, which falls within the scope of radio and television program production and operation business (廣播電視節目製作經營業務) under the Regulations on the Administration of Production of Radio and Television Programs (《廣播電視節目製作經營管理規定》), the “ Radio and Television Programs Regulations ”). Under the Radio and Television Programs Regulations, any entity that engages in the production of radio and television programs is required to apply for a Radio and Television Production Operation License (《廣播電視節目製作經營許可證》) (the “ RTPO License ”). Each of the Consolidated Affiliated Entities holds a RTPO License for the production and release of radio and television programs issued by Shanghai Municipal Administration of Radio and Television Bureau (上海市廣播電視局) (the “ SART ”). According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in radio and television programs production and operation business.

CONTRACTUAL ARRANGEMENTS

Categories

Relevant Businesses

Internet cultural activities

Canxing Culture engages in the IP-related businesses through the internet and involves the production, distribution and streaming of online variety program, which fall within the scope of commercial internet cultural activities (互聯網文化活動) under the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), the “**Internet Culture Provisions**”). The Internet Culture Provisions provide that internet cultural activities are classified into non-commercial internet cultural activities and commercial internet cultural activities. Under the Internet Culture Provisions, an internet cultural business license (《網絡文化經營許可證》) (the “**ICB License**”) is required for conducting commercial internet cultural activities. Canxing Culture holds an ICB License for the provision of variety programs through the information network and performances issued by Shanghai Municipal Administration of Culture and Tourism (上海市文化和旅遊局) (the “**SACT**”). According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music).

Television drama production

Canxing Film engages in the production of television drama series, which requires a television drama production permit (the “**Television Drama Production Permit**”) under the Administrative Provisions for Contents of Television Drama (《電視劇內容管理規定》). Canxing Film holds a Television Drama Production Permit (Class B) (《電視劇製作許可證(乙種)》) for the television drama production issued by the SART. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in production and operation (including distribution) of television dramas (including made-for internet programs).

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<u>Categories</u>	<u>Relevant Businesses</u>
Restricted Business	<p><i>Value-added telecommunication services</i></p> <p>Beiyi Culture engages in operation of WeChat mini-app which involves short video production and live streaming, and therefore falls within the scope of the provision of telecommunications and information services through public network infrastructure (the “value-added telecommunication services business”), which requires a value-added telecommunications business operation license (《增值電信業務經營許可證》) (the “ICP License”) under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (“Telecommunications Regulations”). Beiyi Culture currently holds an ICP License issued by Shanghai Communications Administration (上海市通信管理局). According to the Negative List, foreign investors are not allowed to hold more than 50% of the equity interests in an enterprise conducting value-added telecommunications services business (excluding electronic commerce, domestic multi-party communication, storage-forwarding and call center).</p>

For further details of the limitations on foreign ownership in PRC companies conducting above businesses under applicable PRC laws and regulations, see “Regulations — Regulations in relation to Foreign Investment.”

OUR RELEVANT BUSINESSES

During the Track Record Period, our Consolidated Affiliated Entities held the relevant licenses as described above to carry out the Relevant Business. To comply with the Listing Rules and other applicable laws and regulations and in line with common practice in companies conducting the Relevant Business, we operate the Relevant Businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored for the reasons below:

(1) **Variety programs production, distribution and streaming**

Canxing Culture engages in production, distribution and streaming of variety programs through TV networks and online platforms. As advised by our PRC Legal Advisor, (1) the production of variety programs and distribution through TV networks falls within the scope of “radio and television programs production” which requires a RTPO License and (2) the distribution and streaming of online variety programs through internet falls within the scope of “internet cultural business” which requires an ICB license under applicable PRC laws and regulations. Canxing Culture currently holds a RTPO License issued by the SART and an ICB License issued by the SACT to conduct such businesses. Canxing Culture has been the holder of a RTPO License and an ICB License since June 20, 2006 and July 5, 2016, respectively.

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As advised by our PRC Legal Advisor, according to the Negative List and other applicable PRC laws, foreign investors are prohibited from holding any equity interests in any enterprise (1) engaging in radio and television programs production and operation business and/or (2) engaging in internet cultural business (except for music). Such prohibitions were confirmed during interview with a principal staff member of the Radio & Television and Network Audiovisual Programme Division of the SART conducted by our PRC Legal Advisor together with the Joint Sponsors and their legal advisor on March 30, 2021, and the interview with a Level I Chief Staff Member of the Market Administration Office of the SACT conducted by our PRC Legal Advisor and the Joint Sponsors’ legal advisor on May 6, 2021 and the follow-up interview conducted on October 17, 2022, respectively. Appropriate measures have been taken to examine and verify the identity and competence of the officers interviewed.

Our PRC Legal Advisor is of the view that (i) the SART is the competent authority to give interpretations on the foreign investment restriction on the industry requiring a RTPO License based on applicable regulations, and the officer who attended the interview is a competent person to provide such confirmation; (ii) the SACT is the competent authority to give interpretations on the foreign investment restriction on the industry requiring an ICB License based on applicable regulations, and the officer who attended the interview is a competent person to provide such confirmation; and (iii) to maintain the relevant business operation of Canxing Culture in compliance with applicable PRC laws and local governmental authorities’ requirement, our Company or any of its overseas subsidiaries are not allowed to directly hold any equity interest in Canxing Culture.

Based on the above, since the businesses operated by Canxing Culture fall within “prohibited” categories under the Negative List, in order to maintain the business operations and effectiveness of the above licenses held by Canxing Culture, Canxing Culture has to be controlled by our Company through the Contractual Arrangements.

Canxing Culture applied for and obtained an ICP license in May 2021, with a view to carrying out the operations of the “Sing! China” app. As we later decided to display video content on the “Sing! China” app, Canxing Culture engaged an independent third party which holds both an ICP license and an AVP license that entitle them to provide such services, and ceased operations under our ICP license. As of the Latest Practicable Date, we did not have any current plan, nor did we expect, to carry out any operations under the ICP license held by Canxing Culture. For details, see “Business — Licenses and Permits.”

(2) Television drama series production and distribution

Canxing Film is a non-wholly owned subsidiary of Canxing Culture which engages in the production and distribution of television drama series. As advised by our PRC Legal Advisor, the production and distribution of television drama series falls within both of (1) the scope of “television drama production” which requires a Television Drama Production Permit; and (2) the scope of “radio and television programs production” which requires a RTPO License under applicable PRC laws and regulations. Canxing Film currently holds a Television Drama Production Permit (Class B) and a RTPO License issued by the SART. Canxing Film has been the holder of a Television Drama Production Permit (Class B) and a RTPO License since September 3, 2019 and August 27, 2018, respectively.

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As advised by our PRC Legal Advisor, according to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise (1) engaging in production and operation (including distribution) of television dramas (including made-for internet programs) and (2) engaging in radio and television programs production and operation business as mentioned above. Such prohibitions were confirmed during the interview with the same principal staff member of the Radio & Television and Network Audiovisual Programme Division of the SART conducted by our PRC Legal Advisor together with the Joint Sponsors and their legal advisor on March 30, 2021.

Our PRC Legal Advisor is of the view that (i) the SART is the competent authority to give interpretations on the foreign investment restriction on the industry requiring a Television Drama Production Permit and/or a RTPO License and the officer who attended the interview is a competent person to provide such confirmation; and (ii) to maintain the relevant business operations of Canxing Film in compliance with applicable PRC laws and local governmental authorities’ requirement, our Company or any of its overseas subsidiaries may not hold any equity interest in Canxing Film.

Based on the above, since the businesses operated by Canxing Film falls within “prohibited” categories under the Negative List, in order to maintain the business operations and effectiveness of the above license and permit held by Canxing Film, Canxing Film must be controlled by our Company through the Contractual Arrangements.

(3) Operation of WeChat mini-apps

Beiyi Culture is a wholly-owned subsidiary of Canxing Culture which engages in the operation of the “*Zongbache*” and “*Zongba Xiaoché*” WeChat mini-apps involving short video production and streaming. As advised by our PRC Legal Advisor, the production and streaming of short video on the WeChat mini-apps operated by Beiyi Culture falls within both of (i) the scope of “radio and television program production” business which requires a RTPO License and (ii) the scope of “internet information services,” a subcategory of value-added telecommunication services business which requires an ICP License under applicable PRC laws and regulations. Furthermore, as required by the WeChat platform, an entity engaging in the operation of WeChat mini-apps which involves short video production and streaming shall obtain a RTPO License. Therefore, Beiyi Culture is required to hold both a RTPO License and an ICP License to carry out such business. Beiyi Culture currently holds an RTPO License issued by the SART and an ICP License issued by Shanghai Communications Administration. Beiyi Culture has been the holder of a RTPO License and an ICP License since September 1, 2020 and May 21, 2021, respectively.

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As advised by our PRC Legal Advisor, according to the Negative List, foreign investors are (1) prohibited from holding equity interests in any enterprise engaging in radio and television programs production and operation business which has been confirmed during the interview with the same principal staff member of the Radio & Television and Network Audiovisual Programme Division of the SART conducted by our PRC Legal Advisor together with the Joint Sponsors and their legal advisor on March 30, 2021; and (2) restricted from holding more than 50% of the equity interests in an enterprise conducting value-added telecommunications services business (excluding electronic commerce, domestic multi-party communication, storage-forwarding and call center) under the Telecommunications Regulations.

Based on the above, we believe that to maintain the business operations and the effectiveness of the RTPO License and ICP License held by Beiyi Culture, Beiyi Culture must be controlled by our Company through the Contractual Arrangements. Furthermore, since the business operated by Beiyi Culture fall within both “prohibited” and “restricted” categories under the Negative List, we are unable to set up any alternative structure that allows us to partly hold equity interests in and partly control the economic benefits of Beiyi Culture through the Contractual Arrangements.

(4) Minority Investment

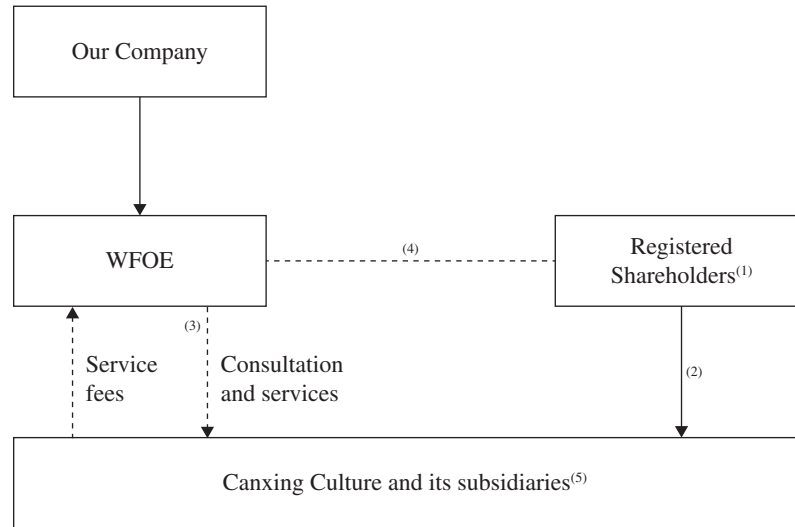
As of the Latest Practicable Date, Canxing Culture also held 30% minority interest in Guangdong Pumpkin Pictures Culture & Communication Co., Ltd. (廣東南瓜視業文化傳播有限公司) (“**Pumpkin Pictures**”) which engages in production of reality shows and documentaries. As advised by our PRC Legal Advisor, the production of reality shows and documentaries falls within the scope of “radio and television programs production” which requires a RTPO License. Pumpkin Pictures currently holds a RTPO License issued by the SART. As set out in “Contractual Arrangements — Our Relevant Businesses — (1) Variety programs production, distribution and streaming” above, foreign investors are prohibited from holding equity interests in any enterprise engaging in radio and television programs production which has been confirmed by the interview with the same principal staff member of the Radio & Television and Network Audiovisual Programme Division of the SART. As advised by our PRC Legal Advisor, to maintain the relevant business operations of Pumpkin Pictures in compliance with applicable PRC laws and local governmental authorities’ requirement, Pumpkin Pictures must be controlled by the Company through the Contractual Arrangements.

Based on the above reasons, we are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC. We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment.

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The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements:



Notes:

- (1) The Registered Shareholders refer to the shareholders of Canxing Culture, namely SH Xingtou, SH Zhouxing, Mr. Tian, Mr. Cao Bin and Hanfu Capital who hold 73.71%, 23.09%, 1.77%, 0.78% and 0.65%, respectively. For further information about the Registered Shareholders, see “History, Reorganization and Corporate Structure.”
- (2) “→” denotes direct legal and beneficial ownership in the equity interest.
- (3) “--▶” denotes the control by WFOE over the business of the Consolidated Affiliated Entities through the Exclusive Consulting and Services Agreements.
- (4) “---” denotes the control by WFOE over the equity interest of the Consolidated Affiliated Entities through the (i) Exclusive Purchase Option Agreements, (ii) Equity Pledge Agreements and (iii) Voting Right Trust Agreements.
- (5) As of the Latest Practicable Date, the subsidiaries of Canxing Culture included Beiyi Culture and Canxing Film. Beiyi Culture was wholly owned by Canxing Culture. Canxing Film was held by Canxing Culture as to 78% and Mr. Zhang Jun (張軍) and Mr. Jing He (景赫) (employees of Canxing Film) and Ms. Shi Min (石敏) (a director of Canxing Film), as to 15%, 5% and 2%, respectively.

Pursuant to the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group through the WFOE, and all risks arising from the business of the Consolidated Affiliated Entities are also effectively borne by our Group as a result of such Consolidated Affiliated Entity being treated as our wholly-owned subsidiaries. Accordingly, our Directors believe that it is fair and reasonable for the WFOE to be entitled to all economic benefits generated by the business operated by the Consolidated Affiliated Entities through the Contractual Arrangements as a whole.

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The revenue (unaudited) generated by our Relevant Businesses and by excluding inter group transactions was approximately RMB1,308.3 million, RMB1,032.4 million, RMB860.3 million and RMB123.1 million, representing 72.4%, 66.2%, 76.4% and 67.4% of the consolidated revenue of our Group, for the three years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The corresponding net profit/(loss) (unaudited) incurred by our Relevant Businesses for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 were approximately RMB132.5 million, RMB34.6 million, RMB33.9 million and RMB(17.9) million, respectively. The remaining portion of the consolidated revenue of our Group for the Track Record Period were contributed by other businesses of our Group which are not subject to foreign investment restriction under the PRC laws and regulations, primarily including music IP operation and licensing, film IP library and licensing, artist management, concert organization and production, consumer products and themed attractions.

Summary of the material terms of the Contractual Arrangements

Exclusive Consulting and Service Agreements

WFOE and Canxing Culture entered into an exclusive consulting and service agreement on July 23, 2021. Further, WFOE and each of Beiyi Culture and Canxing Film entered into exclusive consulting and service agreements on November 7, 2022 (collectively, the “**Exclusive Consulting and Service Agreements**”). Pursuant to the Exclusive Consulting and Service Agreements, our Consolidated Affiliated Entities agreed to engage WFOE as the exclusive provider to the Consolidated Affiliated Entities of consultancy and relevant services in relation to media and program production, which include, among other things, application software research and development, staff training, technology development, technology transfer, public relations, market research and business management consulting services, and the Consolidated Affiliated Entities shall pay the service fees to the WFOE quarterly, which shall be equivalent to the consolidated quarterly profit after taxation to which Canxing Culture is entitled, after deducting any accumulated losses from the preceding fiscal quarter, and any costs, expenses, tax and other statutory contribution in relation to the respective fiscal quarter.

Without the WFOE’s prior written consent, our Consolidated Affiliated Entities shall not receive services which are covered by the Exclusive Consulting and Service Agreements from any third party. WFOE is entitled to own all intellectual property rights arising out of the performance of these agreements. Our Consolidated Affiliated Entities agree to pay the entirety of their total income for the services provided by WFOE (net of costs, expenses, taxes and accumulated losses (if any)).

Under the Exclusive Consulting and Service Agreements, Our Consolidated Affiliated Entities shall, among others: (i) subject to the relevant PRC laws and regulations, appoint the person recommended by WFOE as their directors or senior management members; and (ii) allow WFOE to inspect their accounts and provide other information including relevant records and data.

The Exclusive Consulting and Service Agreements shall remain effective unless terminated by WFOE with a 30-day prior written notice.

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Exclusive Purchase Option Agreements

Under the exclusive purchase option agreement entered into by Canxing Culture, its Registered Shareholders and the WFOE dated July 23, 2021 and the exclusive purchase option agreements entered into by WFOE, Canxing Culture and each of Beiyi Culture and Canxing Film dated November 7, 2022 (collectively, the “**Exclusive Purchase Option Agreements**”), the Registered Shareholders/Canxing Culture (as the case may be) irrevocably granted the WFOE an option to purchase or cause any person(s) designated by the WFOE to purchase, to the extent permitted under any applicable PRC laws, a portion of or all of (i) their equity interests in our Consolidated Affiliated Entities and/or (ii) assets or interests in any of the assets of the Consolidated Affiliated Entities at any time and from time to time, for a consideration equals to RMB1, or otherwise for the minimum amount of consideration permitted by applicable PRC laws.

We have the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the applicable foreign investment restrictions in relation to the Relevant Businesses will be removed in the future, the likelihood of which we were not in a position to know or comment on, as of the Latest Practicable Date. Where such foreign investment restrictions have been relaxed and there exist clear procedures and guidance for our Group to directly hold the maximum permitted interest in our Consolidated Affiliated Entities, our Group will unwind or modify (as the case may be) the Contractual Arrangements such that our Company (or our subsidiary(ies) of which we hold equity interest) will directly hold the maximum percentage of ownership interests permissible in our Consolidated Affiliated Entities, under relevant PRC laws and regulations, through either sino-foreign equity joint ventures or wholly-owned foreign investment entities.

To prevent the flow of the assets and value of the Consolidated Affiliated Entities to its shareholders, pursuant to the Exclusive Purchase Option Agreements, none of the assets and equity interests in the Consolidated Affiliated Entities are to be sold, transferred or otherwise disposed of without the prior written consent of the WFOE. In addition, under the Exclusive Purchase Option Agreements, the Registered Shareholders/Canxing Culture (as the case may be) may not transfer or permit the encumbrance of or allow any guarantee or security to be created on any of its equity interest in our Consolidated Affiliated Entities without the WFOE’s prior written consent.

The Registered Shareholders/Canxing Culture (as the case may be) may not receive any profit distribution or dividend from our Consolidated Affiliated Entities without prior written consent from the WFOE. If the WFOE exercises this option, all or any part of the equity interests in our Consolidated Affiliated Entities acquired would be transferred to the WFOE and the benefits of equity ownership would flow to the WFOE and its shareholders.

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Equity Pledge Agreements

Under the equity pledge agreement entered into by the WFOE, Canxing Culture and the Registered Shareholders dated July 23, 2021 and the equity pledge agreements entered into by WFOE, Canxing Culture and each of Beiyi Culture and Canxing Film dated November 7, 2022 (collectively, the “**Equity Pledge Agreements**”), the Registered Shareholders/Canxing Culture (as the case may be) agreed to pledge all of their respective equity interests in our Consolidated Affiliated Entities that they legally own to the WFOE as collateral security to guarantee performance of their contractual obligations under the Contractual Arrangements and obligations of our Consolidated Affiliated Entities in relation with the Contractual Arrangements.

Under the Equity Pledge Agreements, among other things, the Registered Shareholders/Canxing Culture (as the case may be) have agreed that, without prior written consent of the WFOE, they will not transfer or dispose the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice the WFOE’s interest. The Equity Pledge Agreements shall remain valid until two years after all the contractual obligations of the Registered Shareholders/Canxing Culture (as the case may be) and our Consolidated Affiliated Entities under the relevant Contractual Arrangements have been fully performed. The equity pledges under the Equity Pledge Agreements have been duly registered with the relevant PRC authority pursuant to the relevant PRC laws.

Voting Right Trust Agreements

Under the voting right trust agreement entered into by the WFOE, Canxing Culture and the Registered Shareholders dated July 23, 2021 and the voting right trust agreements entered into by WFOE, Canxing Culture and each of Beiyi Culture and Canxing Film dated November 7, 2022 (collectively, the “**Voting Right Trust Agreements**”), the Registered Shareholders/Canxing Culture (as the case may be) have irrevocably appointed the WFOE or the person designated by the WFOE or his/her successor (including a liquidator replacing the person designated by the WFOE) as their agent and attorney to act on their behalf on all matters concerning our Consolidated Affiliated Entities and to exercise all of their rights as registered shareholders of our Consolidated Affiliated Entities, including: (i) the right to propose to convene and attend shareholders’ meetings; (ii) the right to exercise voting rights on all matters that require discussion and resolution at shareholders’ meeting, approve and sign resolutions on behalf of the relevant Registered Shareholders; (iii) the right to submit any required documents to the relevant authorities; and (iv) the right to exercise all shareholder rights under applicable PRC laws and the articles of association.

The Registered Shareholders/Canxing Culture (as the case may be) undertake that the authorization under the Voting Right Trust Agreements will not lead to any actual or potential conflict of interest with WFOE and/or its designee(s). If there is any conflict of interest (subject to WFOE’s sole discretion) with WFOE and other members of our Group, the Registered Shareholders/Canxing Culture (as the case may be) shall prioritize to protect and will hold harmless of WFOE. Where the Registered Shareholders are the Directors or senior

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management of our Company, the rights in relation to the Voting Right Trust Agreements will be granted to the Directors or senior management of our Company who are not the Registered shareholders. The Registered Shareholders/Canxing Culture (as the case may be) shall not take or omit to take any actions which may lead to a conflict of interest with WFOE or its shareholders, nor the Registered Shareholders/Canxing Culture (as the case may be) shall execute any agreement or make any undertaking therein which has the conflict of interest with any agreement signed or being performed between our Consolidated Affiliated Entities, WFOE or its designee(s).

Other aspects of the Contractual Arrangements

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution clause, pursuant to which, (i) in the event of any dispute arising under or in connection with the Contractual Arrangements, the parties thereto shall negotiate to settle the dispute; and (ii) in the event of the parties failing to reach an agreement within 30 days after the relevant dispute arises, the relevant dispute shall be submitted to the Shanghai International Economic and Trade Arbitration Commission in accordance with the then effective arbitration rules. The arbitration award shall be final and binding on all parties. Any party shall have the right to apply to courts with competent jurisdiction for the enforcement of arbitration awards after the relevant arbitration award comes into effect.

The dispute resolution clause also provides that: (i) the tribunal may award remedies over the shares or assets of our Consolidated Affiliated Entities, injunctive relief (e.g., for the conduct of business or to restrict the transfer of assets) or order the winding-up of our Consolidated Affiliated Entities; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other courts with jurisdiction shall also have the right to grant interim remedies or enforce an arbitral award or interim remedies against the shares or properties of our Consolidated Affiliated Entities.

However, our PRC Legal Advisor has advised that the tribunal normally would not grant such injunctive relief or order the winding up of our Consolidated Affiliated Entities pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable under the current PRC laws.

As a result of the above, if our Consolidated Affiliated Entities or their registered shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors — Risks Relating to Our Contractual Arrangements — As some of our Contractual Arrangements may not have fully detailed the parties’ rights and obligations, our remedies for a breach of these arrangements may not be guaranteed” for further details.

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Succession

The Contractual Arrangements is binding on the successors of the Registered Shareholders. Under the succession laws of China, the statutory successors include one's spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by such successors would be a breach of the Contractual Arrangements. In case of a breach, WFOE can enforce its rights against the successors. Pursuant to the Exclusive Consulting and Services Agreements, the Exclusive Purchase Option Agreements, the Equity Pledge Agreements and the Voting Right Trust Agreements, in the event of death, loss of capacity, marriage or divorce or other circumstances which would affect the exercise of equity interest in our Consolidated Affiliated Entities, the successors (including the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents of the Registered Shareholders), assignees or other persons or entities obtain the equity interest in our Consolidated Affiliated Entities as a result of any of the above events shall inherit or assume the rights and obligations under the relevant contracts, as if the inheritor was a signing party to such Contractual Arrangements.

Undertakings from the Individual Registered Shareholders

Each of the individual Registered Shareholders, namely Mr. Tian and Mr. Cao, signed an undertaking, pursuant to which he unconditionally and irrevocably undertakes that (i) his interests do not fall within the scope of communal properties, and his spouse does not have the right to claim any interests in Canxing Culture (together with any other interests therein); (ii) each of them will perform obligations or take any necessary measures to procure the execution of the Contractual Arrangements which do not require authorization or consent from his spouse; and (iii) his successors (including his spouse) will not take any actions that would affect his obligations under the Contractual Arrangements.

Spousal Undertakings

The spouse of each of the individual Registered Shareholders has signed a spousal undertaking letter, pursuant to which the signed spouses unconditionally and irrevocably undertake their respective spouses' performance under the Contractual Arrangements.

The signed spouses further undertake, among other things, that: (i) any equity interests held by their respective spouse as a Registered Shareholder in Canxing Culture do not fall within the scope of their communal properties; (ii) any necessary measures taken or obligations performed by her spouse to procure the execution of the Contractual Arrangements do not require her authorization or consent; and (iii) each of them will take any necessary measures to procure the execution of the Contractual Arrangements.

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Conflict of Interests

Each of the Registered Shareholders/Canxing Culture (as the case may be) has entered into a Voting Right Trust Agreements, which addresses potential conflict of interests that may arise in connection with the Contractual Arrangements. See “— Voting Right Trust Agreements” above.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company nor the WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite the PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Purchase Option Agreements, without the prior written consent of the WFOE, our Consolidated Affiliated Entities shall not, among others: (i) sell, transfer, pledge or dispose of in any manner any of its assets; (ii) create, succeed to, guarantee or permit any liability except (a) liabilities arising from the normal course of business, but not arising from loans; and (b) liabilities disclosed to the WFOE and approved by the WFOE in writing; (iii) provide loans or credit to any person; (d) enter into any consolidation or merger with any third party, or invest in any third party; and (iv) increase or reduce its registered capital, or alter the structure of the registered capital in any other way.

Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from the Consolidated Affiliated Entities can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Consulting and Service Agreements, upon the liquidation or winding up of our Consolidated Affiliated Entities, WFOE is entitled to recommend, and Canxing Culture shall appoint such recommended persons, to become members of the liquidation committee of our Consolidated Affiliated Entities. In the event of a liquidation or winding up, all of the remaining assets of our Consolidated Affiliated Entities shall be transferred to the WFOE or its designated person after such liquidation or winding up pursuant to PRC laws.

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Insurance

There are certain risks involved in our operations, in particular, those relating to our corporate structure and the Contractual Arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in “Risk Factors — Risks Relating to Our Contractual Arrangements.” We have determined that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, our Company did not purchase any insurance to cover the risks relating to the Contractual Arrangements. For further details, see “Risk Factors — Risks Relating to Our Business and Industries.”

Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

Circumstances under which we will adjust or unwind the Contractual Arrangements

We will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Businesses to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible in our Consolidated Affiliated Entities where the foreign investment restrictions have been relaxed and there exist clear procedures and guidance under relevant PRC laws and regulations.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. In addition, our PRC Legal Advisor is of the opinion that:

- (a) parties to each of the agreements and undertakings under the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder, and each of the agreements is binding on the parties thereto;
- (b) none of the agreements or undertakings under the Contractual Arrangements would fall within the circumstances as stipulated in the PRC Civil Code which will render the arrangements invalid or void under the PRC Civil Code;
- (c) none of the agreements or undertakings under the Contractual Arrangements violates any provisions of the articles of association of our Consolidated Affiliated Entities or our WFOE;

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- (d) the parties to each of the agreements or undertakings under the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
 - (i) the exercise of the option by our WFOE of their rights under the Exclusive Purchase Option Agreements to acquire all or part of the equity interests in our Consolidated Affiliated Entities are subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - (ii) any share pledge contemplated under the Equity Pledge Agreements are subject to the registration with competent administration bureau for market regulation;
 - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by the PRC courts before compulsory enforcement; and
- (e) each of the agreements and undertakings under the Contractual Arrangements is valid and binding on the parties thereto under the PRC laws, except in relation to the dispute resolution clause under these agreements. These agreements provide that any dispute shall be submitted to the Shanghai International Economic and Trade Arbitration Commission, in accordance with the then effective arbitration rules. They also provide that the arbitrator may award interim remedies over the shares or assets of our Consolidated Affiliated Entities or injunctive relief (e.g., for the conduct of business or to restrict the transfer of shares) or order the winding-up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands and other courts with jurisdiction shall have the right for the grant and/or enforcement of the arbitral award and the interim remedies. However, our PRC Legal Advisor has advised that the tribunal normally would not grant such injunctive relief or order the winding-up of our Consolidated Affiliated Entities pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable under the current PRC laws.

According to Articles 146, 153 and 154 of the Civil Code, the circumstances under which a civil legal act is invalid include (i) a juridical act performed by an actor and the opposite party based on false declaration of will; (ii) a juridical act violating the imperative provisions of any law or administrative regulation, unless the imperative provisions do not result in the nullity of the juridical act; (iii) a juridical act contrary to public order and good morals; (iv) a juridical act by which an actor maliciously colludes with the opposite party to damage any other person's lawful rights and interests.

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Our PRC Legal Advisor is of the view that, the signing and execution of the Contractual Arrangements do not fall under the aforementioned circumstances that lead to the invalidity of a civil legal act as stipulated in the PRC Civil Code.

Further, during the interviews with the SART and SACT conducted by our PRC Legal Advisor together with the Joint Sponsors and their PRC legal advisor on March 30, 2021 and May 6, 2021 and the follow-up interview conducted on October 17, 2022, respectively, it has been confirmed by the relevant authorities that the Contractual Arrangements will not be subject to approval of or restrictions imposed by them under the current applicable laws and regulations. Based on the above analysis and the confirmations from the relevant authorities, our PRC Legal Advisor is of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations in effect. However, our PRC Legal Advisor also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion. See “Risk Factors — Risks Relating to Our Contractual Arrangements — If the PRC government determines that the agreements establishing the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.”

Nevertheless, based on the above analysis and advice from our PRC Legal Advisor, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the current applicable PRC laws and regulations, and except for the relevant arbitration clauses as described in “— Contractual Arrangements — Other aspects of the Contractual Arrangements — Dispute Resolution,” each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations. Our PRC Legal Advisor is of the view that each of the agreements under the Contractual Arrangements are unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations, if the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)) and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行上市備案管理辦法(徵求意見稿)) are adopted in its current form.

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DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign-Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements. As advised by our PRC Legal Advisor, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and the Regulations on the Implementation of the Foreign Investment Law, and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “Contractual Arrangements — Legality of the Contractual Arrangements.”

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOE, through which we operate our business in the PRC. The Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors — Risks Relating to Our Contractual Arrangements — Substantial uncertainties exist with respect to whether the control of PRC onshore VIEs by foreign investors via contractual arrangements will be recognized as “foreign investment” and how it may impact the viability of our current corporate structure and operations.”

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Qualification requirements under the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises

Pursuant to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”), foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services. In addition, the main foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record (the “**Qualification Requirements**”). On March 29, 2022, the State Council promulgated the Decision of the State Council on Revising or Abolishing Some Administrative Regulations (國務院關於修改和廢止部分行政法規的決定) (the “**2022 Amendment Decision**”) which took effect on May 1, 2022. Among others, the 2022 Amendment Decision repealed the Qualification Requirements under the FITE Regulations.

As advised by our PRC Legal Advisor, the Company is not allowed to directly or indirectly hold any equity interests in any of the Consolidated Affiliated Entities, as each of them engages in businesses that at least fall within “prohibited” categories under the Negative List, and foreign investors are prohibited from holding equity interests in any enterprises engaging in such business in accordance with the Negative List. As a result, the 2022 Amendment Decision will not result in any change to the Contractual Arrangements, or have a material and adverse impact on the Group’s business operations.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (d) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of the WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

According to IFRS 10 Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own the Consolidated Affiliated Entities, the Contractual Arrangements enable our Company to exercise control over the Consolidated Affiliated Entities.

Under the Exclusive Consulting and Service Agreements, it was agreed that, in consideration of the services provided by the WFOE, our Consolidated Affiliated Entities shall pay service fees to the WFOE quarterly. The service fee shall equal to the consolidated quarterly profit after taxation of our Consolidated Affiliated Entities to which Canxing Culture is entitled, after deducting any accumulated losses, and any funds for working capital, expenses, tax and other statutory contribution. The WFOE has the right to receive or inspect the accounts of our Consolidated Affiliated Entities. Any taxations arising from the payment of the service fees shall be payable by our Consolidated Affiliated Entities. Accordingly, the WFOE is entitled to receive substantially all of the economic benefit of our Consolidated Affiliated Entities pursuant to the Exclusive Consulting and Service Agreements.

In addition, under the Exclusive Purchase Option Agreements, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders/Canxing Culture (as the case may be) as the WFOE’s prior written consent is required before any distribution can be made.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through the WFOE and, at our Company’s sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities’ results of operations, assets and liabilities, and cash flows are consolidated into our Company’s financial statements. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in Note 2.1 to the Accountants’ Report included in Appendix I to this document.

During the Track Record Period and up to the Latest Practicable Date, Canxing Culture had been entitled to a preferential income tax rate of 15%, and the WFOE was subject to an income tax rate of 25%. Accordingly, if the Consolidated Affiliated Entities transfer any of their net profits to the WFOE in the form of services fees, such transfer may result in additional amount of PRC income tax expenses for the Group on a consolidated basis. Assuming that (1) the Contractual Arrangements had been adopted throughout the Track Record Period and the WFOE had been established and readily functioned for provision of the relevant services under the Exclusive Consulting and Service Agreements, (2) the business scope of and tax rates applicable to the Consolidated Affiliated Entities had remained unchanged throughout the Track Record Period and (3) 10% of the net profits of the Consolidated Affiliated Entities had been retained for the relevant entities’ statutory surplus reserve, it is estimated that (i) the net

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profits of the Group would have decreased by approximately 3% in 2019, and (ii) the net losses of the Group would have increased by approximately 12% and approximately 1% in 2020 and 2021, respectively, and remained unchanged for the six months ended June 30, 2022. No PRC withholding taxes were considered in the calculations of the pro forma tax liabilities assuming no dividends would have been made by the WFOE to its parent companies in the relation to the respective periods. However, such impact is estimated without taking into consideration necessary funds retained by the Consolidated Affiliated Entities to conduct the Relevant Businesses pursuant to the Exclusive Consulting and Service Agreements, potential tax reductions with respect to factors such as costs and expenses primarily comprising employee benefits, rental expenses and other related expenses that were incurred by the WFOE in the process of providing such services. As a result, the Group may not be subject to additional income tax liabilities as set out above.

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REGULATIONS IN RELATION TO FOREIGN INVESTMENT

The establishment, operation and management of companies in PRC are governed by the PRC Company Law (《中華人民共和國公司法》) which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “SCNPC”) on December 29, 1993, came into effect on July 1, 1994 and was last revised on October 26, 2018. Under the PRC Company Law, companies are generally classified into two categories, i.e. limited liability companies and companies limited by shares. Each a limited liability company or a company limited by shares is an enterprise legal person, and liable for its debts with all its assets. PRC Company Law is also applicable to foreign-invested companies, except otherwise set out in any other regulations.

Pursuant to the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “Foreign Investment Law”) promulgated by the National People’s Congress (全國人民代表大會) (the “NPC”) on March 15, 2019 and came into effect on January 1, 2020, the “Foreign Investment” refers to the investment activity directly or indirectly conducted by the foreign natural person, enterprise or other organization (hereinafter referred to as the “foreign investors”), including the following circumstances: (i) A foreign investor establishes a foreign-invested enterprise within the territory of China, independently or jointly with any other investor; (ii) a foreign investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China; (iii) a foreign investor makes investment to initiate a new project within the territory of China, independently or jointly with any other investor; and (iv) a foreign investor makes investment in any other way stipulated by laws, administrative regulations or provisions of the State Council. The state applies the administrative system of pre-establishment national treatment plus Negative List to foreign investment. Foreign Investors shall not invest in any field prohibited by the Negative List and shall meet the investment conditions stipulated for any field restricted by the Negative List, while for foreign investments outside the Negative List, national treatment will be given. The business forms, structures, and rules of activities of foreign-funded enterprises shall be governed by PRC Company Law, the Partnership Law of the People’s Republic of China (《中華人民共和國合夥企業法》) and other laws. In conducting production and distribution activities, foreign-funded enterprises shall comply with the provisions of laws and administrative regulations pertaining to labor protection and social insurance, conduct taxation, accounting, foreign exchange, and other affairs according to laws, administrative regulations, and the relevant provisions issued by the state, and accept the supervisory inspection legally conducted by the appropriate departments.

Pursuant to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which was promulgated by the NDRC and the MOFCOM jointly on December 27, 2021 and became effective on January 1, 2022 (the “Negative List”), foreign investors shall not invest in any of the prohibited fields specified in the Negative List, and they must obtain permit for investment in other fields set out in the Negative List that are not prohibited. The establishment of foreign-invested partnerships is prohibited if they intend to invest in the fields subject to limitation of foreign investment proportion.

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REGULATIONS IN RELATION TO PRODUCTION AND DISTRIBUTION OF TELEVISION PROGRAMS

Radio and Television Program Production and Operation Permit

Pursuant to the Regulations on Radio and Television Administration (Revised in 2020) (《廣播電視管理條例》(2020年修訂)) promulgated by the State Council on August 11, 1997 and last revised on November 29, 2020, radio and television programs shall be made by radio stations, TV stations, radio and television programs production and distribution institutions whose establishment has been approved by the radio and television administrative departments at or above the provincial level governments. Radio station or TV station shall not broadcast programs produced by institutions without the licenses for radio and television program production and distribution.

Pursuant to the Administrative Provisions on the Production and Distribution of Radio and Television Programs (《廣播電視節目製作經營管理規定》), which was promulgated by SARFT on July 19, 2004 and came into effect on August 20, 2004, and was last revised on October 29, 2020, the NRTA is responsible for formulating the development plan, layout and structure of the national radio and television programs production industry, managing, guiding and supervising the production and operation activities of national radio and television programs. The radio and television administrative departments under the local governments at or above the county level shall be responsible for managing the production and operation activities of radio and television programs within their respective administrative regions. Establishment of a radio and television programs production institution or entity that produces and operates radio and television programs must first obtain a Radio and Television Program Production and Operation Permit (the “Permit”) (《廣播電視節目製作經營許可證》), which is subject to the licensing system applied by the PRC Government. Central organizations in Beijing and the agencies directly subordinate thereto shall directly file the application with the NRTA while the other organization shall file an application to the relevant radio and television administrative department at the domicile of the organization. The application shall be verified and approved level by level and finally be submitted to the provincial radio and television administrative department for examination and approval. The approving authority will decide whether to grant the approval or not within 20 working days of its receipt of the complete set of documents. In the case of approval which is accorded with the Administrative Provisions on the Production and Operation of Radio and Television Programs, the NRTA will issue the Permit; in the case of disapproval, it will state the reasons. The decision of granting the approval or not shall be record-filed with the NRTA by provincial radio and television administrative department within a week after the decisions are made. The Permit uniformly printed by the NRTA has an effective term of two years.

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Content review and regulation

The Notice on Further Strengthening the Management of Radio and Television Programs Production and Operation Organizations (《關於進一步加強廣播電視節目製作經營機構管理的通知》), promulgated by SARFT on March 15, 2005, requires the provincial radio and television administrative departments to establish a review mechanism for the content of programs produced and distributed by production institutions. The Notice on Further Standardizing the Management of Selective Radio and Television Activities and Programs Participated by the Masses (《關於進一步規範群眾參與的選拔類廣播電視活動和節目的管理通知》), promulgated by SARFT on September 20, 2007, gives a detailed description of the approval of selective radio and television activities with the participation of the masses. The Notice on Strengthening the Management of Reality TV Programs (《關於加強真人秀節目管理的通知》), promulgated by SARFT on July 14, 2015, requires the provincial radio and television administrative departments to guide radio and television broadcasting institutions to improve reality TV programs, and strictly control the submission of reality TV programs. The Notice on Further Strengthening the Creation and Broadcasting Management of Online Audio Visual Programs (《關於進一步加強網路視聽節目創作播出管理的通知》), promulgated by SARFT on May 16, 2017, indicates that radio and television programs with incorrect guidance and values shall not be broadcast on the Internet, IPTV or Internet TV. The General Rules for Content Auditing of Online Audio Visual Programs (《網絡視聽節目內容審核通則》), promulgated by China Online Audio Visual Program Service Association on June 30, 2017, indicates that radio and television broadcasting institutions should establish the content pre broadcast audit system, audit opinion retention system and working procedures, and online audio visual programs must be verified by the auditors before broadcasting. The Regulations on the Administration of Minor Programs (《未成年人節目管理規定》), promulgated by NRTA on March 29, 2019, came into effect on April 30, 2019 and last revised on October 8, 2021, indicates that the system of Juvenile Protection Commissioner should be established, and personnel with working experience or educational background in the protection of minors should be arranged to be responsible for the pre broadcast review of juvenile programs and advertisements, and suggestions should be made to adjust the broadcast time or postpone the broadcast of programs and advertisements that are not suitable for minors, and the proposal to postpone broadcasting shall be implemented after experts’ argumentation organized by relevant program examination departments.

On February 6, 2020, the NRTA issued the Notice on Further Strengthening the Administration of the Creation and Production of TV Series and Web Series (《國家廣播電視總局關於進一步加強電視劇網絡劇創作生產管理有關工作的通知》), requires, among other things, that during the record-filing period, the production institution shall be committed to the competent radio and television administrative department that the script creation has been basically completed; the written consent of the competent government departments shall be obtained before applying for filming, production and filing for announcement for the content involving political, military, diplomatic, national security, the united front, ethnic, religious, judicial, public security, anti-corruption and other sensitive content. The TV and web series are recommended to be limited to 40 episodes, and the creation of short series within 30 episodes is encouraged.

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On August 25, 2021, the Office of the Central Cyberspace Affairs Commission issued the Notice on Further Strengthening the Regulation on Chaos in the “Fan Circle” (《關於進一步加強“飯圈”亂象治理的通知》). This notice requires the local offices of the Central Cyberspace Affairs Commission to enhance the supervision on “fan circle” culture with specific measures, including, among others, strengthening the regulation on content and format of web variety programs, such as (i) prohibiting any mechanisms in variety programs which allow audience to purchase votes for contestants or encourage audience to spend money in shopping merchandise or subscribing membership to obtain votes for contestants, (ii) prohibiting minors to spend money on voting for contestants or acting as the operator of fan circles, (iii) prohibiting fan circle activities that would disrupt the normal schedules of minors, (iv) prohibiting the use of rankings involving celebrities or celebrity groups, and (v) prohibiting the presentation of insults, slanders, rumors and other types of harmful information.

In September, 2021, the Publicity Department of the Communist Party of China issued the Notice on Carrying Out Comprehensive Management on Culture and Entertainment (《關於開展文娛領域綜合治理工作的通知》) (the “Notice”). The Notice requires relevant government agencies to strengthen the supervision on the cultural and entertainment industry, including, among others, imposing strict supervision on the contents of variety programs, prohibiting the participation of minors in competitive talent shows. The relevant authorities haven’t released any normative documents in respect of the Notice so far. As a result, how the notice will be implemented is subject to uncertainty.

On September 2, 2021, the National Radio and Television Administration issued the Circular on Further Strengthening the Management of Cultural and Entertainment Programs and Industry Participants (《關於進一步加強文藝節目及其人員管理的通知》). Under this circular, broadcast and television institutions and internet video platforms may not broadcast variety programs and reality shows that feature the children of celebrities or idol development programs. Due to the impact of the circular, there has been no variety programs and reality shows that feature the children of celebrities or idol development programs been produced or broadcast since the issuance of the circular. Competitive talent shows are required to strictly control the voting mechanisms and may not use arrangements prompting fan’s off-site voting, ranking list and fans support activities. It is strictly prohibited to encourage fans to spend money in shopping merchandise, subscribing membership or other ways of spending to indirectly vote for contestants. The circular also requires that programs produced by television institutions and online audio-visual platforms may not have appearance of persons who have incorrect political views, who act against the core values upheld by the state, or who committed an illegal act or breached the principles of fairness and justice. In addition, it requires that “yin-yang contracts” must not be used and the regulations on maximum wages for actors and actresses shall be strictly implemented. To the best knowledge and belief of our Directors, after the release of the circular and up to the Latest Practicable Date, we did not engage any artists who were deemed as immoral personnel or involved in illegal activities before and/or during the production of our variety programs, and we had not been subject to any review, enquiry or investigation by any PRC regulatory authorities in relation to such requirement.

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On September 18, 2021, the State Taxation Administration issued a notice on strengthening the taxation management of employees in the entertainment field. It requires, among others, (i) further strengthening of the daily tax management of employees in the culture and entertainment industry, (ii) guiding the individual studios and enterprises set up by artists and online streamers to establish accounts and systems in accordance with laws and regulations, and making tax declaration through checking accounts and (iii) strengthening tax management of artists, online streamers agency companies and agents, as well as other relevant producers, urging them to fulfill the individual income tax withholding obligations, providing relevant information and cooperating with tax authorities to implement relevant regulation.

On February 8, 2022, the NRTA issued the Notice of the NRTA on Printing and Distributing the 14th Five-year Plan for the Development of Chinese TV Series (《關於印發<“十四五”中國電視劇發展規劃>的通知》), which reiterates the requirement in the Opinions on the Allocation of Production Costs of TV Series and Web Series (《關於電視劇網路劇製作成本配置比例的意見》). It also emphasizes the prohibition of tax evasion, “yin-yang contracts”, “sky-high remuneration” and other illegal and unlawful acts, and the appearance of persons who committed an illegal and/or immoral act.

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any “yin-yang contracts”, nor had we received any rectification requirements or been punished under the Tax Notices and all other relevant regulations and laws. Our Directors are of the view that the above notices did not and will not have any material adverse impact on our operation and financial performance.

Artists Management

On May 20, 2022, the NRTA issued the Administrative Measures for Performance Agencies in the Field of Radio, Television and Online Audiovisual Platforms (《廣播電視和網絡視聽領域經紀機構管理辦法》), pursuant to which artist brokerage agencies: (i) shall confirm the identity of its artists; (ii) shall obtain the prior consent of the statutory guardians when providing artist brokerage services to minors, and shall not organize minors to perform in activities that would harm their physical or mental well-being; (iii) shall not arrange its artists to perform in illegal, disruptive or immoral entertainment content; (iv) shall have enough staff that matches business needs and the ratio of the number of brokers to the number of their artists shall be in principle not less than 1/100; (v) shall not authorize minors to serve as the owner or operator of the accounts of an artist’s official fan club; (vi) shall not publish, or hire others to publish, information that could incite fans to attack each other; and (vii) shall not provide brokerage services to its managed artists to perform in advertisements with illegal content.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge and belief of our Directors, we were in compliance with the above requirements and had not been the subject of any review, inquiry, investigation or punishment by any PRC regulatory authority pursuant to the above notice, and our Directors believe that this notice has not and will not materially affect our Group’s operation and financial performance.

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REGULATIONS IN RELATION TO VALUE-ADDED TELECOMMUNICATIONS SERVICES

Licenses for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “Telecommunications Regulations”), promulgated by the State Council on September 25, 2000 and last amended with immediate effect on February 6, 2016, provide the regulatory framework for telecommunications service providers in the PRC. The Telecommunications Regulations classifies telecommunications services into basic telecommunications services and value-added telecommunications services. Providers of value-added telecommunications services are required to obtain a license for value-added telecommunications services. According to the Catalog of Telecommunications Services (《電信業務分類目錄》), attached to the Telecommunications Regulations and last amended by the MIIT on June 6, 2019, information services provided via public communication network or the Internet are value-added telecommunications services. As a subcategory of the value-added telecommunications services, Internet information services are regulated by the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which was promulgated by the State Council on September 25, 2000 and last amended with immediate effect on January 8, 2011. Internet information services are defined as “services that provide information to online users through the Internet.” The Internet Measures classifies Internet information services into non-commercial Internet information services and commercial Internet information services. Commercial Internet information service providers shall obtain an ICP License from appropriate telecommunications authorities. An ICP License has a term of five years and can be renewed 90 days prior to its expiration, according to the Administrative Measures for Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on March 1, 2009, amended on July 3, 2017 and came into effect on September 1, 2017.

Restrictions on Foreign Investment in Value-Added Telecommunications Services

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), promulgated by the State Council on December 11, 2001 and last amended with effect on May 1, 2022, requires foreign-invested value-added telecommunications enterprises in China to be established in accordance with the law in the People’s Republic of China, and foreign investors shall not acquire more than 50% of the equity interest of such an enterprise. Moreover, the enterprises must obtain approvals from the MIIT, or its authorized local counterparts, before launching the value-added telecommunications business in China. However, pursuant to the Foreign Investment Law and Regulation for Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (hereinafter referred to as the “Foreign Investment Law and regulation”), A foreign investor or foreign-funded enterprise shall submit investment information to the commerce department through the enterprise registration system and the enterprise credit

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information publicity system. For discrepancies between any provisions on foreign investment developed before January 1, 2020 and the Foreign Investment Law and Regulation, the provisions of the Foreign Investment Law and Regulation shall prevail.

According to the Negative List, the proportion of foreign investments in an entity engages in value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding and call centers) shall not exceed 50%.

Pursuant to the Ministry of Information Industry Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), which was issued by the Ministry of Information Industry (the predecessor of the MIIT) on July 13, 2006, domestic value-added telecommunications enterprises were prohibited to rent, transfer or sell licenses for value-added telecommunications services to foreign investors in any form, or provide any resources, premises, facilities or other assistance in any form to foreign investors for their illegal operation of any value-added telecommunications business in China.

REGULATIONS IN RELATION TO DATA PRIVACY AND PROTECTION REGULATION

On December 28, 2021, the Cyberspace Administration of China (the “CAC”) jointly issued the Cybersecurity Review Measures with other government authorities, which became effective on February 15, 2022 (“Review Measures”). The Review Measures provide that a critical information infrastructure operator purchasing network products and services, and network platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. It also provides that a network platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. However, the Review Measures do not provide the standard of “affect or may affect national security.”

On November 14, 2021, the CAC issued the “Regulations on the Administration of Cyber Data Security (Draft for Comments)” (“Draft Regulations”) for public comment, which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. The Draft Regulations stipulate that a data processor who processes more than one million users’ personal information aiming to list abroad or a data processor who seeks to complete a listing in Hong Kong which affects or may affect national security is required to apply for cybersecurity review pursuant to relevant rules and regulations. However, the Draft Regulations do not provide the standard to determine the circumstances that would be determined to “affect or may affect national security.” As of the Latest Practicable Date, the Draft Regulations have not yet been formally promulgated and therefore not become effective.

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REGULATIONS IN RELATION TO INTERNET CULTURAL ACTIVITIES

According to the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “Internet Culture Provisions”), promulgated by the MOC on February 17, 2011 and last amended with immediate effect on December 15, 2017, provides that Internet culture activities are classified into non-commercial Internet cultural activities and commercial Internet cultural activities. Under the Internet Culture Provisions, Internet culture activities include: (i) the production, reproduction, importation, distribution or streaming of Internet culture products (such as online music, online game, online program, online series, online performance, online cartoon, etc.); (ii) the dissemination of culture products via Internet; and (iii) the exhibitions, competitions and other similar activities concerning Internet culture products. To conduct commercial Internet culture activities, ICB License is a prerequisite.

Internet cultural business (except for music) remains a prohibited area for foreign investment on the Negative List.

REGULATIONS IN RELATION TO INTERNET AUDIO-VISUAL PROGRAM SERVICES

On April 13, 2005, the State Council promulgated Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》). On July 6, 2005, five PRC regulatory agencies, namely, the MOC, SARFT, the GAPP, the NDRC and the MOFCOM, jointly adopted Opinions on Introducing Foreign Investments to the Cultural Sector (《關於文化領域引進外資的若干意見》). According to the above-mentioned regulations, non-state-owned capital and foreign investors are generally not allowed to conduct the business of transmitting audio-visual programs via information network.

According to the Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) (the “Audio-Visual Regulations”), promulgated by the SARFT and the Ministry of Information Industry on December 20, 2007, as amended on August 28, 2015, Internet audio-visual program service refers to activities of making, editing and integrating audio-visual programs, providing them to the general public via Internet, and providing such services to other people by uploading. An Internet audio-visual program service provider shall obtain an Audio-Visual Permit issued by the SARFT or complete certain registration procedures with the SARFT. Pursuant to the Audio-Visual Regulations, providers of Internet audio-visual program services are generally required to be either state-owned or state-controlled.

On 30 March 2009, the SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs (《關於加強互聯網視聽節目內容管理的通知》), which reiterates the pre-approval requirements for the Internet audio-visual programs, including those on mobile network (if applicable), and prohibits Internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other prohibited elements.

REGULATIONS

REGULATIONS IN RELATION TO THE MERGE AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Pursuant to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2009 Revision) (《關於外國投資者併購境內企業的規定》(2009修訂)) which was promulgated by the MOFCOM on August 8, 2006 and became effective on September 8, 2006, and was last amended on June 22, 2009 (the “M&A Rules”), Foreign Investors must comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company and thus changing the nature of the domestic company into a foreign invested enterprise; or when the foreign investors establish a foreign invested enterprise in China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign invested enterprise by injecting such assets and operate the assets. The M&A Rules requires that if an overseas company established or controlled by PRC companies or individuals intends to acquire equity interests or assets of any other PRC domestic company affiliated with such PRC companies or individuals, such acquisition must be submitted to MOFCOM for approval. The M&A Rules also requires companies with special purpose of overseas listing through acquisitions of PRC domestic companies, which are controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the China Securities Regulatory Commission (the “CSRC,” 中國證券監督管理委員會) prior to publicly listing and trading of such securities on an overseas stock exchange.

REGULATIONS IN RELATION TO FOREIGN EXCHANGE

According to the Regulations on Foreign Exchange Administration of the PRC (Revised in 2008) (《中華人民共和國外匯管理條例》(2008年修訂)) which was promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and was last revised on August 5, 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》), which was promulgated by the People’s Bank of China (中國人民銀行) on June 20, 1996 and became effective on July 1, 1996, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipt and payments, payment of interests and dividends. Current account foreign exchange income may, in accordance with relevant provisions of the PRC, be retained or sold to any financial institution engaged in foreign exchange settlement and sales business. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from the SAFE or its local branches. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local branches.

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Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “SAFE Circular 59”) which was promulgated by the SAFE on November 19, 2012, and became effective on December 17, 2012 and was last revised on December 30, 2019, the approval is not required for the opening of an account entry in foreign exchange accounts under direct investment or for domestic transfer of the foreign exchange under direct investment. SAFE Circular 59 also simplifies the capital verification and confirmation formalities for foreign invested enterprises, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equity interests and foreign exchange registration formalities required for the foreign investors to acquire the equity interests of Chinese party, and further improves the administration on exchange settlement of foreign exchange capital of foreign invested enterprises.

On February 13, 2015, the SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular 13”), effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, the SAFE Circular 13 simplifies the procedure of registration of foreign exchange and investors must register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

The Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “SAFE Circular 19”), which was promulgated by the SAFE on March 30, 2015, came into effect as of June 1, 2015 and was last revised on December 30, 2019, adopts the approach of discretionary foreign exchange settlement. The discretionary settlement of the foreign exchange capital of foreign-invested enterprises refers to that the settlement of foreign exchange capital in the capital accounts of foreign-funded enterprises that have been subject to the confirmation of cash capital contribution at foreign exchange authorities (or the entry registration of cash contribution at banks) may be handled at banks based on the enterprises’ actual requirements for business operation. The proportion of discretionary settlement of foreign exchange capital of foreign-funded enterprises is temporarily determined as 100%. The SAFE may, based on the international balance of payments, adjust the aforesaid proportion at appropriate times.

The Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “SAFE Circular 16”) was promulgated and became effective on June 9, 2016 by the SAFE. According to the SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts, funds recovered from overseas listing, etc.) on self-discretionary basis, which applies to all enterprises registered in China.

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The SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within China unless otherwise specifically provided. In addition, the converted Renminbi may not be used to make loans for non-affiliated enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

The Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and the Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), which was promulgated by the SAFE on July 4, 2014 and became effective on the same date, provides that registration management for domestic resident’s establishment of special purpose vehicle shall be carried out by the SAFE and its branches. In addition to the SAFE Circular 13, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply to the foreign exchange office or its authorized banks for going through the procedures for foreign exchange registration of overseas investments. A domestic resident contributing domestic lawful assets or interests shall apply to the foreign exchange office or its authorized banks of registration place, or the foreign exchange office or its authorized banks of location of the domestic enterprise’s assets or interests for going through the procedures for registration; a domestic resident contributing overseas lawful assets or interests shall apply to the foreign exchange office or banks of registration place, or the foreign exchange office or banks of the location of household registration for going through the procedures for registration.

On December 25, 2006, the People’s Bank of China promulgated the Administrative Measures for Individual Foreign Exchange (《個人外匯管理辦法》), which became effective on February 1, 2007. On February 15, 2012, the SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Overseas (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (“the SAFE Circular 7”) which became effective on the date of issuance. PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, or the PRC agents or the overseas entrusted institution or other material

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changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share awards, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share awards. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches.

REGULATIONS IN RELATION TO OFFSHORE INVESTMENT

Pursuant to SAFE Circular 37, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle (the “SPV”), apply to the foreign exchange office for foreign exchange registration of overseas investments. In addition, in the event of any change of basic information of the overseas SPV such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the modification of foreign exchange registration procedures for offshore investment. After the completion of the overseas financing, the SPV shall comply with the related provisions on Chinese foreign investment and foreign debt administration if the capital financed is repatriated for use within the territory of China. Failure to comply with the registration procedures as set out in SAFE Circular 37 may result in penalties. SAFE Circular 13 has further revised SAFE Circular 37 by requiring domestic residents to register with qualified banks rather than the SAFE or its local counterparts in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY

Copyright

According to Copyright Law of the PRC (Revised in 2020) (《中華人民共和國著作權法(2020年修正)》) (the “Copyright Law”) which was promulgated by SCNPC on September 7, 1990 and came into effect on June 1, 1991 and was last revised on November 11, 2020, works of Chinese citizens, legal persons or other organizations, whether published or not, enjoy copyright protection under Copyright Law. Works of non-Chinese nationals or stateless persons which were first published in the territory of China enjoy copyright protection under Copyright Law. The term “copyright” shall include the following personal rights and property rights: 1) the right of publication; 2) the right of authorship; 3) the right of modification; 4) the right of integrity; 5) the right of reproduction; 6) the right of distribution; 7) the right of rent; 8) the right of exhibition; 9) the right of performance; 10) the right of projection; 11) the right of broadcasting; 12) the right of communication of information via network; 13) the right of cinematization; 14) the right of adaptation; 15) the right of translation; 16) the right of compilation; and 17) the other rights to which a copyright owner is entitled. The right

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stipulated above in item 1) of the copyright in respect of an audio visual work shall be protected for a period of 50 years, ending on December 31 of the 50th year after the creation of the work. The right stipulated above in items 5) to 17) of the copyright in respect of an audio visual work shall be protected for a period of 50 years, ending on December 31st of the 50th year after the date on which the work is first published, but if such work is not published within 50 years after its completion, it shall no longer be protected under Copyright Law. An author's rights of authorship, revision and integrity shall continue in perpetuity.

The copyright of cinematographic works and TV play works in audio visual works shall be enjoyed by producers, but screenwriters, directors, photographers, lyricists, composers, and other authors shall enjoy the right of signature and have the right to obtain remunerations as agreed upon in the contracts signed with producers. The ownership of the copyright of an audio visual work other than those specified in the preceding paragraph shall be agreed upon by the parties; and where there is no agreement or the agreement is unclear, the copyright shall be enjoyed by the producer, but the author shall have the right of signature and receive remunerations. The authors of script, music, and other works that may be used separately shall have the right to separately exercise their right of copyright.

Unless otherwise specified, the copyright owner of a work is the author who created the work. The copyright in a work resulting from an adaptation, translation, annotation, or arrangement of an existing work shall be enjoyed by the person who adapted, translated, annotated, or arranged the work, provided that the exercise of the copyright does not infringe upon the copyright of the original work.

The copyright owner may license or assign all or part of the rights in items (5) to (17) above and receive remuneration in accordance with the agreement or the copyright law.

The producer has the right to grant others the right to reproduce, publish, rent, and disseminate the audio and video recordings to the public through the information network, and to receive remuneration for them. The protection of these rights shall be for a period of 50 years and shall expire on December 31, the 50th year after the completion of the first production of the audio and video recordings.

Performers have the following rights with respect to their performances: (1) to be recognized as a performer; (2) to protect the inherent image of the performance from distortion; (3) to grant permission to others to broadcast live and publicly communicate the performance for remuneration; (4) to grant permission to others to make audio and video recordings for remuneration; (5) to grant permission to others to reproduce, distribute, or rent audio and video recordings of performances for remuneration; and (6) to grant permission to others to communicate performances to the public through information networks for remuneration. The duration of protection of the rights set forth in (1) and (2) above is not provided for, and the duration of protection for the rights set forth in (3) through (6) above shall be 50 years and shall expire on December 31 of the 50th year following the date of the performance.

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Pursuant to Implementation Regulations of the Copyright Law of the PRC (Revised in 2013) (《中華人民共和國著作權法實施條例(2013年修訂)》) which was promulgated by State Council on August 2, 2002 and came into effect on September 15, 2002, and was revised on January 30, 2013, copyright shall be generated on the date when the creation of a work is completed. Where a joint work cannot be used separately, the copyright shall be jointly enjoyed by, and exercised through consultation between or among, the co-authors. Where they fail to reach an agreement and have no justified reasons for the failure, no party may hinder any of the other parties from exercising all the rights, except the right of assignment. However, the income generated from the joint work shall be fairly distributed between or among the co-authors.

Trademarks

Both Trademark Law of the PRC (Revised in 2019) (《中華人民共和國商標法(2019年修訂)》), which was promulgated by the SCNPC on August 23, 1982 and was last revised on April 23, 2019, and the Implementation Regulations of Trademark Law (Revised in 2014) of the PRC (《中華人民共和國商標法實施條例(2014年修訂)》) which was promulgated by the State Council on August 3, 2002, and was revised on April 29, 2014 and became effective on May 1, 2014 provide protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certificate trademarks.

A registered trademark is valid for ten years and is renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record.

Patent

Patents are protected by the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated by the SCNPC on March 12, 1984 and was last revised on October 17, 2020, and became effective on June 1, 2021. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, "invention," "utility model" and "design." Invention patents are valid for twenty years, utility model patents are valid for ten years, while design patents are valid for fifteen years, from the date of application. The Chinese patent system adopts a "first come, first file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

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Domain Name

The MIIT promulgated the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) (the “Domain Name Measures”) on August 24, 2017, which became effective on November 1, 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first apply, first register” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure.

Trade Secrets

The PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》) which was promulgated by the SCNPC on September 2, 1993, and last amended and became effective on April 23, 2019, set up regulations to protect Trade Secrets. Business Operators shall not engage in any infringements of trade secrets, such as obtaining an obligee’s trade secrets by theft, bribery, fraud, intimidation, electronic intrusion or other improper means; disclosing, using, or allowing others to use an obligee’s trade secrets obtained by the means mentioned in the preceding paragraph; disclosing, using or allowing others to use an obligee’s trade secrets in violation of confidentiality obligations or the obligee’s requirements on keeping such trade secrets confidential; or obtaining, disclosing, using or allowing any other party to use an obligee’s trade secrets by instigating, tempting or helping any other party to violate the confidentiality obligations or the obligee’s requirements on keeping such trade secrets confidential. Where a Business Operator infringes any trade secret, the supervision and inspection authority shall order it to cease the illegal act, confiscate the illegal gains and impose on it a fine of between RMB100,000 and RMB1 million; where the circumstance is serious, the fine shall be between RMB500,000 and RMB5 million.

TAXATION LAWS

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was promulgated by the NPC on March 16, 2007 and came into effect on January 1, 2008, and was last revised by SCNPC on December 29, 2018, and the Implementation Regulations of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “Implementation Rules”) which were promulgated by the State Council on December 6, 2007 and came into effect as of January 1, 2008 and was last revised on April 23, 2019, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within China. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign

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countries and whose actual administration is conducted outside China, but have established institutions or premises in China, or have no such established institutions or premises but have income generated from inside China. Under the EIT Laws and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable.

However, if non-resident enterprises have not formed permanent establishments or premises in China, or if they have formed permanent establishment institutions or premises in China but there is no actual relationship between the relevant income derived in China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside China. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “Double Tax Avoidance Arrangement”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from competent tax authority.

However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “Notice No. 81”) issued by the SAT on February 20, 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

Value-added Tax

Pursuant to the Interim Regulations of the PRC on Value-added Tax (Revised in 2017) (《中華人民共和國增值稅暫行條例》) (the “VAT Regulations”) which was promulgated by the State Council on December 13, 1993 and was last revised on November 19, 2017, all entities and individuals engaging in the sale of goods, provision of processing, repair and fitting services, and importation of goods within the territory of the PRC are taxpayers of VAT, and shall pay VAT in accordance with the VAT Regulations. According to the VAT Regulations, a VAT tax rate at 6%, 11% or 17% applies to the PRC enterprises unless otherwise exempted or reduced according to the VAT Regulations and other relevant regulations.

According to the Notice of the MOF and the SAT on Adjusting the Value-added Tax Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), which was promulgated on April 4, 2018 and became effective on May 1, 2018, where a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to 16% and 10% respectively.

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According to the Announcement of the Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》), which was promulgated on March 20, 2019 and became effective on April 1, 2019, the VAT rate was further adjusted as follows: (1) VAT rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%. (2) The deduction rate of 10% applicable to any taxpayer's purchase of agricultural products shall be adjusted to 9%.

Where a taxpayer purchases agricultural products used for the production or consigned processing of goods to which the tax rate of 13% applies, the amount of import tax shall be calculated at the deduction rate of 10%. (3) As for exported goods and labor services to which the tax rate of 16% applies and whose export tax refund rate is 16%, the export tax refund rate shall be adjusted to 13%. As for exported goods and cross-border taxable acts to which the tax rate of 10% applies and whose export tax refund rate is 10%, the export tax refund rate shall be adjusted to 9%.

REGULATIONS IN RELATION TO EMPLOYMENT AND SOCIAL WELFARE

The Labor Law and the Labor Contract Law

According to the Labor Law of the PRC (Revised in 2018) (《中華人民共和國勞動法(2018年修訂)》) which was promulgated by the SCNPC on July 5, 1994 and came into effect on January 1, 1995, and was last revised on December 29, 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in China. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

The principal regulations governing the employment contract is the PRC Labor Contracts Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007 and was revised on December 28, 2012. Pursuant to the PRC Labor Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

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Social Insurance and Housing Fund Regulations

As required under the Social Insurance Law of the People's Republic of China (2018 Amendment) (《中華人民共和國社會保險法》(2018修正)) (the "Social Insurance Law") adopted by the SCNPC and promulgated on October 28, 2010, implemented on July 1, 2011 and amended and became effective on December 29, 2018, the Regulation of Insurance for Labor Injury (2010 Revision) (《工傷保險條例》(2010修訂)) promulgated by the State Council on April 27, 2003 and implemented on January 1, 2004, and amended on December 20, 2010, and became effective on January 1, 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) promulgated by the Ministry of Labor on December 14, 1994 and became effective on January 1, 1995, the Decision of the State Council on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued and became effective on July 16, 1997, the Decision of the State Council on the Establishment of the Medical Insurance Program for Urban Workers (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated and became effective on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated by the State Council and became effective on January 22, 1999, enterprises are obliged to provide their employees in China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Employers in the PRC must register with the relevant social insurance authority and make contributions to the pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. Pursuant to the Social Insurance Law, pension insurance, basic medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work-related injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Employers who fail to register with the social insurance authority may be ordered to rectify the failure within a specific time period. If the employer fails to rectify the failure to register within the specified time period, a fine or one to three times the actual premium may be imposed. If the employer fails to make social insurance contributions on time and in full, the social insurance collecting agency shall order the employer to make up the shortfall within the prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day it is overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times the unpaid amount owed to the relevant administrative agency. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (2019 Revision) (《住房公積金管理條例》(2019修訂)) which was promulgated by the State Council on April 3, 1999, and lastly amended and became effective on March 24, 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely

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manner. If an enterprise does not go through the registration of housing fund payment or does not complete the procedures for the establishment of an account, the housing fund management center shall order it to make corrections within a time limit; If the corrections are not processed within the time limit, a fine of RMB10,000 to RMB50,000 shall be imposed. If the enterprise fails to pay or underpays the housing fund within the time limit, the housing fund management center shall order it to make a deposit within a time limit; if it fails to pay the deposit within the time limit, the people’s court may be applied for enforcement.

REGULATIONS ON LEASE

Pursuant to the Law of the People’s Republic of China on the Administration of the Urban Real Estate (《中華人民共和國城市房地產管理法》), promulgated by the SCNPC on July 5, 1994 and last amended on August 26, 2019 and effective on January 1, 2020, in the lease of a house, the leaser and the lessee shall conclude a written lease contract defining such matters as the term, purpose and price of the lease, liability for repair, as well as other rights and obligations of both parties, and shall register the lease contract with the department of housing administration for the record. Pursuant to the Administrative Measures on Commodity Housing Leasing (《商品房屋租賃管理辦法》), issued by Ministry of Housing and Urban-Rural Development on December 1, 2010 and became effective on February 1, 2011, without the mentioned registration above, the leaser and the lessee may be imposed a fine by the development(real estate) department.

In accordance with the Civil Code of PRC (《中華人民共和國民法典》), which was promulgated on May 28, 2020 and effective on January 1, 2021, the lessee may, with consent of the lessor, sub-let the leased item to a third party. The leasing contract between the lessee and the lessor shall continue to be valid if the lessee sub-lets the leased item. In the event that the lessee sub-lets the leased item without consent of the lessor, the lessor may terminate the lease contract. In addition, any change of ownership to the lease item does not affect the validity of the lease contract.

REGULATIONS IN RELATION TO OVERSEAS LISTING

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)), and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行上市備案管理辦法(徵求意見稿)) (the “Draft Overseas Listing Filing Measures”, collectively, the “Draft Regulations on Listing”). As of the Latest Practicable Date, the Draft Regulations on Listing were in draft form and had not come into effect. The Draft Regulations on Listing, if adopted in its current form, will require that, among other things, domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information with the CSRC. It provides that if the issuer meets the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (i) any of the operating revenue, total profit, total assets or net assets of the domestic companies accounted for more than 50% of the respective audited operating

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revenue, total profit, total assets or net assets of the issuer within the latest fiscal year; (ii) a majority of the officers responsible for management of the issuer are PRC citizens or have their usual place of residence located in mainland China, and the issuer’s main place of operation is within mainland China.

REGULATIONS IN RELATION TO RESTRICTION OF WAGES

On September 22, 2017, four industry associations including the China Federation of Radio, Film and Television Associations, the China Netcasting Services Association and the China Television Drama Production Industry Association jointly issued the Opinions on the Allocation of Production Costs of TV Series and Web Series (《關於電視劇網絡劇製作成本配置比例的意見》) (the “Opinions”). Pursuant to the Opinions, the TV series production institutions shall limit the payment for the artists to a reasonable allocation of overall production costs. The total actor’s remuneration of a TV series shall not exceed 40% of the total production costs, and the principal actor’s remuneration shall not exceed 70% of the total actor’s remuneration. If the total actor’s remuneration of a TV series exceeds 40% of the total production costs, the production institution shall file an explanation with the relevant associations. The payment involved in the contract signed with the actor’s personal studios or other entities controlled by it should also be taken into account for the purpose of compliance with the notice.

On October 31, 2018, the NRTA issued the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》). For the purpose of ensuring the sound and orderly development of radio, television and online audio visual entertainment programs, the NRTA requires that, among other things, the variety shows broadcast on all satellite television channels from 19:30-22:30 shall file the information such as guest name, remuneration, and cost structure with the NRTA in advance. The total remuneration for all guests of a program shall not exceed 40% of the total cost of the program, and the principal guest remuneration shall not exceed 70% of the total guest remuneration. The network variety shows of key online audiovisual program service institutions shall also comply with such rules. The total actor’s remuneration of TV series and web series(including web movies) shall not exceed 40% of the total production costs, and the principal actor’s remuneration shall not exceed 70% of the total actor’s remuneration. If the aforesaid allocation is violated with no justification or concealment is conducted, the NRTA shall, according to the circumstances, adopt punitive measures according to the regulation such as suspension and cancellation of broadcast of the series or production qualifications of production entities. TV series and web series of which the artists’ remuneration exceeds the required cap shall not participate in any election or awards organized by governmental authorities or other social forces, nor be entitled to government funding or subsidies. Furthermore, broadcasting institutions are strictly prohibited from requesting an audience rating covenant from production institutions, and agreement with a valuation adjustment mechanism agreement is strictly prohibited. Institutions or individuals shall be strictly prohibited from disrupting or falsifying audience rating (click-through rate) data.

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On February 6, 2020, the NRTA issued the Notice on Further Strengthening the Administration of the Creation and Production of TV Series and Web Series (《國家廣播電視總局關於進一步加強電視劇網絡劇創作生產管理有關工作的通知》), requires that at the stage of examination of a TV series and web series after completion, the production institution shall submit the report on the final allocation proportion of production costs and the copy of artists’ remuneration contract to the competent radio and television administrative department for the record.

On February 8, 2022, the NRTA issued the Notice of the NRTA on Printing and Distributing the 14th Five-year Plan for the Development of Chinese TV Series (《關於印發<“十四五”中國電視劇發展規劃>的通知》), which reiterates the requirement in the Opinions on the Allocation of Production Costs of TV Series and Web Series (《關於電視劇網路劇製作成本配置比例的意見》).

REGULATIONS IN RELATION TO ANTI-MONOPOLY

On August 30, 2007, the SCNPC issued the PRC Anti-Monopoly Law (《中華人民共和國反壟斷法》) (the “AML”), which was amended on June 24, 2022, provides the regulatory framework for the PRC anti-monopoly. Under the AML, the prohibited monopolistic acts include monopolistic agreements, abuse of a dominant market position and concentration of business operators that may have the effect to eliminate or restrict competition. Pursuant to the AML, concentration of business operators refers to the following situations: (i) the merger of business operators; (ii) acquiring control over other business operators by virtue of acquiring their equities or assets; or (iii) acquiring control over other business operators or possibility of exercising decisive influence on other business operators by virtue of contact or any other means. Where a concentration reaches the threshold of declaration stipulated by the State Council, a declaration must be lodged in advance with the Anti-monopoly Authority under the State Council, or otherwise the concentration shall not be implemented. If business operators fail to comply with the mandatory declaration requirement and have or may have the effect to eliminate or restrict competition, the anti-monopoly authority is empowered to terminate and/or unwind the transaction, dispose of relevant assets, shares or businesses within certain periods and impose fines of up to ten percent of the previous year’s sales. For those do not have the effect to eliminate or restrict competition, the anti-monopoly authority is empowered to impose fines of up to RMB5,000,000.

On August 3, 2008, The State Council issued the Provisions of the State Council on the Standard for Declaration of Concentration of Business Operators (《國務院關於經營者集中申報標準的規定》), and latest amended on September 18, 2018, require that where a concentration reaches one of the following thresholds, a declaration must be lodged in advance with the anti-monopoly law enforcement agency under the State Council, or otherwise the concentration shall not be implemented: (i) during the previous fiscal year, the total global turnover of all business operators participating in the concentration exceeded RMB10 billion, and at least two of these business operators each had a turnover of more than RMB400 million within China; or(ii) during the previous fiscal year, the total turnover within China of all the business operators participating in the concentration exceeded RMB2 billion, and at least two of these business operators each had a turnover of more than RMB400 million within China.

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On December 1, 2020, the SAMR issued the Interim Provisions on Review of Concentration of Undertakings 2022 (《經營者集中審查暫行規定》) (the “2022 Interim Provisions”), revised with effect from 1 May 2022. The 2022 Interim Provisions is formulated in accordance with the AML and the Provisions of the State Council on the Standard for Declaration of Concentration of Business Operators.

On February 7, 2021, the Anti-monopoly Committee of the State Council issued the Anti-monopoly Guidelines on Platform Economy (《關於平台經濟領域的反壟斷指南》) (the “The Platform Guidelines”), provide that the AML and relevant regulations are applicable to internet platforms and businesses participating in platform economy, and define “platform” as an internet platform, which more specifically is a commercial organization which, with the support of information technology, enables interdependent entities to interact with each other to jointly create value under its rules and through its matching functions. The Platform Guidelines aim at specifying some of the circumstances under which an activity of internet platforms may be identified as monopolistic act. And the concentration of undertakings involving the contractual arrangements fall within the scope of the antitrust review of concentration of undertakings.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Our Ultimate Controlling Shareholders, namely Chinese Culture (CMC (Shanghai) and CMC (Tianjin)), Mr. Tian, Mr. Jin and Mr. Xu, through various intermediary entities including SH Zhihua, East Brothers, Goldenbroad, Beamingstars, Harvest Sky and Unionstars (together, the “**Controlling Group Entities**”) indirectly and jointly controlled the exercise of the voting rights of 61.68% of our total issued Shares directly held by Unionstars. In addition, Mr. Tian is interested in 20.80% of our total issued Shares directly held by Harvest Sky, which is wholly owned by Mr. Tian.

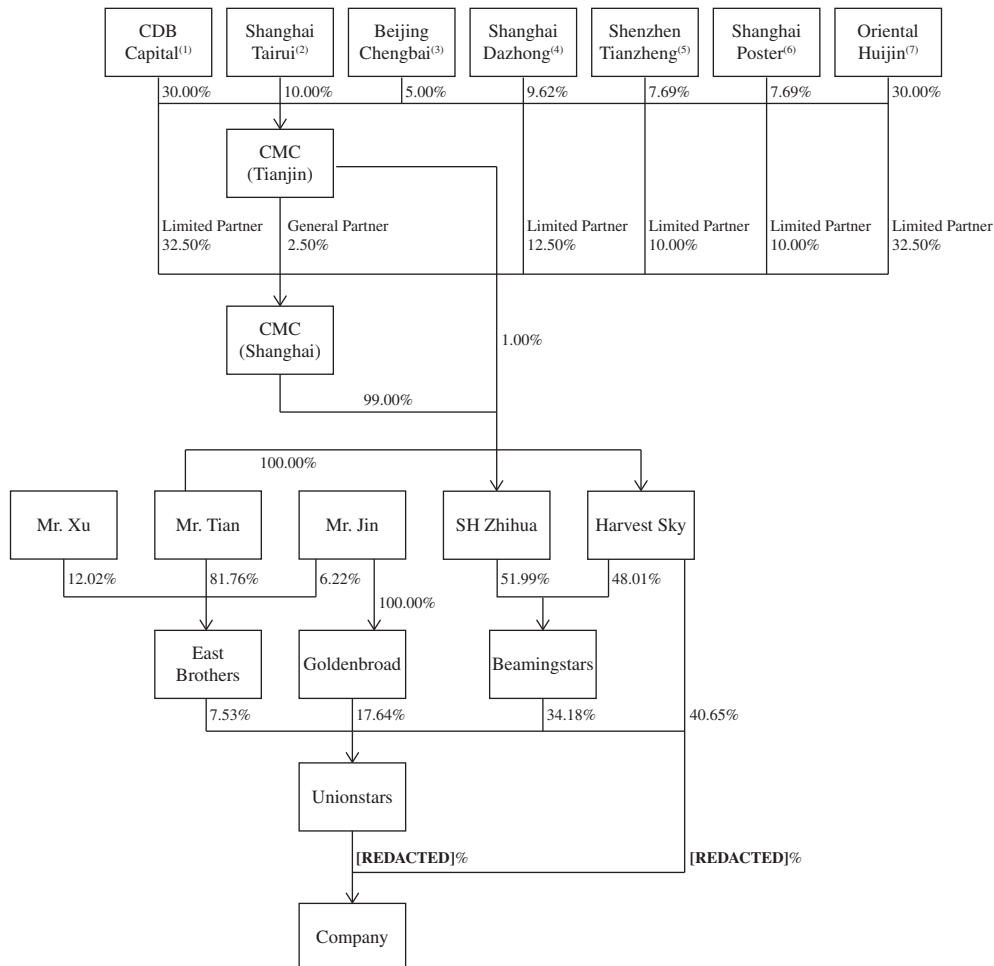
Pursuant to a joint control agreement dated August 3, 2021 (the “**Joint Control Agreement**”) entered into by and among our Ultimate Controlling Shareholders and the Controlling Group Entities (together, the “**JCA Parties**”), the JCA Parties confirmed that the Ultimate Controlling Shareholders had been acting in concert to jointly exercise control over the management and operation of our Group since January 1, 2016, and they have agreed to continue to act in concert to exercise joint control and reach consensus on any proposal related to the daily management and operation of our Group presented to the board meetings and general meetings of each Controlling Group Entity and the Company for voting.

Immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), our Ultimate Controlling Shareholders will be jointly interested in and control, through the Controlling Group Entities, an aggregate of approximately [REDACTED]% of our total issued Shares and will remain as the Controlling Shareholders of our Group. In addition, Mr. Tian through Harvest Sky will hold [REDACTED]% of our total issued Shares upon [REDACTED]. Accordingly, the JCA Parties constitute a group of Controlling Shareholders of our Group under the Listing Rules and collectively control the exercise of [REDACTED]% of the voting right in our Company upon [REDACTED].

On January 1, 2016, our Ultimate Controlling Shareholders and their respective onshore intermediary entities entered into a joint control agreement (the “**Canxing JCA**”) with respect to Canxing Culture, our PRC onshore holding company prior to the Reorganization, and had been exercising joint control over the Group since then. In preparation for the [REDACTED], the Group underwent the Reorganization and the Ultimate Controlling Shareholders effected the Joint Control Agreement to continue their joint control over the management and operations of the Group following the completion of the Reorganization. Details of the terms of the Joint Control Agreement, Canxing JCA and the Reorganization are set out in “History, Reorganization and Corporate Structure.”

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

A simplified illustration of the shareholding structure of our Controlling Shareholders immediately following the [REDACTED] (assuming [REDACTED] is not exercised) is set out below:



Notes:

- (1) China Development Bank Capital Co., Ltd. (國開金融有限責任公司) (“**CDB Capital**”) is a company incorporated under the laws of the PRC with limited liability. As of the Latest Practicable Date, CDB Capital was wholly owned by China Development Bank (國家開發銀行), a state-owned policy finance institution in the PRC under the direct supervision of the State Council of China.
- (2) Shanghai Tairui Cultural Consulting Co., Ltd. (上海泰睿文化諮詢有限公司) (“**Shanghai Tairui**”) is a company incorporated under the laws of the PRC with limited liability. As of the Latest Practicable Date, Shanghai Tairui was held by Mr. Li Huaiyu (李懷宇) and Mr. Xu Zhihao (徐誌豪) as to 60.0% and 40.0%, respectively.
- (3) Beijing Chengbai Investment Consulting Co., Ltd. (北京誠柏投資顧問有限公司) (“**Beijing Chengbai**”) is a company incorporated under the laws of the PRC with limited liability. As of the Latest Practicable Date, Beijing Chengbai was wholly owned by Beijing Kuandai Tiandi Capital Management Co., Ltd. (北京寬帶天地資本管理有限公司), which was in turn ultimately controlled by Mr. Tian Suning (田溯寧).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (4) Shanghai Dazhong Group Capital Equity Investment Co., Ltd. (上海大眾集團資本股權投資有限公司) (“**Shanghai Dazhong**”) is a company incorporated under the laws of the PRC. As of the Latest Practicable Date, Shanghai Dazhong was owned by Shanghai Dazhong Public Utilities (Group) Co., Ltd. (上海大眾公用事業(集團)股份有限公司) (“**Dazhong Group**”) and Shanghai Dazhong Environment Industrial Co., Ltd. (上海大眾環境產業有限公司) as to 99.0% and 1.0%, respectively. Dazhong Group is a company incorporated under the laws of the PRC with its shares listed both on the Shanghai Stock Exchange (SHSE: 600635) and the Hong Kong Stock Exchange (stock code: 01635). Shanghai Dazhong Environment Industrial Co., Ltd. is a company incorporated under the laws of the PRC, which is controlled by the Dazhong Group.
- (5) Shenzhen Tianzheng Investment Co., Ltd. (深圳市天正投資有限公司) (“**Shenzhen Tianzheng**”) is a company incorporated under the laws of the PRC with limited liability. As of the Latest Practicable Date, Shenzhen Tianzheng was wholly owned by China Merchants Industrial Development (Shenzhen) Co., Ltd. (招商局實業發展(深圳)有限公司), which was in turn wholly owned by China Merchants China Direct Investments Limited (招商局中國基金有限公司), a company incorporated in Hong Kong with its shares listed on the Hong Kong Stock Exchange (stock code: 00133).
- (6) Shanghai United Media Group (上海報業集團) (“**Shanghai Poster**”) is a state-owned media company in the PRC. As of the Latest Practicable Date, Shanghai Poster was controlled by Shanghai Municipal State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會).
- (7) Shanghai Oriental Huijin Cultural Industry Venture Capital Co., Ltd. (上海東方惠金文化產業創業投資有限公司) (“**Oriental Huijin**”) is a company incorporated under the laws of the PRC with limited liability. As of the Latest Practicable Date, Oriental Huijin was held by Shanghai Media Group, Shanghai Zhangjiang Culture Holding Co., Ltd. (上海張江文化控股有限公司) and Shanghai Jingwen Investment Co., Ltd. (上海精文投資有限公司) as to 40.0%, 30.0% and 30.0%, respectively, each a state-owned company in the PRC ultimately controlled by the State-owned Assets Supervision and Administration Commission (國有資產監督管理委員會) of governments at different levels in the PRC.

Ultimate Controlling Shareholders

Chinese Culture

CMC (Shanghai) is a limited partnership incorporated under the laws of the PRC and an equity fund with investment focusing on media and entertainment industry. CMC (Tianjin) is the general partner of CMC (Shanghai) holding 2.50% partnership interest in CMC (Shanghai) and is exclusively vested with power to manage, control, operate and make decision on the investment activities of CMC (Shanghai). As of the Latest Practicable Date, other than Beijing Chengbai and Shanghai Tairui, the other shareholders of CMC (Tianjin) were also the limited partners of CMC (Shanghai). To the best of our Directors’ knowledge, each of the shareholders of CMC (Tianjin) and/or the limited partners of CMC (Shanghai) is an Independent Third Party.

Pursuant to the terms of the partnership agreement of CMC (Shanghai) (adopted on April 29, 2010 and amended on October 20, 2017) (the “**Partnership Agreement**”), the general partner (i.e. CMC (Tianjin)) is the decision-making body of the fund which is exclusively vested with power to manage, control, operate and make decision on the investment activities of the partnership. The limited partners of CMC (Shanghai) are entitled to certain customary rights including, among the others, (A) by unanimous vote of all the limited partners, approving or removing the general partner solely for material losses or liabilities to the fund which resulted from willful misconduct or gross negligence on the part of the general partner, single transaction of which the size exceeds 20% of the fund size, general partner’s voluntary withdrawal from the partnership; and (B) by vote of both the general partner and all the limited partners or limited partners representing no less than two-thirds of the capital contributions to

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

the partnership (as the case may be), approving new subscriptions to the fund after the expiration of a one-year open subscription period following the closing of the initial subscription by the existing limited partners, approving CMC (Tianjin) acting as a general partner of another investment vehicle which may compete with the fund, approving certain conflicted transactions where conflict of interests may arise from the dealings between the fund and the general partner or another fund of which CMC (Tianjin) is the general partner, approving disposal of real properties owned by the fund and other matters that requires approval by the partners pursuant to the applicable PRC laws. As advised by our PRC Legal Advisor, such customary rights should not be deemed as the limited partners participating in the management of the partnership, and the limited partners do not control the investment activities of the fund by virtue of such customary rights.

Pursuant to the articles of association of CMC (Tianjin) (adopted on April 29, 2010 and amended on March 3, 2011, May 10, 2014 and October 20, 2017, respectively) (the “**CMC (Tianjin) Articles**”) and its shareholders’ agreement dated April 29, 2010 (the “**Shareholders’ Agreement**”), the shareholder’s meeting is highest decision making authority of CMC (Tianjin) and has the power to approve certain matters including the appointment and removal of directors. All matters that require approval by the shareholders’ meeting must be approved by shareholders representing no less than two-thirds of the voting rights of the issued share capital of CMC (Tianjin). At the board level, the board of directors of CMC (Tianjin) shall consist of nine directors. Each of Oriental Huijin and CDB Capital is entitled to appoint three directors to the board, and each of Shanghai Dazhong, Shenzhen Tianzheng and Shanghai Poster is entitled to appoint one director. As of the Latest Practicable Date, the board of directors of CMC (Tianjin) consisted of nine directors, three, three, one, one and one of whom were appointed by Oriental Huijin, CDB Capital, Shanghai Dazhong, Shenzhen Tianzheng and Shanghai Poster, respectively, which was approved at the shareholder’s meetings of CMC (Tianjin) in accordance with the CMC (Tianjin) Articles and the Shareholders’ Agreement. The board of directors has the general power to make decisions with respect to the management and operations of CMC (Tianjin) including the appointment and removal of senior management members and one member of the Investment Committee (as defined below). Each director is entitled to one vote at the board meeting. All matters that require approval by the board shall be approved by no less than 75% of the board members attending the meeting with minimum quorum requirement of seven members.

Pursuant to the CMC (Tianjin) Articles and the Shareholders’ Agreement, CMC (Tianjin) has an investment committee (the “**Investment Committee**”) comprising five members which is responsible for making investment decisions as a general partner of CMC (Shanghai). Each of Oriental Huijin and CDB Capital is entitled to appoint two members to the Investment Committee and the other one member shall be appointed by the chairman of the board and approved by the board of directors of CMC (Tianjin). As of the Latest Practicable Date, the Investment Committee of CMC (Tianjin) consisted of five members, two, two and one of whom were appointed by Oriental Huijin, CDB Capital and the chairman of the board of directors of CMC (Tianjin), which was approved by the board of directors of CMC (Tianjin) in accordance with the CMC (Tianjin) Articles and the Shareholders’ Agreement. All matters that require approval by the Investment Committee shall be approved by no less than 75% of the committee members attending the meeting with minimum quorum requirement of four members. Investments exceeding certain size thresholds must be approved by the board or shareholders of CMC (Tianjin) at the board/shareholders’ meetings (as the case may be).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Based on the foregoing, CMC (Tianjin) is ultimately responsible for the management of and controls CMC (Shanghai) and the limited partners of CMC (Shanghai) only have passive interests in the partnership under the Partnership Agreement. To the best of our Directors’ knowledge, the shareholders of CMC (Tianjin) and their beneficial owners are independent of each other, and there is no voting arrangement or concert-party arrangement among the shareholders of CMC (Tianjin). Therefore, as none of the shareholders of CMC (Tianjin) can individually exercise or control the exercise of majority of voting rights at the shareholders’ meeting of CMC (Tianjin), or in a position to exercise control over the board of directors or Investment Committee of CMC (Tianjin), the shareholders of CMC (Tianjin) and their ultimate beneficial owners are not regarded as a part of a group of the controlling shareholders of the Company under the Listing Rules.

Mr. Tian, Mr. Jin and Mr. Xu

For background of Mr. Tian, Mr. Jin and Mr. Xu, see “Directors and Senior Management.”

DELINEATION OF BUSINESS

Business of Our Group

Our Group primarily engages in production, operation and licensing of variety program, music, film and drama series IPs, and other IP related business including artist management, arts education and training, concert organization and production, mobile applications, consumer products and themed attractions (the “**Principal Business**”).

Delineation from SCML

As of the Latest Practicable Date, our Ultimate Controlling Shareholders controlled CMC Asia which in turn wholly owned SCML. SCML was primarily engaged in (i) the operation of “*Xing Kong*” branded television channel and “*Channel [V]*” branded television channel (the “**Channels**”) and (ii) licensing and acquisition of television programming for exhibition on the Channels (collectively, the “**TV Channel Business**”). It is our Group’s strategy to focus on variety programs production and our Group currently does not engage in the TV Channel Business, which requires different skillset, industry knowledge and expertise from our Group’s Principal Business. To the best of our Directors’ knowledge, as of the Latest Practicable Date, SCML did not engage in our business.

Given the differences in nature between the TV Channel Business of SCML and our Principal Business, our Directors are of the view that there is no overlap between the TV Channel Business of SCML and our Principal Business and as a result of such clear delineation, as well as the Non-competition Undertaking (as defined below) in place, the TV Channel Business of SCML would not compete, or is not expected to compete, directly or indirectly, with our business.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKING

In order to ensure that direct competition does not develop between us and the activities of our Controlling Shareholders, the Ultimate Controlling Shareholders entered into a non-competition undertaking (the “**Non-competition Undertaking**”) in favor of our Company on [●], pursuant to which each of Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of its subsidiaries and Consolidated Affiliated Entities) that they would not, and they would use their best endeavors to procure that their close associates (except any members of our Group) shall not, whether directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of our Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with the Group’s Principal Business (the “**Restricted Business**”), save for that each of Chinese Culture, Mr. Tian, Mr. Jin and Mr. Xu, directly or indirectly through their respective close associates, is allowed under the non-competition undertaking to hold not more than 10% of the issued share capital of any companies which are engaging in the Restricted Business.

Pursuant to the Non-competition Undertaking, the obligations of any Ultimate Controlling Shareholders thereunder would terminate on the earlier of the date on which (i) such Controlling Shareholder ceases to become a controlling shareholder (as defined under the Listing Rules) of our Company or (ii) the Shares cease to be [REDACTED] and [REDACTED] on the Stock Exchange.

INTEREST IN COMPETING BUSINESS UNDER RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, neither of them is interested in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently of our Controlling Shareholders after the [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [REDACTED], our Board will consist of nine Directors comprising five executive Directors, one non-executive Director and three independent non-executive Directors. For more information, see “Directors and Senior Management.”

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, apart from their roles with our Group and other intermediary investment holding companies, Mr. Tian and Ms. Wang Yan, each an executive Director, also served as the directors of CMC Asia, a company controlled by the Ultimate Controlling Shareholders which is the sole shareholder of SCML. Save as disclosed above, none of our Directors or the members of our senior management team held any position at our Controlling Shareholders or their respective close associates (except for their intermediary investment holding companies).

Despite positions of Mr. Tian and Ms. Wang Yan in CMC Asia, Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders for the following reasons:

- (a) CMC Asia does not hold business other than its interest in SCML and SCML’s day-to-day operations and management are carried out by its board and senior management. Neither of Mr. Tian and Ms. Wang Yan holds directorship or management positions in SCML. Further, SCML’s business is clearly delineated from our Principle Business and would not compete, or is not expected to compete with our business. See “— Delineation of Business — Delineation from SCML” in this section above;
- (b) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (c) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (d) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (e) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is/are required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions. In addition, the interested Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or she or any of his or her close associates is materially interested in except for certain circumstances as set out in the Articles. For details, see “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this document; and

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (f) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. See “— Corporate Governance Measures” in this section below for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

We operate independently of our Controlling Shareholders, hold all relevant licenses and permits and own all relevant intellectual properties necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our clients and an independent management team to operate our business.

We have entered into certain transactions with SCML (a close associate of our Controlling Shareholders) which constitute continuing connected transactions of our Group upon [REDACTED]. See “Connected Transactions” for further details of and reasons for entering into these transactions. Our Directors believe that the roles of our Company and those of SCML under those connected transactions are complementary and beneficial to each other. Furthermore, given the extensive popularity and wide influence in overseas markets of the TV channels operated by SCML, and the long history of business cooperation between the Group and SCML, it is natural and in the best interests of our Company and our Shareholders to cooperate with SCML. Such transactions are and will be conducted in the ordinary and usual course of business of our Group, on an arm’s length basis and on normal commercial terms.

Based on the above, our Directors believe that we are able to operate independently from our Controlling Shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. More importantly, we have been and are capable of obtaining equity and debt financing from third parties.

As of the Latest Practicable Date, there were no non-trade payables, loans or guarantees due to or from our Controlling Shareholders or their respective close associates which had not been fully settled nor were there any guarantees provided by any of our Controlling Shareholders or their respective close associates on the Group’s financing which had not been fully released or discharged. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Based on the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders after the [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interest. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and the Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which the Controlling Shareholders or any of his associates has a material interest, the Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (g) we have appointed China Securities (International) Corporate Finance Company Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].

CONNECTED TRANSACTIONS

OVERVIEW

We have in the past conducted certain transactions with entities that will become our connected persons upon [REDACTED]. Such transactions will continue after [REDACTED] and will therefore constitute our continuing connected transactions under the Listing Rules.

RELEVANT CONNECTED PERSONS

The following parties with whom we have entered into transactions will be regarded as our connected persons under the Listing Rules:

<u>Connected Persons</u>	<u>Connected Relationship</u>
SCML	SCML is a wholly-owned subsidiary of CMC Asia which is ultimately controlled by our Ultimate Controlling Shareholders as to 75.5%. The remaining interest of CMC Asia is owned by Mr. Tian. Accordingly, SCML is a connected person of our Company under Rule 14A.13(3) of the Listing Rules
SH Xingtou	SH Xingtou is indirectly wholly-owned by our Ultimate Controlling Shareholders. Accordingly, SH Xingtou is a connected person of our Company under Rule 14A.13(3) of the Listing Rules
SH Zhouxing	SH Zhouxing is wholly owned by Mr. Tian. Accordingly, SH Zhouxing is a connected person of our Company under Rule 14A.12(1)(c) of the Listing Rules
Mr. Tian	Our Chairman of the Board and one of the Controlling Shareholders

CONTINUING CONNECTED TRANSACTIONS

A. Fully-Exempt Continuing Connected Transactions

We entered into the following types of transactions with SCML during the Track Record Period which will continue after [REDACTED], including:

- Advertising sale agency arrangement: we agreed to act as an agent of SCML to sell or solicit advertising in the PRC and negotiate relevant advertising contracts on behalf of SCML with advertisers;
- Broadcast license and distribution arrangements: we agreed to authorize SCML to broadcast certain of our programs and films on SCML’s channels;

CONNECTED TRANSACTIONS

- China Music Awards license arrangement: SCML agreed to granted us the right to hold the annual “Chinese Music Awards” (全球華語音樂榜中榜) of Channel V, a TV channel operated by SCML, and in return reserves the exclusive right to live broadcast the awards; and
- Office premises leasing transaction: SCML agreed to sub-lease certain office premises to us.

As the highest applicable percentage ratios under the Listing Rules in respect of each of the transactions above is expected to be, on an annual basis, less than 0.1% and the transactions are on normal commercial terms or better, these transactions will be fully exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1) of the Listing Rules.

B. Non-Exempt Continuing Connected Transactions

We set out below a summary of the continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

Background for the Contractual Arrangements

As disclosed in “Contractual Arrangements” in this document, due to regulatory restrictions on foreign ownership in the PRC, we conduct our business through the Consolidated Affiliated Entities, which hold the requisite license, permit and approval required for carrying out relevant business in the PRC. The Contractual Arrangements entered into among Shanghai Jiuwu Yisheng, our wholly foreign-owned enterprise (“WFOE”), Consolidated Affiliated Entities and the Registered Shareholders/Canxing Culture (as the case may be) enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by WFOE to our Consolidated Affiliated Entities under the Exclusive Consulting and Service Agreements; (ii) exercise effective control over our Consolidated Affiliated Entities to conduct the Relevant Business; and (iii) hold an exclusive purchase option to purchase all or any part of equity interests in and/or the assets of our Consolidated Affiliated Entities when and to the extent permitted by the PRC laws and regulations.

CONNECTED TRANSACTIONS

Principal Terms of the Transactions

The Contractual Arrangements comprise the following agreements: Exclusive Consulting and Service Agreements, Exclusive Purchase Option Agreements, Equity Pledge Agreements, Voting Right Trust Agreements and undertaking letters made by each of the individual Registered Shareholders and their spouses. See “Contractual Arrangements” in this document for detailed terms of the Contractual Arrangements.

Reasons for the Waiver Application and the View of Our Directors on the Continuing Connected Transactions

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group’s legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms or on terms more favorable to our Group in the ordinary and usual course of our Group’s business, fair and reasonable or to the advantage of our Group and in the interests of our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

Application for and Conditions of Waiver

In relation to the Contractual Arrangements, we have applied to the Stock Exchange pursuant to Rule 14A.105 of the Listing Rules for, and the Stock Exchange [has granted], a waiver from (i) strict compliance with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, under Rule 14A.53 of the Listing Rules for the fees payable to WFOE from our Consolidated Affiliated Entities under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are [REDACTED] on the Stock Exchange subject to the following conditions:

- (a) No Change without Independent Non-executive Directors’ Approval

No changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

CONNECTED TRANSACTIONS

(b) No Change without Independent Shareholders’ Approval

Save as described in paragraph (d) below, no changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the independent Shareholders. Once the independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic Benefits Flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through: (i) our Group’s potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in and/or assets of the Consolidated Affiliated Entities for a nominal price or the minimum amount of consideration permitted by applicable PRC laws and regulations; (ii) the business structure under which the total income generated by the Consolidated Affiliated Entities (net of costs, taxes and retained profits (if any)) is substantially retained by us (such that no annual caps shall be set on the amount of services fees payable to WFOE under the Exclusive Consulting and Service Agreements); and (iii) our right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entities.

(d) Renewal and Reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as described under “Contractual Arrangements” in this document. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as our Group’s connected persons and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

CONNECTED TRANSACTIONS

(e) Ongoing Reporting and Approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- (i) The Contractual Arrangements in place during each financial period will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- (ii) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our annual report and accounts for the relevant year that:
 - (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements;
 - (ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and
 - (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company and the Shareholders as a whole.
- (iii) Our auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions carried out pursuant to the Contractual Arrangements have received the approval of our Directors and that no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.
- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," the Consolidated Affiliated Entities will be treated as the Company's wholly-owned subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Consolidated Affiliated Entities and their associates (excluding for this purpose, the Consolidated Affiliated Entities) will be treated as the Company's "connected persons." As such, transactions between these connected persons and our Group (including, for this purpose, the Consolidated Affiliated Entities) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

The Consolidated Affiliated Entities further undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group's management and our auditors with full access to its relevant records for the purpose of procedures to be carried out by our auditors' on the connected transactions.

CONNECTED TRANSACTIONS

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Listing Rules Implications

As certain members of the Registered Shareholders, namely SH Xingtou, SH Zhouxing and Mr. Tian, are our connected persons, the transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Group.

The highest applicable percentage ratio (other than the profit ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements is expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions described in this section have been entered into in the ordinary and usual course of our business, on normal commercial terms or better, which are fair and reasonable and in the interests of our Shareholders as a whole.

JOINT SPONSORS’ VIEWS

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the above continuing connected transactions; (ii) obtained necessary representations and confirmations from the Company and the Directors, and (iii) participated in the due diligence and discussions with the management of the Group.

Based on the above, the Joint Sponsors are of the view that the aforesaid continuing connected transactions, for which waivers have been sought, have been entered into in the ordinary and usual course of our business on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) policies of the Consolidated Affiliated Entities can be effectively controlled by the WFOE, (ii) the WFOE can obtain the economic benefits derived from our Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board is responsible for, and has general powers over, the management and operation of our business. It currently comprises nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors will be subject to rotation and re-election at the annual general meetings of our Company in accordance with the Articles of Association.

The following table sets forth certain information regarding our Directors:

Name	Age	Time of joining our Group	Date of appointment as Director	Position	Roles and responsibilities
Mr. Tian Ming (田明)	53	April 2011	March 29, 2021	Chairman of the Board, Executive Director and Chief Executive Officer	Formulating the overall corporate and business strategies and overseeing the management and operation
Mr. Jin Lei (金磊)	46	June 2011	September 9, 2021	Executive Director and Vice President	Overseeing Board affairs and the content production and research and development
Mr. Xu Xiangdong (徐向東)	58	June 2011	September 9, 2021	Executive Director and Vice President	Overseeing Board affairs and the offline business development and team management
Mr. Lu Wei (陸偉)	45	June 2011	September 9, 2021	Executive Director and Vice President	Overseeing Board affairs and the research and development of original content and the development of overseas business and online business
Ms. Wang Yan (王艷)	48	March 2015	September 9, 2021	Executive Director, Chief Financial Officer and Joint Company Secretary	Overseeing Board affairs and the financial operation, risk management and investor relations

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Time of joining our Group	Date of appointment as Director	Position	Roles and responsibilities
Mr. Lee Wei Choy	47	September 9, 2021	September 9, 2021	Non-executive Director	Providing strategic advice and recommendations on business development
Mr. Li Liangrong (李良榮)	76	December 2017	September 9, 2021	Independent non-executive Director	Providing independent opinion and judgment to our Board
Mr. Chen Rehao (陳熱豪)	53	December 2017	September 9, 2021	Independent non-executive Director	Providing independent opinion and judgment to our Board
Mr. Sheng Wenhao (盛文灝)	54	December 2017	September 9, 2021	Independent non-executive Director	Providing independent opinion and judgment to our Board

Executive Directors

Mr. Tian Ming (田明), aged 53, is the chairman of our Board, executive Director and chief executive officer of our Company. Mr. Tian has been the director and general manager of Canxing Culture since April 2011. He is primarily responsible for the overall corporate and business strategies and overseeing the management and operation of our Group. Mr. Tian has profound influence in the TV production industry, and has led the production of a number of the Group’s variety programs with high popularities. In addition, Mr. Tian also serves as directors of our major subsidiaries and operating entities including Star International and Fortune Star Media.

Prior to joining our Group, Mr. Tian held directorships and positions at various well recognized media companies. From September 2010 to May 2011, he successively served as the deputy director and the director of variety programs department of Shanghai Dragon Media Group Limited (上海東方傳媒集團有限公司), a multimedia group in China and concurrently served as the director and the general manager of Dragon Television (東方衛視), a Chinese satellite TV network. Mr. Tian successively served as a deputy director of chief editor office, the editor-in-chief of entertainment channel, the director of variety programs department of Shanghai Media Group (上海文廣新聞傳媒集團), the deputy director and director of Shanghai Dragon Television (上海東方電視台), a Chinese TV channel, and the general manager of Shanghai Dragon Television Media Limited (上海東方衛視傳媒有限公司), from March 2003 to September 2010. From November 2004 to August 2006, he worked concurrently at Shanghai

DIRECTORS AND SENIOR MANAGEMENT

Dongfang Zhixing Culture Development Co., Ltd. (上海東方之星文化發展有限公司), where he served as its general manager. From December 1992 to March 2003, Mr. Tian served as a reporter and a deputy director of news center of Shanghai Dragon Television (上海東方電視台).

Mr. Tian obtained a bachelor’s degree in journalism from Fudan University (復旦大學) in the PRC in July 1991, and a doctorate degree in journalism and communications from Fudan University in January 2006.

Mr. Jin Lei (金磊), aged 46, is an executive Director of our Company. Mr. Jin joined our Group as a deputy general manager of Canxing Culture in June 2011. He is primarily responsible for content production and research and development of our Group.

Prior to joining our Group, from October 2009 to June 2011, he worked at Dragon Television as a deputy general manager and a member of Communist Party Committee at Shanghai New Entertainment Media Limited (上海新娛樂傳媒有限公司). Before that, he worked as a deputy director of variety programs department and a member of Communist Party Committee at Shanghai Media Group from November 2005 to October 2009. From August 1997 to November 2005, he worked at Dragon Television as a scenarist, and a producer and director assistant of music channel.

Mr. Jin obtained a bachelor’s degree in international journalism from Shanghai International Studies University (上海外國語大學) in the PRC in June 1997.

Mr. Xu Xiangdong (徐向東), aged 58, is an executive Director of our Company. Mr. Xu joined our Group as a deputy general manager of Canxing Culture in June 2011. He is primarily responsible for offline business development and team management.

Prior to joining our Group, from October 2009 to June 2011, he served as a deputy director of Dragon Television. From December 2005 to October 2009, Mr. Xu served successively as a deputy director and producer of variety programs department at Shanghai Media Group and deputy director of Dragon Television. Before that, he served as a scenarist and producer of Shanghai Dragon Television from January 1996 to December 2005.

Mr. Xu obtained a bachelor’s degree in literature from Shanghai University (上海大學) in the PRC in July 1985.

Mr. Lu Wei (陸偉), aged 45, is an executive Director of our Company. Mr. Lu joined our Group as vice president of Canxing Culture in June 2011. He is primarily responsible for overseeing the research and development of original content and the development of overseas business and online business.

Prior to joining our Group, Mr. Lu worked as the principal of entertainment news channel of Shanghai Media Group from December 2005 to May 2011. Before that, he was a reporter of Shanghai Dragon Television from July 1999 to December 2005.

Mr. Lu obtained a bachelor’s degree in journalism from Fudan University in the PRC in July 1999.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wang Yan (王艷), aged 48, is an executive Director, the joint company secretary, and the chief financial officer of our Company. Ms. Wang has been a director and the chief financial officer of Canxing Culture since March 2015. She is primarily responsible for financial operation, risk management and investor relations of our Group. In addition, Ms. Wang also serves as directors of our certain major subsidiaries and operating entity including Star International and Fortune Star Media.

From March 2013 to February 2015, she worked at Shanghai Yuyuan Jewelry Fashion Group Co., Ltd. (上海豫園珠寶時尚集團有限公司), a fashion jewelry company, where she served as the chief financial officer and the deputy chief executive officer from March 2013 to December 2014. Before that, Ms. Wang served as the deputy head of preparatory team for Yuyuan Jewelry Fashion Group from December 2012 to March 2013. From November 2008 to November 2011, Ms. Wang worked as a director, the chief financial officer and board secretary of Sanjiang Shopping Club Co., Ltd. (三江購物俱樂部股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601116). Prior to that, she worked as a researcher at Institute for China Finance Research of China Europe International Business School (中歐國際工商學院中國金融研究中心) from March 2005 to July 2008.

Ms. Wang obtained a master’s degree in enterprise management from Shanghai International Studies University (上海外國語大學) in March 2005 and a bachelor’s degree in management information system from Shanghai University of Finance and Economics (上海財經大學) in July 1995. Ms. Wang has been a Certificate Public Accountant since February 2003.

Non-executive Director

Mr. Lee Wei Choy, aged 47, is a non-executive Director of our Company. He is primarily responsible for providing strategic advice and recommendations on business development.

Mr. Lee is a partner and currently serves as the chief operating offer of CMC Capital Group, a leading equity investment firm with a focus on entertainment, technology and consumer sectors with presence in Shanghai, Beijing and Hong Kong. Currently, he is also appointed as a director of numerous private portfolio companies of CMC Capital Group. Mr. Lee joined CMC Capital Group in January 2016. Prior to that, he served as the investment director of Pavilion Capital International Pte Ltd. from November 2012 to November 2015.

Mr. Lee obtained a bachelor’s degree in engineering from National University of Singapore in Singapore in August 1999.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Li Liangrong (李良榮), aged 76, is an independent non-executive Director of our Company. He is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Li has been serving as the principal of the school of journalism and communication of Zhejiang University of Media (浙江傳媒學院) since March 2019. He held various positions at Fudan University including serving as the principal at the International Communication Institution of Fudan University, a professor since 1993, a doctoral supervisor of journalism school since 1994, and a deputy dean of journalism school from 1987 to 1993. Mr. Li has been working as a lecturer at Fudan University since 1982.

Mr. Li obtained a master’s degree and a bachelor’s degree in journalism from Fudan University in the PRC in July 1982 and July 1968, respectively.

Mr. Chen Rehao (陳熱豪), aged 53, is an independent non-executive Director of our Company. He is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Chen had been serving in various positions at Shanghai Gongxin Zhongnan Accountant Co., Ltd. (上海公信會計師事務所有限公司) since April 1996 including its executive director, senior accountant and manager and is currently the chairman of the board of Shanghai Gongxin Zhongnan Accountant Co., Ltd..

Mr. Chen obtained an executive master’s degree in business administration from Nankai University (南開大學) in the PRC in June 2014 and graduated from Zhengzhou University of Aeronautics (鄭州航空學院) in the PRC with a bachelor’s degree in economics in July 1992. Mr. Chen has been admitted as a member of the Chinese Institute of Certified Public Accountants.

Mr. Chen possesses appropriate professional accounting or related financial management expertise required under Rule 3.10(2) of the Listing Rules and confirms that he has gained such expertise through his experiences.

Mr. Sheng Wenhao (盛文灝), aged 54, is the independent non-executive Director of our Company. He is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Sheng has been the chairman of the board and the general manager of Theland New Cloud (Shanghai) Digimart Limited (紐仕蘭新雲(上海)電子商務有限公司), a company engaged in the import of dairy products, and a director of Pengdu Agriculture & Animal Husbandry Co., Ltd. (鵬都農牧股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 002505), from June 2015 to May 2020. He also served as the vice president of Shanghai Jiada Onlly Co., Ltd. (上海交大昂立股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600530) until February 2015.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sheng obtained an executive master’s degree in business administration from China Europe International Business School (中歐國際工商學院) in the PRC in March 2001.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The following table sets forth certain information regarding our senior management:

<u>Name</u>	<u>Age</u>	<u>Time of joining our Group</u>	<u>Position</u>	<u>Roles and responsibilities</u>
Mr. Tian Ming (田明)	53	April 2011	Chairman of the Board, Executive Director and Chief Executive Officer	Formulating the overall corporate and business strategies and overseeing the management and operation
Mr. Jin Lei (金磊)	46	June 2011	Executive Director and Vice President	Overseeing the content production and research and development
Mr. Xu Xiangdong (徐向東)	58	June 2011	Executive Director and Vice President	Overseeing the offline business development and team management
Mr. Lu Wei (陸偉)	45	June 2011	Executive Director and Vice President	Overseeing the research and development of original content and the development of overseas business and online business
Ms. Wang Yan (王艷)	48	March 2015	Executive Director, Chief Financial Officer and Joint Company Secretary	Overseeing the financial operation, risk management and investor relations
Mr. Cao Zhigao (曹志高)	56	April 2011	Chief Operating Officer	Overseeing the management, operation and marketing

DIRECTORS AND SENIOR MANAGEMENT

The following sets forth the biographies of the members of our senior management.

Mr. Tian Ming (田明), aged 53, is the chairman of our Board, executive Director and chief executive officer of our Company. For details of his biography, see “— Board of Directors — Executive Directors” in this section.

Mr. Jin Lei (金磊), aged 46, is our executive Director and vice president. For details of his biography, see “— Board of Directors — Executive Directors” in this section.

Mr. Xu Xiangdong (徐向東), aged 58, is our executive Director and vice president. For details of his biography, see “— Board of Directors — Executive Directors” in this section.

Mr. Lu Wei (陸偉), aged 45, is our executive Director and vice president. For details of his biography, see “— Board of Directors — Executive Directors” in this section.

Ms. Wang Yan (王艷), aged 48, is our executive Director, chief financial officer and joint company secretary. For details of her biography, see “— Board of Directors — Executive Directors” in this section.

Mr. Cao Zhigao (曹志高), aged 56, and joined our Group as chief operating officer of Canxing Culture in April 2011. He is primarily responsible for overseeing the management, operation and marketing of the Group.

Prior to joining our Group, he worked at Shanghai Youlian Advertising Co., Ltd. (上海友聯廣告有限公司) from March 2000 to December 2001, Shanghai Tianchuan Advertising Co., Ltd. (上海天傳廣告有限公司) from January 2002 to August 2005, Shanghai Tianhe Communication Advertisement Co., Ltd. (上海天禾互動廣告有限公司) from August 2005 to December 2005, and Shanghai Aikang Advertisement Co., Ltd. (埃康廣告(上海)有限公司) from June 2010 to August 2010.

Mr. Cao obtained a bachelor’s degree in Chinese language and literature from Southwest Normal Education University (西南師範大學) in the PRC in July 1985.

JOINT COMPANY SECRETARIES

Ms. Wang Yan (王艷), see “— Board of Directors — Executive Directors” in this section.

Ms. Leung Wing Han Sharon (梁穎嫻), is a joint company secretary of our Company. Ms. Leung possesses more than 16 years of experience in the company secretary profession. She is familiar with the Listing Rules, the Companies Ordinance as well as compliance work for offshore companies. Ms. Leung is currently a director of Corporate Services of Tricor Services Limited and has been providing corporate secretarial and compliance services to a portfolio of clients including multinational corporations and private companies.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Leung is a Chartered Secretary, a Chartered Governance Professional and a fellow member of both The Hong Kong Chartered Governance Institute (formerly known as “The Hong Kong Institute of Chartered Secretaries”) and The Chartered Governance Institute in the United Kingdom. She is also a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Leung obtained a bachelor’s degree in business administration and a master’s degree in laws.

BOARD COMMITTEES

Our Company currently has three committees under the Board, which are the Audit Committee, the Remuneration Committee and the Nomination Committee. These committees operate in accordance with their respective terms of reference established by the Board.

Audit Committee

Our Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the Corporate Governance Code. The Audit Committee consists of three Directors, being Mr. Chen Rehao, Mr. Sheng Wenhao and Mr. Li Liangrong. The chairperson of the Audit Committee is Mr. Chen Rehao, being our independent non-executive Director with the appropriate professional accounting or related financial management expertise required under Rule 3.10(2) of the Listing Rules. The primary duties of the Audit Committee include, among others:

- reviewing our compliance, accounting policies and financial reporting procedures;
- supervising the implementation of our internal audit system;
- advising on the appointment or replacement of external auditors;
- liaising between our internal audit department and external auditors; and
- other responsibilities as authorized by our Board.

Remuneration Committee

Our Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code. The Remuneration Committee consists of three Directors, being Mr. Li Liangrong, Mr. Chen Rehao and Mr. Jin Lei. The chairperson of the Remuneration Committee is Mr. Li Liangrong. The primary duties of the Remuneration Committee include, among others:

- making recommendations to the Board on our policy and structure concerning remuneration of our Directors and members of the senior management;

DIRECTORS AND SENIOR MANAGEMENT

- making recommendations to the Board on the specific remuneration package of each Director and members of the senior management;
- reviewing and approving compensations payable to executive Directors and members of senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his or her misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate; and
- other responsibilities as authorized by our Board.

Nomination Committee

Our Company has established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The Nomination Committee consists of three Directors, being Mr. Tian Ming, Mr. Li Liangrong and Mr. Chen Rehao. The chairperson of the Nomination Committee is Mr. Tian Ming. The primary duties of the Nomination Committee include, among others:

- reviewing the structure, size and composition of the Board annually, and advising on any changes of the Board proposed in accordance with the strategies of our Company;
- identifying, selecting or making recommendations to our Board on the selection of individuals nominated for directorships;
- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of our Directors;
- assessing the independence of independent non-executive Directors; and
- other responsibilities as authorized by our Board.

CORPORATE GOVERNANCE

Pursuant to code provision A.2.1 in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tian is currently serving as the chairman of the Board as well as the chief executive officer of our Company. As Mr. Tian has been managing our Group’s business and overall strategic planning for several years, our Directors consider that vesting the roles of chairman and chief executive officer in Mr. Tian is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group. Taking into account all the corporate governance measures that we are going to implement upon [REDACTED], our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Accordingly, our Company had not segregated the roles of its chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole.

Saved as disclosed above, as of the Latest Practicable date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS’ INTEREST

Except as disclosed in this document, each of the Directors and members of the senior management (i) had no other relationship with any of the Directors and senior management as of the Latest Practicable Date; and (ii) did not hold any other directorships in listed companies in the three years prior to the Latest Practicable Date. For the Directors’ interests in the Shares within the meaning of Part XV of the SFO, see “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 1. Disclosure of Interests — (a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the [REDACTED]” in Appendix IV to this document.

Except as disclosed in this document, there are no other matters in respect of each of our Directors and the members of our senior management that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to our Directors and the members of our senior management that need to be brought to the attention of our Shareholders.

Except as disclosed in this document, none of the Directors is interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business under Rule 8.10(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits and contribution that the selected candidates will bring to the Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, publicity and branding, TV/web variety programs distribution, content development, investment and financing, accounting and financial management. They obtained degrees in various majors, including in, financial management, and journalism and business administration. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the Board. In addition, our Board has a wide range of age, ranging from 44 years old to 75 years old.

We have also taken and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. The Board has one female member and will take opportunities to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices. Our Company also intends to promote gender diversity when recruiting staff at the mid to senior level so that our Company will have a pipeline of female senior management. Taking into account our existing business mode and specific needs as well as the different background of our Directors, we are of the view that the composition of our Board satisfies our board diversity policy.

Our Nomination Committee is responsible for ensuring the diversity of our Board. After the [REDACTED], our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on annual basis.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Company offers executive Directors and senior management members, who are also employees, compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. The independent non-executive Directors receive compensation based on their responsibilities. For details of the service contracts and appointment letters that we have entered into with our Directors, see “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Particulars of Directors’ Service Contracts and Appointment Letters” in Appendix IV to this document.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of remuneration paid to the Directors for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 were approximately RMB9.8 million, RMB9.4 million, RMB9.7 million and RMB3.2 million, respectively.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the five highest paid employees included three, three, three and three Directors, respectively. The aggregate amounts of remuneration paid to the remaining two, two, two and two highest paid individuals who are neither a Director nor chief executive of the Company for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 were approximately RMB5.3 million, RMB5.5 million, RMB5.0 million and RMB1.8 million, respectively.

It is estimated that remuneration equivalent to approximately RMB6.8 million (excluding possible share-based payments) in aggregate will be paid to the Directors by our Company for the year ending December 31, 2022, based on the arrangements in force as of the date of this document.

No remuneration was paid by our Company to the Directors or the five highest paid individuals as inducement to join or upon joining the Company or as a compensation for loss of office during the Track Record Period. Furthermore, none of the Directors had waived or agreed to waive any remuneration during the Track Record Period.

COMPLIANCE ADVISOR

We have appointed China Securities (International) Corporate Finance Company Limited as the compliance advisor pursuant to Rule 3A.19 of the Listing Rules, and the compliance advisor will advise our Company in the following circumstances.

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner that is different from that detailed in this document or where our business activities, developments or results deviate from any forecasts, estimates or other information in this document; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares or any other matters.

The initial term of the appointment of the compliance advisor will commence on the [REDACTED] and is expected to end on the date when the Company distributes the annual report of its financial results for the first full financial year commencing after the [REDACTED].

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised, each of the following persons is expected to have interests and/or short positions (as applicable) in the Shares or the underlying Shares of our Company which (i) would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or (ii) will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Capacity/Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Shares held immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) ⁽¹⁾	
		Number	Approximate percentage	Number	Approximate percentage
Unionstars ⁽²⁾	Beneficial interest	236,465,996	61.68%	[REDACTED]	[REDACTED]%
	Interest held jointly with other persons	79,740,381	20.80%	[REDACTED]	[REDACTED]%
Harvest Sky ⁽²⁾	Beneficial interest	79,740,381	20.80%	[REDACTED]	[REDACTED]%
	Interest in a controlled corporation; interest held jointly with other persons	236,465,996	61.68%	[REDACTED]	[REDACTED]%
Mr. Tian ⁽²⁾	Interest in controlled corporations; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
East Brothers ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
Goldenbroad ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
Beamingstars ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
Mr. Jin ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Capacity/Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Shares held immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) ⁽¹⁾	
		Number	Approximate percentage	Number	Approximate percentage
Mr. Xu ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
SH Zhihua ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
CMC (Shanghai) ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
CMC (Tianjin) ⁽²⁾	Interest in a controlled corporation; interest held jointly with other persons	316,206,377	82.48%	[REDACTED]	[REDACTED]%
Tibet Yuanhe ⁽³⁾	Beneficial interest	21,851,163	5.70%	[REDACTED]	[REDACTED]%
Zhefu Group ⁽³⁾	Interest in a controlled corporation	21,851,163	5.70%	[REDACTED]	[REDACTED]%

Notes:

- (1) All interests stated are long positions.
- (2) Unionstars is owned as to 7.53%, 17.64%, 34.18% and 40.65% by East Brothers, Goldenbroad, Beamingstars and Harvest Sky, respectively. East Brothers is owned as to 81.76%, 6.22% and 12.02% by Mr. Tian, Mr. Jin and Mr. Xu, respectively. Goldenbroad is wholly owned by Mr. Jin. Beamingstars is owned as to 51.99% and 48.01% by SH Zhihua and Harvest Sky, respectively. Harvest Sky is wholly owned by Mr. Tian. SH Zhihua is wholly owned by CMC (Shanghai). CMC (Tianjin) is the general partner of CMC (Shanghai). Pursuant to the Joint Control Agreement, each of Unionstars, East Brothers, Goldenbroad, Beamingstars, Harvest Sky, Mr. Tian, Mr. Jin, Mr. Xu, SH Zhihua, CMC (Shanghai) and CMC (Tianjin) agreed to vote unanimously at board meetings and general meetings (as applicable) at all levels along the control chain to jointly exercise control over the Company. Therefore, each of East Brothers, Goldenbroad, Beamingstars, Harvest Sky, Mr. Tian, Mr. Jin, Mr. Xu, SH Zhihua, CMC (Shanghai) and CMC (Tianjin) is deemed to be interested in the 236,465,996 Shares held by Unionstars and the 79,740,381 Shares held by Harvest Sky under the SFO. For further details, see “History, Reorganization and Corporate Structure — Reorganization — Offshore Restructuring — Step 5. Signing of the Joint Control Agreement.”
- (3) As of the Latest Practicable Date, Tibet Yuanhe was wholly owned by Zhefu Holding Group Co., Ltd. (浙富控股集團股份有限公司) (“**Zhefu Group**”). Therefore Zhefu Group is deemed to be interested in the Shares held by Tibet Yuanhe under the SFO.

Save as disclosed above in and “Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders,” our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), have any interest or short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group. Our Directors are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):

Authorized Share capital

<u>Description</u>	<u>Number of Shares</u>	<u>Nominal value</u>	<u>Aggregate nominal value of Shares</u>
Authorized share capital as of the date of this document and immediately following the completion of [REDACTED]	50,000,000,000	US\$0.000001	US\$50,000

Issued and to be issued, fully paid or credited as fully paid

<u>Description of Shares</u>	<u>Number of Shares</u>	<u>Aggregate nominal value of Shares</u>	<u>Approximate percentage of the issued share capital</u>
Shares in issue as of the date of this document	383,399,768	US\$383.40	[REDACTED]%
Shares to be issued under the [REDACTED] (assuming the [REDACTED] is not exercised)	<u>[REDACTED]</u>	<u>US\$[REDACTED]</u>	<u>[REDACTED]%</u>
Total	<u>[REDACTED]</u>	<u>US\$[REDACTED]</u>	<u>100.00%</u>

SHARE CAPITAL

Assumptions

The above table assumes that the [REDACTED] becomes unconditional and Shares are issued pursuant to the [REDACTED]. The above table also does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

Ranking

The [REDACTED] will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meetings are required

Upon completion of the [REDACTED], our Company has only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Act and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its share capital, (ii) consolidate and divide its share capital into shares of larger amount, (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Act reduce its share capital or capital redemption reserve by the Shareholders passing a special resolution. See the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — 2.5 Alteration of capital” in Appendix III to this document for further details.

General mandate to issue Shares

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number of not more than the sum of:

- 20% of the number of Shares in issue immediately following completion of the [REDACTED]; and
- the total number of Shares repurchased by us under the authority referred to in the paragraph headed “— General mandate to repurchase Shares” in this section.

SHARE CAPITAL

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information — A. Further Information about Our Group — 4. Resolutions Passed by Our Shareholders” in Appendix IV to this document for further details of this general mandate to allot, issue and deal with Shares.

General mandate to repurchase Shares

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with a total number of up to 10% of the total number of our Shares in issue immediately following the completion of the [REDACTED].

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are [REDACTED] (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about Our Group — 6. Repurchases of Shares by Our Company” in Appendix IV to this document.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information — A. Further Information about Our Group — 4. Resolutions Passed by Our Shareholders” in Appendix IV to this document for further details of this general mandate to repurchase Shares.

FINANCIAL INFORMATION

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

According to the F&S Report, 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.

FINANCIAL INFORMATION

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(27.8) 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(0.3) 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. According to the F&S Report, 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.

FINANCIAL INFORMATION

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.

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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.

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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.

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Seasonality

The development, production and distribution of variety programs are subject to seasonality. Most large-scale 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 end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. Since early 2020, mainland China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, governments have implemented, among other measures, restrictions on mobility and travel and cancellation of public activities, to contain the spread of the virus. Such measures resulted in a decline of the global entertainment market as well as the movie market in China in 2020. According to the F&S Report, the global entertainment market experienced growth with a CAGR of 5.8% between 2017 and 2019, reaching US\$370.7 billion in 2019. In 2020, global entertainment market decreased by 9.7% to US\$334.6 billion due to the negative influence of COVID-19. The number of movie audience recorded considerable growth between 2017 and 2019, resulting in an increase of market size of movie market from RMB61.1 billion in 2017 to RMB75.7 billion in 2019. Due to the COVID-19 pandemic, especially social distancing measures such as temporary closure of theaters, the movie market in China plummeted in 2020 with a market size of RMB33.2 billion and slightly increased in 2021 with a market size of RMB58.3 billion. 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, please see “Industry Overview — Global Entertainment Market and China Pan-Entertainment Market” and “Industry Overview — Drama Series and Movie Market in China.”

During the first outbreak of the COVID-19 pandemic, various strict restrictions were implemented to halt the outbreak. As social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities and countries where our offices and facilities were located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent that onsite services of our employees were required.

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

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sanitizers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting the COVID-19 or any other epidemic disease, since our employees could be quarantined and/or our offices may have to be shut down for disinfection.

While the lock-down and various social distancing initiatives adopted by the governments during the outbreak of COVID-19 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. Furthermore, any increase in demand for online social and entertainment activities as a result of the lock-down and various social distancing initiatives associated with the COVID-19 outbreak may be temporary and not sustainable. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

In addition, 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 from variety program IP production, operation, and licensing. 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, please see “— Discussion of Certain Balance Sheet Items — Assets — Goodwill” in this section. Our revenue decreased by 13.7% to RMB1,559.9 million in 2020 from RMB1,806.6 million in 2019, 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. For details, please see “— Period to Period Comparison of Results of Operations” 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.* Because of COVID-19, the ongoing business and travel restrictions have significantly impacted the availability of participants of our variety programs, the uncertainty of which in turn affected the production and broadcasting schedules of pipeline programs and programs under production. As a result of foregoing, several of our popular variety programs, such as “Sing! China” and “Street Dance of China,” experienced a delay ranging from one to two months in their production and broadcasting schedules in 2020 and 2021, 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.

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- *Additional production cost.* In response to the outbreak, we took a series of measures to protect our employees and program participants. For example, we incurred additional cost in providing COVID testing and paying for quarantine expenses for program participants as well as some of our employees during the production of several of our variety programs, including “Street Dance of China” and “Sing! China 2020.”

In addition, government measures on travel and closure of facilities prevented certain guest actors and actresses from attending the production process and the unavailability of 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.* Governments’ measures to contain the spread of the virus, such as 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 concerts 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, which resulted in a decrease in our revenue in 2020. As a result of the foregoing, 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, because of the resurgence of COVID-19 cases in Shanghai and its vicinity, where we plan to film for six of our variety programs, we had to find and rent production studios in cities located further away from where we operate. Also, our employee had to be quarantined when they traveled from Shanghai to the replacement production studios. Despite our efforts, the production and broadcasting schedules for at least five of our pipeline variety programs of our variety programs have been 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 further development as a global pandemic. Should China experience further outbreaks, China may take more emergency measures to combat it, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our businesses. 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.”

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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.

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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.

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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:

	<u>Membership fee</u>	<u>Online music training</u>
	<i>(RMB in thousands)</i>	
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.

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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

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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.

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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.

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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.

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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.

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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

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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.

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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.

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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

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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.

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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.

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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.

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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 transferred 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.

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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.

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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
	<i>(RMB in millions)</i>			
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

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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.

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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)

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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.

Possible changes of key assumptions	Recoverable amount of the cash-generating unit exceeds/(below) its carrying amount by			
	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(RMB in millions)</i>			
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

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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
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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%)	(3.6)	(0.2%)	(2.6)	(0.2%)	(1.1)	(0.7%)	(0.4)	(0.2%)

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	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
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										
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%	38.4	2.5%	(327.4)	(29.1%)	(18.2)	(11.8%)	(12.3)	(6.7%)
Income tax expense	(61.3)	(3.4%)	(66.2)	(4.2%)	(24.3)	(2.2%)	(7.2)	(4.7%)	(1.1)	(0.6%)
Profit/(loss) for the year/period	<u>380.2</u>	<u>21.0%</u>	<u>(27.8)</u>	<u>(1.8%)</u>	<u>(351.7)</u>	<u>(31.2%)</u>	<u>(25.4)</u>	<u>(16.4%)</u>	<u>(13.4)</u>	<u>(7.3%)</u>
Attributable to:										
Owners of the parent	323.4	17.9%	(8.1)	(0.5%)	(345.0)	(30.6%)	(21.8)	(11.9%)	(11.9)	(6.5%)
Non-controlling interests	56.8	3.1%	(19.7)	(1.3%)	(6.8)	(0.6%)	(3.6)	(2.0%)	(1.5)	(0.8%)
	<u>380.2</u>	<u>21.0%</u>	<u>(27.8)</u>	<u>(1.8%)</u>	<u>(351.7)</u>	<u>(31.2%)</u>	<u>(25.4)</u>	<u>(13.9%)</u>	<u>(13.4)</u>	<u>(7.3%)</u>

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.

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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
	<i>(RMB in millions, except for percentages)</i>				
	<i>(unaudited)</i>				
Profit/(loss) for the year/ period	380.2	(27.8)	(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	(0.3)	(304.3)	11.2	(6.3)
Adjusted net profit/(loss) margin (non-IFRS measures)	22.48%	(0.02%)	(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.”

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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	%
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										
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.

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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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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%	4.0	5.5%	0.1	0.1%
Online video platforms	116.9	8.7%	67.8	6.2%	48.8	5.5%	–	–	–	–
Licensing of offline entertainment events⁽²⁾	68.3	5.1%	24.5	2.3%	48.1	5.5%	31.7	43.7%	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%

Notes:

- (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 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. 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 from August 2020 to August 2021 under the 2018 Licensing Agreement is unaffected by our renegotiation with the licensing partner. 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.

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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 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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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%

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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	%
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										
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%

Note:

(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.”

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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	%
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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
	<i>(%)</i>									
	<i>(RMB in millions, except for percentages)</i>									
	<i>(unaudited)</i>									
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%

Note:

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

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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
	<i>(RMB in millions)</i>				
	<i>(unaudited)</i>				
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

Notes:

- (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, please 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.

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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	%
<i>(RMB in millions, except for percentages)</i>										
<i>(unaudited)</i>										
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%

Note:

(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:

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	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in million, except for percentages)</i>									
	<i>(unaudited)</i>									
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%

Note:

(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.

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(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, RMB3.6 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

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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.

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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.

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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

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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 20, 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.

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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.

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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.

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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 and smartphones. 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

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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 conflicts in the schedules of program participants and 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 and smartphones.

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 RMB18.0 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 and recognized licensing revenue of approximately RMB102.5 million in 2020 during the Track Record Period.

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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 (每天回家老婆都在装死),” 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.

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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.

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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] million 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, 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 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.

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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 25.5% to RMB2.6 million in 2021 from RMB3.6 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 63.3% to RMB24.3 million in 2021 from RMB66.2 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 RMB27.8 million in 2020 to RMB351.7 million in 2021. We recorded adjusted net loss (non-IFRS measures) of RMB0.3 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.

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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.

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- (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 RMB12.0 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.”

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- *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 in association with our purchase of the subsequent broadcasting rights of “Borders of Love” (愛情的邊疆), a TV drama series, at a price of RMB15.5 million. “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

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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

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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 decreased by 26.5% to RMB3.6 million in 2020 from RMB4.9 million in 2019, primarily due to our late payment for fees charged by the tax authority and loss on disposal of property, plant and equipment incurred in 2019.

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.

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Income Tax Expense

Our income tax expense increased by 8.0% to RMB66.2 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 RMB27.8 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 RMB0.3 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
	<i>(RMB in millions)</i>			
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	43.1	59.0	59.1
	2,978.2	2,546.2	2,720.9	2,883.3
Total non-current assets				

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	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in millions)</i>			
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	60.0	84.8	84.7
Interest-bearing bank borrowings	185.0	100.0	–	–
Due to related parties	1.2	–	–	–
Tax payable	30.6	30.3	40.5	28.7
Lease liabilities	6.0	8.7	2.4	8.5
Total current liabilities	620.5	495.7	471.2	343.6
Net current assets	1,683.4	2,063.1	1,350.6	1,215.8
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	4,591.0	4,058.0	4,032.3

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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作企業(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
	<i>(RMB in millions)</i>			
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

We performed impairment test on goodwill at the end of 2019, 2020 and 2021, and the six months ended June 30, 2022. For the 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 had been recognized in our consolidated statements of profit or loss in 2020 and 2021, respectively.

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The impairment of RMB386.8 million for goodwill as of December 31, 2020 was mainly because the recoverable amounts of MXQY was lower than our carrying amount, which was primarily 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.

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- (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 in 2022 featuring electronic music, 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.

The impairment of RMB380.7 million for goodwill as of December 31, 2021 was mainly because the recoverable amounts of MXQY was lower than our carrying amount, which was primarily resulted from the following reasons:

- (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 “Summary — Recent Developments and No Material Adverse Change — Recent Regulatory Development — 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. 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 in MXQY unit’s recoverable amount in the goodwill impairment test in 2021.
- (ii) The licensing fees under the 2021 Licensing Contract are divided into a fixed portion and a performance-based portion which requires the market performance of the licensed music recordings meet certain thresholds. The licensed music recordings did not meet the thresholds for the performance-based fees due to the market demand for the licensed music recordings in 2021 and, as a result, we were not entitled to receive the performance-based licensing fees, which resulted in a reduction in MXQY unit’s recoverable amount in the goodwill impairment test in 2021.

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The combination of (i) and (ii) resulted in a reduction of approximately RMB442.8 million in MXQY unit’s recoverable amount in the goodwill impairment test in 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. 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.

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 (每天回家老婆都在装死).” 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.

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The tables below set forth the breakdown of our inventories.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in millions)</i>			
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
	<i>(RMB in millions)</i>			
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

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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, according to Frost & Sullivan, 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
	<i>(RMB in millions)</i>			
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

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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
	<i>(RMB in million)</i>			
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, RMB600.5 million, or 59.4% of the gross amount of our trade receivables outstanding as of December 31, 2021, or 70.9% 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 RMB280.2 million, or 35.8% of the gross amount of our trade receivables outstanding as of June 30, 2022, or 45.9% 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, RMB840.8 million, or 78.7% of the gross amount of our trade receivables outstanding as of December 31, 2020, or 92.3% of the net amount of our trade receivables (after deducting the loss allowance) as of December 31, 2020, had been settled.

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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, 2022, 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
	<i>(RMB in millions)</i>			
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.

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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.

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	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
Trade receivables turnover days for music IP operation and licensing	85	229	470	948
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 RMB18.0 million in the same year, while the settlement and payment schedule had not yet started as of December 31, 2021 and (b) the

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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.

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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”).

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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. SH Zhouxing became a shareholder of Shuolan and Yuanlv in the same month. SH Zhouxing and Qinhan New City hold 60% and 40% equity interest, respectively, in each of Shuolan and Yuanlv as of the Latest Practicable Date.

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.

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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
	<i>(RMB in thousands)</i>	
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
	<i>(RMB in thousands)</i>	
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

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	As of December 31,	As of June 30,
	2021	2022
	<i>(RMB in thousands)</i>	
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, and SH Zhouxing will be responsible for the remaining installment of the land-use rights of RMB418.3 million, relevant taxes, and 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).

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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 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.

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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
	<i>(RMB in millions)</i>			
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

Note:

- (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, please 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.

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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
	<i>(RMB in millions)</i>			
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.

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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, 28.7%, or RMB63.7 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.”

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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
	<i>(RMB in millions)</i>			
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
	<i>(RMB in millions)</i>			
Deferred income	9.5	8.9	9.9	11.2
Contract liabilities	100.7	17.0	19.7	71.5
Other payables	11.5	16.1	31.7	39.5
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	68.2	92.3	134.0

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Our other payables and accruals increased by 45.2% to RMB134.0 million as of June 30, 2022 from RMB92.3 million as of December 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 35.3% to RMB92.3 million as of December 31, 2021 from RMB68.2 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 54.3% to RMB68.2 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
	<i>(RMB in millions)</i>			
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

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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
	2019	2020	2021	June 30, 2022
	<i>(RMB in millions)</i>			
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
	2019	2020	2021	June 30, 2022
	<i>(RMB in millions)</i>			
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.

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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
	<i>(RMB in millions)</i>			<i>(unaudited)</i>	
Profit/(loss) before tax	441.5	38.4	(327.4)	(18.2)	(12.3)
Adjustments	181.7	444.8	494.0	50.4	32.8
Change in working capital	(41.3)	(37.1)	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

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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,

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“Reading Class,” in progress, (ii) a decrease in other payables and accruals of RMB79.4 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.

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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.

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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 September 30,
	2019	2020	2021	2022	2022
	<i>(RMB in millions)</i>				
Current Assets					
Inventories	20.1	23.5	3.3	3.3	3.3
Program copyrights	15.5	95.8	109.6	136.5	109.1
Trade and notes receivables	1,136.2	1,072.9	859.3	662.0	800.6
Prepayment, other receivables and other assets	144.8	147.8	118.6	130.6	130.3
Due from related parties	335.6	315.4	183.8	189.1	189.1
Cash and cash equivalents	651.7	903.4	547.2	437.9	277.5
Total current assets	<u>2,303.9</u>	<u>2,558.8</u>	<u>1,821.8</u>	<u>1,559.4</u>	<u>1,509.9</u>
Current Liabilities					
Trade payables	252.7	296.7	343.5	221.7	404.6
Other payables and accruals	145.0	60.0	84.8	84.7	81.0
Interest-bearing bank borrowings	185.0	100.0	–	–	–
Due to related parties	1.2	–	–	–	–
Tax payable	30.6	30.3	40.5	28.7	44.3
Lease liabilities	6.0	8.7	2.4	8.5	7.9
Total current liabilities	<u>620.5</u>	<u>495.7</u>	<u>471.2</u>	<u>343.6</u>	<u>537.8</u>
Net current assets	<u><u>1,683.4</u></u>	<u><u>2,063.1</u></u>	<u><u>1,350.6</u></u>	<u><u>1,215.8</u></u>	<u><u>972.1</u></u>

Our net current assets decreased from RMB1,215.8 million as of June 30, 2022 to RMB972.1 million as of September 30, 2022, primarily due to a combination of an increase in our current liabilities and a decrease in our current assets. Our current liabilities increased from RMB343.6 million as of June 30, 2022 to RMB537.8 million as of September 30, 2022,

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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 September 2022. Our current assets slightly decreased from RMB1,559.4 million as of June 30, 2022 to RMB1,509.9 million as of September 30, 2022, primarily due to a decrease in our cash and cash equivalents.

Our net current assets slightly decreased from RMB1,350.6 million as of December 31, 2021 to RMB1,215.8 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 RMB2,063.1 million as of December 31, 2020 to RMB1,350.6 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 RMB2,063.1 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 RMB495.7 million as of December 31, 2020, primarily attributable to a decrease in other payables and accruals of RMB85.0 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.

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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 September 30,
	2019	2020	2021	2022	2022
	<i>(RMB in millions)</i>				
Interest-bearing bank borrowings	185.0	100.0	–	–	–
Due to related parties	1.2	–	–	–	–
Lease liabilities	12.4	14.0	4.7	22.1	17.6
	198.6	114.0	4.7	22.1	17.6

As of September 30, 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. We accrued contingent liabilities of RMB40.8 million, RMB27.9 million, RMB10.2 million and RMB10.8 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. As of the Latest Practicable Date, we did not have any material contingent liabilities.

As of June 30, 2022, the lawsuits that make up the balance of our contingent liabilities include: (i) 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 (ii) two music IP infringement disputes with one individual with an aggregate claim amount of RMB0.8 million. For details, please see “Business — Compliance and Litigation — Ongoing Litigations — The Ongoing Litigation with MBC Initiated in July 2020” and Note 36 to the Accountants’ Report included in Appendix I to this document.

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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.

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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
	<i>(RMB in millions)</i>			
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	–	–
	<u>335.6</u>	<u>315.4</u>	<u>183.8</u>	<u>189.1</u>
Trade receivables (trade):				
SCML	–	–	0.2	0.0
	<u>–</u>	<u>–</u>	<u>0.2</u>	<u>0.0</u>
Due to a related party				
(non-trade):				
CMC Asia	1.2	–	–	–
	<u>1.2</u>	<u>–</u>	<u>–</u>	<u>–</u>
Trade payable (trade):				
Guangdong Pumpkin Pictures Culture & Communication Co., Ltd.	4.6	1.7	–	–
SCML	9.4	8.5	8.6	8.7
	<u>14.0</u>	<u>10.2</u>	<u>8.6</u>	<u>8.7</u>

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.

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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, and are mostly 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
	<i>(unaudited)</i>				
Profitability ratios					
Gross profit margin	39.0%	37.7%	24.3%	36.7%	30.9%
Net profit/(loss) margin	21.0%	(1.8%)	(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	5.2	3.9	4.5	
Quick ratio ⁽²⁾	3.7	4.9	3.6	4.1	
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%	

Notes:

- (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.

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- (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

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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

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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 price range for the [REDACTED] and assuming that the [REDACTED] is not exercised, excluding any discretionary incentive fee which may be payable by us) for the [REDACTED] are approximately RMB[REDACTED] million, representing [REDACTED]% of the [REDACTED]. The estimated total [REDACTED] expenses consist of (i) [REDACTED]-related expenses of RMB[REDACTED] million (approximately HK\$[REDACTED] million), including [REDACTED] of RMB[REDACTED] million (approximately HK\$[REDACTED] million) and sponsors fee of RMB[REDACTED] million (approximately HK\$[REDACTED] million), and (ii) [REDACTED]-related expenses of RMB[REDACTED] million (approximately HK\$[REDACTED] million), of which the professional fees paid to legal advisors and the Reporting Accounts amounted to RMB[REDACTED] million (approximately HK\$[REDACTED] million) and other fees and expenses amounted to RMB[REDACTED] million (approximately HK\$[REDACTED] million). During the Track Record Period, we incurred [REDACTED] expenses of RMB[REDACTED] million 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] million which is expected to be recognized as administrative expenses subsequent to the Track Record Period. Approximately RMB[REDACTED] million of the estimated [REDACTED] expenses is directly attributable to the issue 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.

FINANCIAL INFORMATION

[REDACTED]

FINANCIAL INFORMATION

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.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See the section headed “Business — Our Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

The table below sets forth the estimated [REDACTED] of the [REDACTED] which we will receive after deduction of [REDACTED] and estimated expenses payable by us in connection with the [REDACTED] (assuming the [REDACTED] is not exercised):

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document)	HK\$[REDACTED]
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] range stated in this document)	HK\$[REDACTED]
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] range stated in this document)	HK\$[REDACTED]

We intend to apply the [REDACTED] from the [REDACTED] for the following purposes and in the amounts set forth below (based on the mid-point of the [REDACTED] range stated in this document):

- Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our IP production and operation. Specifically, we intend to create popular variety program IPs, improve our film and drama series IP production and operation capabilities, strengthen our music IP production and operation capabilities and further develop our IP-related businesses.
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our variety program IP creation and operation.
 - We plan to use approximately [REDACTED], or HK\$[REDACTED] of the [REDACTED] to fund, in full or in part, three to five pipeline variety programs which we expect to release in the following two to three years, including music variety programs, dance variety programs, talk shows, and other types of variety programs. Most of the pipeline variety programs are expected to be released on major satellite TV networks or leading online video platforms.

FUTURE PLANS AND USE OF [REDACTED]

We generally estimate the total investment amount of each variety program by taking into account a number of factors, including the cost of programs produced during the Track Record Period and the past experience of our management regarding the costs of similar variety programs.

We believe the continuously investment in funding our pipeline variety programs will secure our steady growth and leading market position by delivering variety programs and catering to the different preferences of audience. For programs to be funded in part with [REDACTED] from the [REDACTED], we expect to fund the remaining amounts through (i) cash from operations and (ii) trade receivables collected due from our customers for our variety programs IP operation and licensing since we usually receive part of the production fees for the variety programs during the process of production and broadcasting.

The types of the variety programs are subject to the ever-changing market needs and conditions.

- In addition, we plan to use approximately [REDACTED]%, or HK\$[REDACTED] invest in the construction of self-owned production studios and other program production facilities in Songjiang, Shanghai, with an expected size of 34,000 square meters. We expect the total capital expenditure will be RMB136 million (equivalent to approximately HK\$159.0 million). In addition to the [REDACTED], we plan to use bank borrowings, to meet the funding requirement of the construction of the production studios.

We believe our self-owned production studio will provide better audio-visual effects for producing variety programs in various genres. In addition, with our own production facility, we can have better control over the production environment and process, alter the studios to fit better with the program ideas, and experiment with new settings and techniques with ease. The Songjiang Base is currently under construction and is expected to complete by the second half of 2023. For more information relating to the production studios and Songjiang Base, see “Business — Our Businesses — Other IP-Related Business.”

FUTURE PLANS AND USE OF [REDACTED]

- (ii) Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our music IP production and operation. In particular:
- We plan to use approximately [REDACTED]%, or HK\$[REDACTED] of [REDACTED] to acquire more music IPs from large music recording companies, independent music studios and songwriters to produce more music works for our managed artists and to further expand and diversify our music IP library in the next three years.
 - We plan to use approximately [REDACTED]%, or HK\$[REDACTED] of [REDACTED] to purchase and upgrade our sound recording and music editing equipment, hardware and software for our music production team and increase our spending on marketing to promote the music works we produce for our managed artists.
- (iii) Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund our film and drama series IP production and operation. In particular:
- We intend to use approximately [REDACTED]%, or HK\$[REDACTED] of the [REDACTED] to jointly invest in one to two made-for-internet films in the next three years. Leveraging our resources of film library and experience in licensing our film IPs, we plan to cooperate with reputable film production companies to produce the make-for-internet films.
 - We plan to use approximately [REDACTED]%, or HK\$[REDACTED] of the [REDACTED] to fund the design, marketing and sale of tie-in products to further capitalize on our existing film and drama series IPs.
- (iv) Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund the purchase and upgrade of equipment, hardware and software for our technical team, production team and short-video team. We plan to purchase and upgrade our post-production servers, equipment and hardware to enhance our post-production capabilities in the following two to three years.

FUTURE PLANS AND USE OF [REDACTED]

- Approximately [REDACTED]%, or HK\$[REDACTED], will be used to expand our audience reach to provide better customer service and build on our established entertainment IP industry value chain.
 - (i) We plan to invest approximately [REDACTED]%, or HK\$[REDACTED], in the construction of one “Star Movie Digital Interactive Experience Hall” featuring our film IPs, one “Canxing Music Digital Interactive Experience Hall” featuring our music IPs, one electronic music and street dance center and one live streaming center, to provide audience with onsite experience in a range of venues underpinned by our IPs.

We plan to offer onsite experience through experience halls and centers to provide better user experience and increase the size and stickiness of our audience base, in order to attract corporate sponsors and advertising agencies, and enhance our monetization capabilities. We expect to construct the halls and centers in cities with a profound cultural accumulation and rich flavor of humanities, such as Shanghai, Xi’an and Xiamen. The expected size of our Star Movie Digital Interactive Experience Halls and Canxing Music Digital Interactive Experience Halls will be 2,000 square meters, with total capital expenditure being RMB15.0 million (equivalent to approximately HK\$[16.3] million) for the constructions of each kind of the halls, and expected payback period being around five years. The expected size of the electronic music and street dance centers will be 3,000 square meters, with expected total capital expenditure being RMB40.0 million (equivalent to approximately HK\$[43.4] million) and expected payback period being around four years. The expected size of the live streaming centers will be 4,000 square meters, with total capital expenditure being RMB30.0 million (equivalent to approximately HK\$[32.6] million) and expected payback period being around five years.

We generally estimate the total capital expenditure of each kind of halls and centers by taking into account a number of factors, including the past experience of our management, the location and expected size of the halls and centers, and the estimated human resources costs, among others. We will pay close attention to the condition of the market and launch such projects once ready. We expect to fund the remaining amounts with cash from operations and bank borrowings.

We have accumulated rich experiences in licensing our right to host offline entertainment events in association with our variety programs. For example, we authorize the use of our IPs to various third-party partners, such as authorizing Madame Tussauds Shanghai Wax Museum the right to recreate the scenes and props of our variety programs. Our broad base of customers and visitors and vivid knowledge of the industry will also contribute to the management and operation of our halls and centers. We plan to attract and

FUTURE PLANS AND USE OF [REDACTED]

recruit experienced employees and talents to join us when necessary. Therefore, we believe we are well-positioned to manage the operate the experience halls and centers.

- (ii) We plan to use [REDACTED]%, or HK\$[REDACTED] of [REDACTED] to continue to invest in establishing Canxing bootcamp and academy to provide online and offline art trainings services to a wide coverage of recipients, including but not limited to trainings on music and dance.

We aim to further explore innovative ways to operate our entertainment IPs. We plan to establish one Canxing bootcamps and academies in cities with rich sources of students and huge market demands, such as Shanghai, Xi’an and Xiamen, with an expected size of 1,000 square meters. We expect the total capital expenditure for the establishment of Canxing bootcamps and academies to be RMB5.0 million (equivalent to approximately HK\$[5.4] million), with the expected payback period being around four years. We estimate the costs of establishment of these bootcamps and academics on the basis of our experience in providing offline and online trainings, and the location and expected size of the bootcamps and academies, among others. We also plan to continue to invest in the development of our online courses and expansion of our online training. We will pay close attention to the condition of the market and launch such bootcamps and academies once ready. We expect to fund the remaining amounts with cash from operations and bank borrowings.

During the Track Record Period, we have provided training in singing and dancing to the general public by leveraging the brand effect of our singing and dance competition shows. For example, we co-founded the Pop Music School with Shanghai Institute of Visual Arts, or SIVA, to provide undergraduate education since 2018. In addition to offline arts training, we also provide online pop music and street dance classes on the “Sing! China” app we developed, where well-known singers who used to perform in “Sing! China” variety program as contestants or coaches can give online singing classes. With the accumulated customer bases and rich experiences in providing online and offline arts training, we believe we are capable to establish and operate our Canxing bootcamps and academies successfully.

- (iii) We plan to invest [REDACTED]%, or HK\$[REDACTED], in the field of consumer products, including the design and commercialization of fashion items featuring our IPs, and the operation of Canxing live house and music-themed bookstore.

We plan to operate one Canxing fashion items store, one live house and one music-themed bookstore in cities with a rich flavor of humanities, such as Shanghai, Xi’an and Xiamen with an expected size of 800 square meters for fashion item store, 800 square meters for live house and 2,000 square meters for music-themed bookstore. We plan to operate fashion items store to commercialize fashion items featuring our IPs, such as clothes, accessories, and other derivative products. We expect our live houses to be music clubs featuring live music shows and provide dining services. We expect the total capital expenditure for the establishment of Canxing fashion item store, live house and music-themed bookstore will be RMB26.4 million (equivalent to approximately HK\$[28.7] million),

FUTURE PLANS AND USE OF [REDACTED]

considering their expected location and size based on the experience of our management. The expected payback period ranging from around four years to six years. We will pay close attention to the condition of the market and launch such projects once ready. We expect to fund the remaining amounts with cash from operations and bank borrowings.

During the Track Record Period, we licensed our entertainment IPs generated in relation to our content production to consumer products brands in various sectors, including cosmetics, food and beverages, clothing and fashion items. Therefore, we have accumulated rich marketing and operation experience in the industry and are well positioned to further expand our business in the field of consumer products. We are in active preparation for the establishment of Canxing fashion items stores, live houses and music-themed bookstores with our professional marketing and sales expertise.

- (iv) In addition, we plan to invest [REDACTED]%, or HK\$[REDACTED], in investing and operating offline activities, such as music festivals, multi-media content centers and music plazas.

The above allocation of the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED] range.

We will only place the [REDACTED] from the [REDACTED] which are not immediately required for the disclosed purposes in short-term interest-bearing accounts at licensed banks or authorized financial institutions in Hong Kong and the PRC (as defined under the Securities and Futures Ordinance, the Law of the People’s Republic of China on Commercial Banks (中華人民共和國商業銀行法) and other relevant laws in the PRC). We will make an appropriate announcement if there is any change to the above proposed use of [REDACTED] or if any amount of the [REDACTED] will be used for general corporate purpose.

If the [REDACTED] is fully exercised, we will receive additional [REDACTED] of approximately HK\$[REDACTED] for [REDACTED] Shares to be allotted and issued upon the full exercise of the [REDACTED] based on the [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] range, and after deducting the [REDACTED] payable by us. The additional amount raised will be applied to the above areas of use of [REDACTED] on pro-rata basis.

[REDACTED]

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APPENDIX I

ACCOUNTANTS’ REPORT

[To insert the firm’s letterhead]

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF STAR CM HOLDINGS LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

Introduction

We report on the historical financial information of STAR CM Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [I-3] to [I-91], which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2022 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and the statements of financial position of the Company as at 31 December 2021 and 30 June 2022 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages [I-3] to [I-91] forms an integral part of this report, which has been prepared for inclusion in this document of the Company dated [Date] (the “Document”) in connection with the initial [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX I

ACCOUNTANTS’ REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and of the Company as at 31 December 2021 and 30 June 2022 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the “Interim Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim

APPENDIX I

ACCOUNTANTS' REPORT

Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page [I-3] have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

[●]

Certified Public Accountants

Hong Kong

[Date]

APPENDIX I

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION

PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Revenue	5	1,806,593	1,559,945	1,126,746	154,576	182,600
Cost of sales		(1,101,709)	(972,512)	(852,434)	(97,881)	(126,059)
Gross profit		704,884	587,433	274,312	56,695	56,541
Other income and gains	5	66,358	53,084	39,920	21,630	9,411
Selling and distribution expenses		(43,108)	(42,421)	(35,283)	(16,033)	(9,238)
Administrative expenses		(218,321)	(198,913)	(180,901)	(73,182)	(51,465)
Impairment of goodwill	16	–	(386,779)	(380,731)	–	–
Reversal of impairment losses/(impairment losses) on financial assets, net		(45,231)	18,867	(10,300)	2,993	(9,788)
Other expenses		(4,887)	(3,552)	(2,647)	(1,089)	(449)
Changes in fair value of financial assets at fair value through profit or loss		(1,532)	17,901	(27,570)	(6,433)	(4,588)
Finance costs	7	(14,068)	(6,281)	(2,739)	(1,011)	(1,047)
Share of profits and losses of:						
Joint ventures		(1,871)	(272)	(259)	(66)	(168)
Associates		(696)	(683)	(1,247)	(1,703)	(1,472)
PROFIT/(LOSS) BEFORE TAX	6	441,528	38,384	(327,445)	(18,199)	(12,263)
Income tax expense	10	(61,284)	(66,215)	(24,301)	(7,226)	(1,111)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		<u>380,244</u>	<u>(27,831)</u>	<u>(351,746)</u>	<u>(25,425)</u>	<u>(13,374)</u>
Attributable to:						
Owners of the parent		323,421	(8,108)	(344,996)	(21,821)	(11,883)
Non-controlling interests		56,823	(19,723)	(6,750)	(3,604)	(1,491)
		<u>380,244</u>	<u>(27,831)</u>	<u>(351,746)</u>	<u>(25,425)</u>	<u>(13,374)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted	12	N/A	N/A	N/A	N/A	N/A

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended	
	2019	2020	2021	30 June	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
PROFIT/(LOSS) FOR THE YEAR/PERIOD	<u>380,244</u>	<u>(27,831)</u>	<u>(351,746)</u>	<u>(25,425)</u>	<u>(13,374)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	<u>11,812</u>	<u>(56,050)</u>	<u>(12,514)</u>	<u>(5,718)</u>	<u>24,731</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>11,812</u>	<u>(56,050)</u>	<u>(12,514)</u>	<u>(5,718)</u>	<u>24,731</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX	<u>11,812</u>	<u>(56,050)</u>	<u>(12,514)</u>	<u>(5,718)</u>	<u>24,731</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD	<u>392,056</u>	<u>(83,881)</u>	<u>(364,260)</u>	<u>(31,143)</u>	<u>11,357</u>
Attributable to:					
Owners of the parent	<u>335,233</u>	<u>(64,158)</u>	<u>(357,510)</u>	<u>(27,539)</u>	<u>12,848</u>
Non-controlling interests	<u>56,823</u>	<u>(19,723)</u>	<u>(6,750)</u>	<u>(3,604)</u>	<u>(1,491)</u>
	<u>392,056</u>	<u>(83,881)</u>	<u>(364,260)</u>	<u>(31,143)</u>	<u>11,357</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December			As at
		2019	2020	2021	30 June
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2022
				<i>RMB’000</i>	
NON-CURRENT ASSETS					
Property, plant and equipment	13	33,919	21,475	54,380	96,070
Other intangible assets	14	185,971	163,096	153,267	159,374
Right-of-use assets	15(a)	12,354	12,897	102,266	116,632
Goodwill	16	2,256,298	1,851,848	1,465,276	1,478,421
Investments in joint ventures	17	403,505	403,233	403,974	403,806
Investments in associates	18	5,936	5,353	422,246	428,938
Financial assets at fair value					
through profit or loss	20	27,223	45,124	16,839	13,021
Restricted cash	25	–	–	43,594	39,090
Deferred tax assets	28	52,987	43,139	59,048	59,066
Prepayments, other					
receivables and other assets	24	–	–	–	88,861
Total non-current assets		2,978,193	2,546,165	2,720,890	2,883,279
CURRENT ASSETS					
Inventories	21	20,114	23,471	3,326	3,329
Program copyrights	22	15,496	95,818	109,625	136,477
Trade and notes receivables	23	1,136,206	1,072,900	859,332	662,046
Prepayments, other					
receivables and other assets	24	144,842	147,816	118,515	130,625
Due from related parties	38(b)	335,573	315,399	183,813	189,030
Cash and cash equivalents	25	651,681	903,376	547,182	437,863
Total current assets		2,303,912	2,558,780	1,821,793	1,559,370
CURRENT LIABILITIES					
Trade payables	26	252,651	296,744	343,532	221,701
Other payables and accruals	27	144,960	59,942	84,796	84,741
Interest-bearing bank					
borrowings	29	185,000	100,000	–	–
Due to related parties	38(b)	1,219	–	–	–
Tax payable		30,582	30,336	40,409	28,725
Lease liabilities	15(b)	6,043	8,687	2,426	8,482
Total current liabilities		620,455	495,709	471,163	343,649

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	<i>Notes</i>	As at 31 December			As at
		2019	2020	2021	30 June
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>2022</i>
					<i>RMB’000</i>
NET CURRENT ASSETS		<u>1,683,457</u>	<u>2,063,071</u>	<u>1,350,630</u>	<u>1,215,721</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,661,650</u>	<u>4,609,236</u>	<u>4,071,520</u>	<u>4,099,000</u>
NON-CURRENT LIABILITIES					
Lease liabilities	<i>15(b)</i>	<u>6,420</u>	<u>5,268</u>	<u>2,263</u>	<u>13,616</u>
Deferred tax liabilities	<i>28</i>	<u>5,477</u>	<u>4,725</u>	<u>3,806</u>	<u>3,861</u>
Other payables and accruals	<i>27</i>	<u>4,095</u>	<u>8,280</u>	<u>7,475</u>	<u>49,341</u>
Total non-current liabilities		<u>15,992</u>	<u>18,273</u>	<u>13,544</u>	<u>66,818</u>
Net assets		<u><u>4,645,658</u></u>	<u><u>4,590,963</u></u>	<u><u>4,057,976</u></u>	<u><u>4,032,182</u></u>
EQUITY					
Equity attributable to owners of the parent					
Share capital	<i>30</i>	<u>–</u>	<u>–</u>	<u>2</u>	<u>2</u>
Reserves	<i>31</i>	<u>3,936,097</u>	<u>3,899,435</u>	<u>3,999,167</u>	<u>4,012,015</u>
		<u>3,936,097</u>	<u>3,899,435</u>	<u>3,999,169</u>	<u>4,012,017</u>
Non-controlling interests		<u>709,561</u>	<u>691,528</u>	<u>58,807</u>	<u>20,165</u>
Total equity		<u><u>4,645,658</u></u>	<u><u>4,590,963</u></u>	<u><u>4,057,976</u></u>	<u><u>4,032,182</u></u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent							Total equity	
	Share capital	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Share award scheme reserve*	Retained profits*	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2019	-	2,043,986	107,701	31,281	55,208	1,336,658	3,574,834	615,183	4,190,017
Profit for the year	-	-	-	-	-	323,421	323,421	56,823	380,244
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	-	-	-	11,812	-	-	11,812	-	11,812
Total comprehensive income for the year	-	-	-	11,812	-	323,421	335,233	56,823	392,056
Equity-settled share award expense (note 32)	-	-	-	-	26,030	-	26,030	-	26,030
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	37,555	37,555
Transfer from retained profits	-	-	17,387	-	-	(17,387)	-	-	-
At 31 December 2019	-	2,043,986	125,088	43,093	81,238	1,642,692	3,936,097	709,561	4,645,658

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Year ended 31 December 2020

	Attributable to owners of the parent								
	Share capital	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Share award scheme reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	(note 30)	(note 31)	(note 31)	(note 31)			(note 31)		
At 1 January 2020	-	2,043,986	125,088	43,093	81,238	1,642,692	3,936,097	709,561	4,645,658
Loss for the year	-	-	-	-	-	(8,108)	(8,108)	(19,723)	(27,831)
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	-	-	-	(56,050)	-	-	(56,050)	-	(56,050)
Total comprehensive loss for the year	-	-	-	(56,050)	-	(8,108)	(64,158)	(19,723)	(83,881)
Equity-settled share award expense (note 32)	-	-	-	-	27,496	-	27,496	-	27,496
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	1,690	1,690
Transfer from retained profits	-	-	5,243	-	-	(5,243)	-	-	-
At 31 December 2020	-	2,043,986	130,331	(12,957)	108,734	1,629,341	3,899,435	691,528	4,590,963

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ACCOUNTANTS’ REPORT

Year ended 31 December 2021

	Attributable to owners of the parent							Total equity
	Share capital	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Share award scheme reserve*	Retained profits*	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	-	2,043,986	130,331	(12,957)	108,734	1,629,341	3,899,435	4,590,963
Loss for the year	-	-	-	-	-	(344,996)	(344,996)	(351,746)
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	-	-	-	(12,514)	-	-	(12,514)	(12,514)
Total comprehensive loss for the year	-	-	-	(12,514)	-	(344,996)	(357,510)	(364,260)
Issue of shares (note 30)	2	1,897,065	-	-	-	-	1,897,067	1,897,067
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	6,580
Equity-settled share award expense (note 32)	-	-	-	-	27,396	-	27,396	27,396
Acquisition of non-controlling shareholders (note 31)	-	42,831	-	-	-	-	42,831	(48,831)
Capital reduction by non-controlling shareholders (note 31)	-	(1,315,275)	-	-	-	-	(1,315,275)	(1,897,065)
Dividends declared to the then shareholders of a subsidiary (note 11)	-	-	-	-	-	(194,775)	(194,775)	(194,775)
Dividends paid to non-controlling shareholders (note 11)	-	-	-	-	-	-	-	(1,930)
At 31 December 2021	2	2,668,607	130,331	(25,471)	136,130	1,089,570	3,999,169	4,057,976

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ACCOUNTANTS’ REPORT

Six months ended 30 June 2021

	Attributable to owners of the parent							Total equity	
	Share capital	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Share award scheme reserve*	Retained profits*	Total		Non-controlling interests
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021 (audited)	-	2,043,986	130,331	(12,957)	108,734	1,629,341	3,899,435	691,528	4,590,963
Loss for the period (unaudited)	-	-	-	-	-	(21,821)	(21,821)	(3,604)	(25,425)
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations (unaudited)	-	-	-	(5,718)	-	-	(5,718)	-	(5,718)
Total comprehensive loss for the period	-	-	-	(5,718)	-	(21,821)	(27,539)	(3,604)	(31,143)
Issue of shares (note 30) (unaudited)	2	-	-	-	-	-	2	-	2
Capital contribution from non-controlling shareholders (unaudited)	-	-	-	-	-	-	-	6,000	6,000
Equity-settled share award expense (note 32) (unaudited)	-	-	-	-	27,396	-	27,396	-	27,396
Dividends declared to the then shareholders of a subsidiary (note 11) (unaudited)	-	-	-	-	-	(194,775)	(194,775)	-	(194,775)
Dividends paid to non-controlling shareholders (note 11) (unaudited)	-	-	-	-	-	-	-	(1,930)	(1,930)
At 30 June 2021 (unaudited)	2	2,043,986	130,331	(18,675)	136,130	1,412,745	3,704,519	691,994	4,396,513

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ACCOUNTANTS’ REPORT

Six months ended 30 June 2022

	Attributable to owners of the parent							Total equity
	Share capital	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Share award scheme reserve*	Retained profits*	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	2	2,668,607	130,331	(25,471)	136,130	1,089,570	3,999,169	4,057,976
Loss for the period	-	-	-	-	-	(11,883)	(11,883)	(13,374)
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	24,731	-	-	24,731	24,731
Total comprehensive income for the period	-	-	-	24,731	-	(11,883)	12,848	11,357
Capital reduction by non-controlling shareholders	-	-	-	-	-	-	-	(19,600)
Disposal of a subsidiary (note 34)	-	-	-	-	-	-	-	(17,551)
At 30 June 2022	2	2,668,607	130,331	(740)	136,130	1,077,687	4,012,017	4,032,182

* These reserve accounts comprise the consolidated reserves of RMB3,936,097,000, RMB3,899,435,000, RMB3,999,167,000 and RMB4,012,015,000 in the consolidated statements of financial position as at 31 December 2019, 2020, 2021, and 30 June 2022, respectively.

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>(Unaudited)</i>						
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		441,528	38,384	(327,445)	(18,199)	(12,263)
Adjustments for:						
Bank interest income	5	(5,615)	(9,111)	(8,179)	(5,038)	(3,685)
Interest income from loan receivable	5	–	(266)	(1,003)	(499)	–
Finance costs	7	14,068	6,281	2,739	1,011	1,047
Depreciation of property, plant and equipment	13	23,406	16,172	7,895	4,231	3,531
Depreciation charge of right-of-use assets	15	12,552	10,404	8,265	4,663	4,536
Amortisation of other intangible assets	14	45,219	33,404	26,948	14,314	11,523
Share of losses of joint ventures	6	1,871	272	259	66	168
Share of losses of associates	6	696	683	1,247	1,703	1,472
Gain on disposal of associates	5	–	–	(131)	–	–
Loss on disposal of property, plant and equipment		894	–	485	–	–
Gain on lease termination	15(c)	(1,071)	–	(662)	(93)	–
Impairment losses/(reversal of impairment losses) on trade receivables	23	41,897	(13,315)	9,698	(3,268)	9,205
Impairment losses/(reversal of impairment losses) on financial assets included in prepayments, other receivables and other assets	24	3,334	(5,552)	602	275	583
Impairment of inventories	6	–	–	8,713	–	–
Impairment of program copyrights	6	16,252	7,968	–	–	–
Gain on disposal of a subsidiary	5	–	–	–	–	(1,630)
Impairment of goodwill	6	–	386,779	380,731	–	–
Changes in fair value of financial assets at fair value through profit or loss	6	1,532	(17,901)	27,570	6,433	4,588
Equity-settled share award expense	32	26,030	27,496	27,396	27,396	–
Foreign exchange differences, net		645	1,544	1,421	(833)	1,421
		623,238	483,242	166,549	32,162	20,496

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	Year ended 31 December			Six months ended		
				30 June		
	Notes	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	<i>(Unaudited)</i>					
Decrease/(increase) in trade and notes receivables		(151,808)	76,988	202,602	480,678	187,984
Decrease/(increase) in prepayments, other receivables and other assets		(34,707)	12,844	17,030	(25,969)	(20,512)
Decrease/(increase) in inventories		(3,567)	(3,357)	11,432	9,064	(3)
Decrease/(increase) in program copyrights		7,650	(88,290)	(13,807)	(62,773)	(26,853)
Increase/(decrease) in trade payables		70,151	44,093	46,788	(167,271)	(121,831)
Increase/(decrease) in other payables and accruals		70,981	(79,387)	11,991	(2,801)	45,578
(Increase)/decrease in restricted cash		–	–	(28,133)	(13,784)	4,504
Cash generated from operations		581,938	446,133	414,452	249,306	89,363
Interest received		5,615	9,111	8,179	5,038	3,685
Income tax paid		(71,226)	(57,034)	(13,468)	(23,378)	(12,982)
Net cash flows from operating activities		516,327	398,210	409,163	230,966	80,066
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(7,021)	(5,181)	(27,744)	(4,889)	(49,748)
Purchases of leasehold land	15(a)	–	–	(99,577)	(99,577)	–
Prepayment for the investment in an associate		–	–	–	–	(88,861)
Prepayments for leasehold land		–	–	(418,310)	(418,310)	–
Proceeds from disposal of items of property, plant and equipment		805	–	49	–	296
Addition to other intangible assets		(32,325)	(20,871)	(20,363)	(13,023)	(10,737)
Purchase of shareholdings in a joint venture		–	–	(1,000)	(1,000)	–
Purchases of shareholdings in associates		(750)	(100)	–	–	(1,000)
Proceeds from disposal of an associate		–	–	300	–	–
Disposal of a subsidiary	34	–	–	–	–	(20,735)
Loan to a third party		–	(10,000)	–	–	–
Repayment from a third party		–	–	–	–	8,000
Loans to a joint venture	38(a)	–	–	(2,700)	–	(5,110)
Decrease/(increase) in amounts due from related parties		(4,566)	20,174	–	–	–
Increase in restricted cash		–	–	(15,461)	(19,326)	–
Net cash flows used in investing activities		(43,857)	(15,978)	(584,806)	(556,125)	(167,895)

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	Notes	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
CASH FLOWS FROM FINANCING ACTIVITIES						
Dividend paid to the then shareholders	35(b)	–	–	(63,362)	(1,930)	–
Repayment of the principal portion of lease liabilities		(13,781)	(9,455)	(8,155)	(4,789)	(2,318)
Capital contribution from non-controlling interests		37,556	1,690	6,580	6,000	–
Interest paid		(12,849)	(6,281)	(1,394)	(1,011)	(553)
Repayment of loans from related parties		(14,275)	(1,219)	(28,996)	(9,511)	–
Proceeds from loans from related parties		–	–	28,996	28,996	–
Repayment of bank loans		(300,000)	(185,000)	(100,000)	(100,000)	–
Proceeds from new bank loans		205,000	100,000	–	–	–
Acquisition of non-controlling shareholders		–	–	(6,000)	–	–
Capital reduction by non-controlling shareholders		–	–	(1,897,065)	–	(19,600)
Issue of shares		–	–	1,897,065	–	–
Prepaid [REDACTED] expenses		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash flows used in financing activities		(98,349)	(100,265)	(176,882)	(84,508)	(24,065)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		275,106	651,681	903,376	903,376	547,182
Effect of foreign exchange rate changes, net		2,454	(30,272)	(3,669)	(329)	2,575
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	25	<u>651,681</u>	<u>903,376</u>	<u>547,182</u>	<u>493,380</u>	<u>437,863</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the consolidated statements of financial position and consolidated statements of cash flows	25	<u>651,681</u>	<u>903,376</u>	<u>547,182</u>	<u>493,380</u>	<u>437,863</u>

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STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at	As at
		31 December	30 June
	<i>Notes</i>	2021	2022
		<i>RMB’000</i>	<i>RMB’000</i>
NON-CURRENT ASSETS			
Investments in subsidiaries	19	1,922,593	1,922,593
Total non-current assets		1,922,593	1,922,593
CURRENT ASSETS			
Cash and cash equivalents	25	13,855	10,443
Prepayments, other receivables and other assets	24	4,727	7,362
Total current assets		18,582	17,805
CURRENT LIABILITIES			
Due to a subsidiary	38	62,065	68,765
Other payables and accruals	27	3,556	3,259
Total current liabilities		65,621	72,024
NET CURRENT LIABILITIES		(47,039)	(54,219)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,875,554	1,868,374
Net assets		1,875,554	1,868,374
EQUITY			
Share capital	30	2	2
Reserves	31	1,875,552	1,868,372
Total equity		1,875,554	1,868,374

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 29 March 2021. The registered office address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company’s subsidiaries were principally involved in variety program intellectual property (“IP”) operation and licensing, music IP operation and licensing, drama series and film IP operation and licensing and other IP-related business.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in this document. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of the Company’s principal subsidiaries are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai CanXing Culture & Media Co., Ltd. (a) (“Canxing Culture”) 上海燦星文化傳媒股份有限公司*	People’s Republic of China (the “PRC”)/ Mainland China 24 March 2006	RMB320,813,865	–	100	Variety program IP production, operation, and licensing
Star China International Media Co., Ltd. (a) (“Star International”) 星空華文國際傳媒有限公司*	PRC/Mainland China 26 April 2012	RMB63,195,800	–	100	Provision of advertising and marketing solutions
Shanghai CanXing Film & Culture Co., Ltd. (b) (“Canxing Film”) 上海燦星影視文化有限公司*	PRC/Mainland China 1 August 2018	RMB10,000,000	–	78	Drama series operation and licensing
CanXing International Media Limited (b) (“Canxing International”)	Hong Kong/ 1 December 2017	HKD1,000,000	–	100	Variety program IP production, operation, and licensing
Mengxiang Qiangyin Culture Broadcast (Shanghai) Company Ltd. (c) (“MXQY”) 夢響強音文化傳播(上海)有限公司*	PRC/Mainland China 6 December 2012	RMB30,000,000	–	100	Operation and licensing of music IP and artist management

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Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mengxiang Dangran Music Culture & Communication (Shanghai) Co., Ltd. (b) (“MXDR”) 夢響當然音樂文化傳播(上海)有限公司*	PRC/Mainland China 25 November 2014	RMB13,000,000	–	51	Music IP operation and licensing/other IP-related business
Fortune Star Media Limited (e) (“FSML”)	Hong Kong/ 31 May 2010	HKD10,000	100	–	Film IP library and licensing
Shanghai Xinfeng Culture Development Co., Ltd. (d) (“Xinfeng Culture”) 上海歆豐文化發展有限公司*	PRC/Mainland China 23 October 2019	RMB400,000,000	–	100	Real estate development
Qinhan New City Star Chinese Culture Media Co., Ltd. (d) (“Qinhan New City”) 秦漢新城星空華文文化傳媒有限公司*	PRC/Mainland China 29 November 2018	HKD468,000,000	–	100	Cultural and art events planning
Shanghai Jiuwu Yisheng Cultural Culture & Communication Co., Ltd. (d) (“Shanghai Jiuwu Yisheng”) 上海久吾一生文化傳媒有限公司*	PRC/Mainland China 16 June 2020	RMB 2,000,000,000	–	100	Conference and exhibition services

Notes:

- (a) The financial statements of these entities for the year ended 31 December 2019 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by BDO Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. The statutory financial statements of these entities for the year ended 31 December 2020 prepared under PRC GAAP were audited by Beijing Ninghong Certified Public Accountants LLP (北京寧鴻會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. The statutory financial statements of these entities for the year ended 31 December 2021 prepared under PRC GAAP were audited by Shanghai Daxin Certified Public Accountants LLP (上海大信會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.
- (b) The financial statements of these entities for the year ended 31 December 2019 prepared under PRC GAAP were audited by BDO Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. The statutory financial statements of these entities for the year ended 31 December 2020 prepared under PRC GAAP were audited by Beijing Ninghong Certified Public Accountants LLP (北京寧鴻會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. No audited financial statements have been prepared for these entities for the year ended 31 December 2021 as these entities are not required by the local government to prepare statutory accounts.

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- (c) The financial statements of this entity for the year ended 31 December 2019 prepared under PRC GAAP were audited by BDO Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. The statutory financial statements of this entity for the year ended 31 December 2020 prepared under PRC GAAP were audited by Beijing Ninghong Certified Public Accountants LLP (北京寧鴻會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. The statutory financial statements of this entity for the year ended 31 December 2021 prepared under PRC GAAP were audited by Shanghai Xinyun Certified Public Accountants LLP (上海信運會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.
- (d) No audited financial statements have been prepared for these entities since their dates of incorporation as these entities are not required by the local government to prepare statutory accounts.
- (e) The statutory financial statements of this entity for the years ended 31 December 2019, 2020 and 2021 prepared under Hong Kong Financial Reporting Standards were audited by Ernst & Young, certified public accountants registered in Hong Kong.
- * The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the Relevant Periods or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the section headed “History, Reorganisation and Corporate Structure” in this document, the Company became the holding company of the companies now comprising the Group on 31 August 2021. The companies now comprising the Group were under the common control of Chinese Culture (Shanghai) Equity Investment Center (L.P.) and Chinese Culture (Tianjin) Investment Management Co., Ltd., Mr. Tian Ming, Mr. Jin Lei and Mr. Xu Xiangdong (the “Controlling Shareholders”) before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information for the Relevant Periods and the Interim Comparative Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

Due to the regulatory prohibitions on foreign ownership in the radio and television program production, internet cultural activities, television drama production and value-added telecommunication services in the PRC, the business carried out by Canxing Culture and its subsidiaries, Canxing Film and Shanghai Beiyi Culture & Media Co., Ltd. (“Beiyi Culture”) (the “PRC Consolidated Entities”) was prohibited or restricted from foreign ownership. The wholly-owned subsidiary of the Company, Shanghai Jiuyu Yisheng, has entered into a series of contractual arrangements (the “Contractual Arrangements”) with the PRC Consolidated Entities and their respective equity holders (hereafter the equity holders of the PRC Consolidated Entities are referred to as the “Registered Shareholders”). The Contractual Arrangements enable Shanghai Jiuyu Yisheng to exercise effective control over the PRC Consolidated Entities and obtain substantially all economic benefits of the PRC Consolidated Entities. Accordingly, the Company regards the PRC Consolidated Entities as indirect subsidiaries for the purpose of the Historical Financial Information and the PRC Consolidated Entities are consolidated in the Historical Financial Information for the Relevant Periods and in the Interim Comparative Financial Information for the six months ended 30 June 2021. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in this document. The Group does not have any equity interests in the PRC Consolidated Entities.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the six months ended 30 June 2021 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as of 31 December 2019, 2020, 2021 and 30 June 2022 have been prepared to present the assets and liabilities of the subsidiaries now comprising the Group using the existing book values from the Controlling Shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

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Equity interests in subsidiaries held by parties other than the Controlling Shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”), and accounting principles generally accepted in Hong Kong. All IFRSs effective for the accounting period commencing from 1 January 2022, together with the relevant transitional provisions, have been early adopted on a consistent basis by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
IFRS 17	<i>Insurance Contracts</i> ¹
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{1, 3}
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ¹
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about the IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group’s accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The results of subsidiaries are included in the Company’s profit or loss to the extent of dividends received and receivable.

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Investments in associates and joint ventures

An associate is an entity in which the Group has 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.

The Group’s investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses. The Group’s 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 recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group’s investments in the associates or joint ventures, except where unrealised 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 the Group’s 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 the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the 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.

The Group determines that it has 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 the Group acquires a business, it assesses 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 recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised 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 recognised 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 recognised for non-controlling interests and any fair value of the Group’s previously held equity interests in the acquiree over the identifiable 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, recognised in profit or loss as a gain on bargain purchase.

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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. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the 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 the 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 recognised. An impairment loss recognised 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

The Group measures its financial assets at fair value through profit or loss at the end of each of the Relevant Periods. 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 the Group. 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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), 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

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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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised 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 Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised 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.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

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Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement 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 capitalised 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, the Group recognises 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 recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised 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 completed and ready for use.

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks

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

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 5 years.

Film rights

Film rights are stated at cost less accumulated amortisation 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 amortised on a systematic basis, that reflects the pattern in which their future economic benefits are expected to be consumed by the Group. The cost of the film rights is allocated to three distinct film groups, which are identified based on the grading of each film, and is amortised based on the amortisation rate of each film group. The amortisation rate is the proportion of actual license of film rights in a particular film group granted during the year to the total estimated

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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 the Group at each financial year end based on the historical information and management judgment to reflect the change in expected pattern of consumption of future economic benefits embodied in the asset. The amortisation 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 amortisation and any impairment losses.

Music copyrights acquired separately are measured on initial recognition at cost. Music copyrights are subsequently amortised on a systematic basis, that reflects the pattern in which their future economic benefits are expected to be consumed by the Group. The pattern is based on management's estimate of the total license of music copyrights expected to be granted and on an accelerated amortisation rate. The total estimated licence of music copyrights expected to be granted and the amortisation rate are reassessed by the Group at each financial year end based on the historical information and management judgment to reflect the change in expected pattern of consumption of future economic benefits embodied in the asset. The amortisation 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.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	3 – 5 years
Leasehold land	50 years

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for

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the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt investments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

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

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

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Financial assets at fair value through profit or loss

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

This category includes equity investments with embedded derivative which is required to be classified in its entirety as a financial asset at fair value through profit or loss. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects 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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs 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, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares 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 considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs 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 the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has 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, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

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 recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s 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 amortised cost (loans and borrowings)

After initial recognition, the financial liabilities are subsequently measured at amortised 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 recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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Amortised 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 amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct costs/expenses incurred during the purchase and development of scripts. Net realisable 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 the Group. These rights are stated at cost less accumulated amortisation and identified impairment loss. Costs of variety program copyrights comprise fees/investments paid and payable for the production of program copyrights under agreements, direct costs/expenses incurred during the production. The cost of variety program copyright is amortised 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 recognised 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 comprise fees/investments paid and payable for the production of drama series under agreements, direct costs/expenses incurred during the production and the cost of purchased copyrights or broadcasting rights of drama series. Drama series are subsequently amortised on a systematic basis, that reflects the pattern in which their future economic benefits are expected to be consumed by the Group, normally within one year after the first customer’s acceptance of the respective drama series and is recognised 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 recognised 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 the Group.

Any gain or loss arising from the disposal of program copyright is recognised 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 recognised in profit or loss on the date of disposal.

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Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new variety programs is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the variety programs so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

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

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the 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 recognised for all taxable temporary differences, except:

- 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
- 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.

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

- 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
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised 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 utilised.

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 asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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 the 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 realise 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.

Government grants

Government grants are recognised 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 recognised as income on a systematic basis over the periods in which the costs, for which it 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.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the 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 the 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 recognised 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 the Group and the customer at contract inception. When the contract contains a financing

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component which provides the Group with a significant financial benefit for more than one year, revenue recognised 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.

(a) *Variety program IP production, operation, and licensing*

The Group creates and distributes variety programs to various media platforms, including major TV networks and online video platforms. In most cases, the Group jointly invests in the programs with the media platforms and shares the revenue from advertising sales. In other cases, the Group is commissioned by media platforms to produce programs or commercials for a fixed commission fee or license fee (“commissioned production model”). The Group develops its own program content and generally retains part or all of the IP rights on that content, except for the variety programs under commissioned production model. During the Relevant Periods, the Group licenses customers the right to host offline entertainment events for singing, dance and talent competition shows in exchange for a fixed licensing fee.

(i) Licensing of broadcasting rights of programs

Revenue from licensing of broadcasting rights of variety programs is recognised 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.

(ii) Revenue from collaborating with media platforms

Revenue from collaborating with media platforms is realised in the form of advertising sales. It is recognised 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.

(iii) Revenue from the production of commissioned variety programs

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

(iv) Licensing of the right to host offline entertainment events

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

(b) *Music IP operation and licensing*

The Group licenses content to the customers either on a fixed-payment basis or a minimum guarantee plus revenue-sharing basis.

For the licensing of individual songs, fixed payment and minimum guarantees are recognised 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, the Group’s performance obligation is to maintain the music library and grant the right to access such music library to customers which is satisfied over the specified licensing period. Royalties exceeding the minimum guaranteed amount are recognised 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.

(c) *Drama series and film IP operation and licensing*

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

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(d) Artiste management

The Group provides artiste management services by arranging its artistes to provide service to its customers, such as participating in concerts, tours, in-person appearances and sponsorship.

Revenue is recognised on a straight-line basis over the period that the artistes rendered relevant services to the organisers of the entertainment events and TV programs by attending those entertainment events and TV programs.

(e) Concert organisation and production

The Group organises concerts and earns revenue from ticket sales. Revenue from concert ticket sales is recognised over the contract period when the relevant concerts are held by the Group and the customers simultaneously receive and consume the benefits provided by Group’s performance.

Other income

Interest income is recognised 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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“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 recognised 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 recognised 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 the Group’s 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 recognised 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 the Group’s 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 recognised. 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.

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Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised 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 recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group 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.

Other employee benefits

Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government and the central government. These subsidiaries are required to contribute a certain percentage of payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

One subsidiary of the Company operates an occupational retirement scheme registered under the Hong Kong Occupational Retirement Schemes Ordinance. This scheme has been granted exemption under the Hong Kong Mandatory Provident Fund Schemes Ordinance. When an employee leaves the scheme before his/her interest in the Company’s employer contributions vesting fully, the ongoing contributions payable by the Company are reduced by the relevant amount of the forfeited employer’s contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vest fully, in accordance with the rules of the MPF Scheme.

Contributions to these schemes are based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the schemes. The assets of these schemes are held separately from those of the Group in independently administered funds.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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Foreign currencies

The functional currency of the Company is RMB. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the Historical Financial Information. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on changes in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the Relevant Periods and their profits or losses are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the 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 the Group’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

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

The Group is required to deliver licensed content from its existing musical content and additional musical content when it is produced in the future to operators of those third parties’ online platforms. The Group licenses both content separately or within a bundle.

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The Group determined that each existing song copyright licensing and each new song copyright licensing are each capable of being distinct. The fact that the Group regularly licenses both existing and new songs copyright on a standalone basis indicates that the customer can benefit from each product on their own. The Group 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. The Group is 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 the Group 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, the Group has 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.

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

Principal versus agent

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

Contractual Arrangements

The PRC Consolidated Entities 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 disclosed in note 2.1 to the Historical Financial Information, as part of the Reorganisation, the Group exercises control over the PRC Consolidated Entities and enjoys substantially all economic benefits of the PRC Consolidated Entities through the Contractual Arrangements.

The Group does not have any equity interests in the PRC Consolidated Entities. However, as a result of the Contractual Arrangements, the Company has power over the PRC Consolidated Entities, has rights to variable returns from its involvement with the PRC Consolidated Entities and has the ability to affect those returns through its power over the PRC Consolidated Entities and is therefore considered to have control over them. Consequently, the Company regards the PRC Consolidated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the PRC Consolidated Entities in the Historical Financial Information during the Relevant Periods and in the Interim Comparative Financial Information.

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

The Group uses a provision matrix to calculate ECLs 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.

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The provision matrix is initially based on the Group’s historical observed default rates. The 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 & 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 analysed.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s 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 at 31 December 2019, 2020, 2021 and 30 June 2022 amounted to RMB181,930,000, RMB157,098,000, RMB164,126,000 and RMB173,415,000, respectively, details of which are set out in note 23 to the Historical Financial Information.

Provision for expected credit losses on other receivables

The Group has 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 Historical Financial Information.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. As at 31 December 2019, 2020, 2021 and 30 June 2022, management considers that cash-generating unit’s value in use is higher than its fair value less costs of disposal based on the current available information. Estimating the value in use requires the Group 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. The carrying amounts of goodwill at 31 December 2019, 2020, 2021 and 30 June 2022 were RMB2,256,298,000, RMB1,851,848,000, RMB1,465,276,000 and RMB1,478,421,000, respectively. Further details are given in note 16 to the Historical Financial Information.

Impairment of non-financial assets (other than goodwill)

The Group assesses 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. 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, and investments in joint ventures and associates at 31 December 2019, 2020, 2021 and 30 June 2022 in aggregate are RMB641,685,000, RMB606,054,000, RMB1,136,133,000 and RMB1,204,820,000, respectively.

Deferred tax assets

Deferred tax assets are recognised for impairment of financial assets, accrued expenses, payroll payable, deferred income and lease liabilities to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The unrecognised tax losses at 31 December 2019, 2020, 2021 and 30 June 2022 amounted to RMB18,464,000, RMB25,010,000, RMB46,185,000 and RMB57,331,000, respectively. Further details are contained in note 28 to the Historical Financial Information.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter

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into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

Fair value of listed equity investments

At 31 December 2019 and 2020, the listed equity investments have been valued based on a discounted market-based valuation technique as detailed in note 40 to the Historical Financial Information. The valuation requires the Group to adopt the stock price of the investment as of the valuation date and make estimates about the discount for illiquidity based on the lock-up period. The discount for illiquidity was estimated using the Black-Scholes method by referring to the comparable public companies (peers). The Group classifies the fair value of these investments within Level 3 of the fair value hierarchy. The fair values of listed equity investments are based on quoted market prices at 31 December 2021 and 30 June 2022, due to the contractual restriction having been lifted. The fair values of the listed equity investments at 31 December 2019, 2020, 2021 and 30 June 2022 were RMB27,223,000, RMB45,124,000, RMB16,839,000 and RMB13,021,000, respectively. Further details are included in note 20 to the Historical Financial Information.

Amortisation of film rights and music copyrights

The amortisation of film rights and music copyrights recognised as cost of sales for a given period is on a systematic basis, that reflects the pattern in which their future economic benefits are expected to be consumed by the Group. The total estimated license of film rights and music copyrights expected to be granted is estimated based on historical experience of the Group and they are reassessed by the Group at each financial year-end based on the historical information and management judgment to reflect the change in expected pattern of consumption of future economic benefits embodied in the asset. The amortisation method is reviewed regularly, and revised if appropriate. The carrying amounts of film rights and music copyrights are disclosed in note 14 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of the Group’s operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
Mainland China	1,703,257	1,424,228	1,045,035	137,127	168,906
Other regions	103,336	135,717	81,711	17,449	13,694
	<u>1,806,593</u>	<u>1,559,945</u>	<u>1,126,746</u>	<u>154,576</u>	<u>182,600</u>

The revenue information above is based on the locations of the customers.

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(b) *Non-current assets*

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
Mainland China	2,461,389	2,068,325	2,218,330	2,372,037
Other regions	436,594	389,577	383,079	400,065
	<u>2,897,983</u>	<u>2,457,902</u>	<u>2,601,409</u>	<u>2,772,102</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group’s revenue during the Relevant Periods and the six months ended 30 June 2021 is set out below:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
Customer 1	359,579	235,916	159,596	N/A*	N/A*
Customer 2**	257,001	178,042	N/A*	25,807	N/A*
Customer 3**	472,976	396,304	403,142	N/A*	76,536
Customer 4**	N/A*	156,111	120,668	N/A*	42,679
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* The corresponding revenue of the customer is not disclosed as the revenue did not individually account for 10% or more of the Group’s revenue during the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2021 and 2022.

** Including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
<i>Revenue from contracts with customers</i>	<u>1,806,593</u>	<u>1,559,945</u>	<u>1,126,746</u>	<u>154,576</u>	<u>182,600</u>

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Revenue from contracts with customers

(i) *Disaggregated revenue information*

	Year ended 31 December			Six months ended 30 June	
	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2021 <i>RMB'000</i> <i>(Unaudited)</i>	2022 <i>RMB'000</i>
Types of goods or services					
Variety program IP production, operation, and licensing	1,340,518	1,090,100	879,484	72,470	136,483
Music IP operation and licensing	239,126	217,291	118,335	45,166	19,509
Drama series and film IP operation and licensing	114,958	174,170	86,448	22,416	13,733
Other IP-related business	111,991	78,384	42,479	14,524	12,875
Total revenue from contracts with customers	<u>1,806,593</u>	<u>1,559,945</u>	<u>1,126,746</u>	<u>154,576</u>	<u>182,600</u>
Geographical markets					
Mainland China	1,703,257	1,424,228	1,045,035	137,127	168,906
Other regions	103,336	135,717	81,711	17,449	13,694
Total revenue from contracts with customers	<u>1,806,593</u>	<u>1,559,945</u>	<u>1,126,746</u>	<u>154,576</u>	<u>182,600</u>
Timing of revenue recognition					
Transferred at a point in time	1,418,159	1,002,227	840,327	76,953	53,050
Transferred over time	388,434	557,718	286,419	77,623	129,550
Total revenue from contracts with customers	<u>1,806,593</u>	<u>1,559,945</u>	<u>1,126,746</u>	<u>154,576</u>	<u>182,600</u>

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of each of the Relevant Periods and the six months ended 30 June 2021:

	Year ended 31 December			Six months ended 30 June	
	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2021 <i>RMB'000</i> <i>(Unaudited)</i>	2022 <i>RMB'000</i>
Revenue recognised that was included in the contract liabilities at the beginning of each of the Relevant Periods:					
Variety program IP production, operation, and licensing	4,429	82,263	2,937	1,833	2,636
Music IP operation and licensing	1,985	2,529	298	149	278
Drama series and film IP operation and licensing	3,472	5,506	6,202	1,149	1,102
Other IP-related business	6,558	1,307	805	71	1,396
	<u>16,444</u>	<u>91,605</u>	<u>10,242</u>	<u>3,202</u>	<u>5,412</u>

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(ii) *Performance obligations*

Information about the Group’s performance obligations is summarised below:

Variety Program IP Production, Operation, and Licensing

As for the variety programs, the performance obligation is satisfied upon delivery of the video materials and payment is generally due within 30 days after the final account of variety programs with the media platforms, except for the production of commissioned variety programs, where payment in advance is normally required.

As for the licensing of the right to host offline entertainment events, the performance obligation is to support the customers’ offline marketing activities and payment is normally in advance.

Music IP Operation and Licensing

As for licensing which provides right-to-use, the performance obligation is satisfied upon delivery of the audio materials and annual payment is normally required.

As for licensing which provides right-to-access, the performance obligation is satisfied over the period when the customers are granted with access to the Group’s music library and annual payment is normally required.

Drama Series and Film IP Operation and Licensing

The performance obligation is satisfied upon delivery of the video materials and payment is generally due within 30 days from delivery.

Other IP-related Business

As for artiste management, the performance obligation is satisfied over the period that artiste rendered relevant services to the organisers of the entertainment events and TV programs by attending those entertainment events and TV programs and payment is generally made in advance.

As for concert organisation and production, the performance obligation of concert tickets is satisfied when the concert has been held and payment is generally made in advance.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019, 2020 and 2021 and 30 June 2022 are as follows:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Amounts expected to be recognised as revenue:				
Within one year	151,800	44,349	25,832	9,140
More than one year	118,093	108,211	10,482	62,380
	<u>269,893</u>	<u>152,560</u>	<u>36,314</u>	<u>71,520</u>

The remaining performance obligations expected to be recognised in more than one year relate to variety program IP and music IP production, operation, and licensing with expiration dates that are to be satisfied within five years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

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An analysis of other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
<u>Other income</u>					
Bank interest income	5,615	9,111	8,179	5,038	3,685
Government grants					
– related to income*	32,957	39,294	26,953	14,869	3,084
Government grants					
– related to assets*	9,151	2,824	2,753	218	595
Interest income from loan receivable	–	266	1,003	499	–
Interest income from loan to a joint venture	–	–	–	–	107
Others	17,564	1,589	239	913	310
	65,287	53,084	39,127	21,537	7,781
<u>Gains</u>					
Gain on lease termination <i>(note 15)</i>	1,071	–	662	93	–
Gain on disposal of associates	–	–	131	–	–
Gain on the disposal of a subsidiary <i>(note 34)</i>	–	–	–	–	1,630
	1,071	–	793	93	1,630
	<u>66,358</u>	<u>53,084</u>	<u>39,920</u>	<u>21,630</u>	<u>9,411</u>

* The government grants mainly represent incentives awarded by the local governments to support the Group’s operation.

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6. PROFIT/(LOSS) BEFORE TAX

The Group’s profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
						(Unaudited)
Cost of variety program IP operation and licensing*		970,978	886,262	763,342	55,503	107,502
Cost of music IP operation and licensing		37,168	34,505	32,974	17,912	7,003
Cost of drama series and films IP operation and licensing		34,061	16,693	30,421	15,024	5,504
Cost of other IP-related business		59,502	35,052	25,697	9,442	6,050
Depreciation of property, plant and equipment**	13	23,406	16,172	7,895	4,231	3,531
Depreciation of right-of-use assets	15(c)	12,552	10,404	8,265	4,663	4,536
Amortisation of other intangible assets***	14	45,219	33,404	26,948	14,314	11,523
Bank interest income	5	(5,615)	(9,111)	(8,179)	(5,038)	(3,685)
Interest income from loan receivable	5	–	(266)	(1,003)	(499)	–
Share of losses of joint ventures		1,871	272	259	66	168
Share of losses of associates		696	683	1,247	1,703	1,472
Lease payments not included in the measurement of lease liabilities	15(c)	5,699	3,578	3,152	1,197	1,337
Impairment losses (reversal of impairment losses) on financial assets included in prepayments, other receivables and other assets, net	24	3,334	(5,552)	602	275	583
Impairment losses/(reversal of impairment losses) on trade receivables, net	23	41,897	(13,315)	9,698	(3,268)	9,205
Impairment of inventories****		–	–	8,713	–	–
Impairment of program copyrights****	22	16,252	7,968	–	–	–
Auditor’s remuneration		883	4,074	205	–	–
[REDACTED] expenses		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Impairment of goodwill	16	–	386,779	380,731	–	–
Equity-settled share award expense*****	32	26,030	27,496	27,396	27,396	–
Changes in fair value of financial assets at fair value through profit or loss		1,532	(17,901)	27,570	6,433	4,588
Research and development costs		69,677	63,284	51,656	11,236	13,608
Gain on disposal of associates	5	–	–	(131)	–	–
Gain on disposal of a subsidiary	34	–	–	–	–	(1,630)
Employee benefit expense (excluding directors’ and chief executive’s remuneration (note 8)):						
Wages, salaries and bonuses		113,218	107,833	100,968	50,863	57,706
Pension scheme contributions^ (defined contribution scheme)		12,171	6,922	10,965	5,219	5,207
Staff welfare expenses		1,476	1,663	1,930	907	1,930
Equity-settled share award expense		23,107	24,547	24,500	24,500	–
		<u>149,972</u>	<u>140,965</u>	<u>138,363</u>	<u>81,489</u>	<u>64,843</u>

* The cost of variety program IP production, operation, and licensing includes RMB74,513,000, RMB65,551,000, RMB67,092,000, RMB21,577,000 and RMB11,132,000 relating to staff costs during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, which are also included in “Employee benefit expense” disclosed above.

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- ** The depreciation of property, plant and equipment is included in “Cost of sales, “Selling and distribution expenses” and “Administrative expenses” in the consolidated statements of profit or loss.
- *** The amortisation of trademarks, film rights and music copyrights are included in “Cost of sales” in the consolidated statements of profit or loss. The amortisation of software is included in “Administrative expenses” in the consolidated statements of profit or loss.
- **** The impairment of inventories and program copyrights are included in “Cost of sales” in the consolidated statements of profit or loss.
- ***** The equity-settled share award expense is included in “Cost of sales”, “Selling and distribution expenses” and “Administrative expenses” in the consolidated statements of profit or loss.
- ^ At 31 December 2019, 2020, 2021 and 30 June 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on lease liabilities	917	668	396	274	553
Interest on loans from related parties	1,219	–	–	–	–
Interest on discounted notes receivable	–	–	1,345	–	–
Amortised interest on discounted contract liabilities	–	–	–	–	494
Interest on bank borrowings	11,932	5,613	998	737	–
	14,068	6,281	2,739	1,011	1,047

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8. DIRECTORS’ AND CHIEF EXECUTIVE’S REMUNERATION

Mr. Tian Ming was appointed as the chief executive of the Company on 29 March 2021. Mr. Jin Lei, Mr. Xu Xiangdong, Mr. Lu Wei and Ms. Wang Yan were appointed as executive directors of the Company on 9 September 2021. Mr. Lee Wei Choy was appointed as a non-executive director of the Company on 9 September 2021. Mr. Li Liangrong, Mr. Chen Rehao and Mr. Sheng Wenhao were appointed as independent non-executive directors of the Company on 9 September 2021.

Certain of the directors received remuneration from subsidiaries now comprising the Group for their appointment as directors of the subsidiaries. The remuneration of the directors as recorded is set out below:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Fees	213	213	213	108	108
Other emoluments:					
Salaries, allowances and benefits in kind	6,251	5,899	6,336	3,158	2,900
Performance related bonuses	140	144	–	–	–
Pension scheme contributions	245	225	285	135	150
Equity-settled share award expense	2,923	2,949	2,896	2,896	–
	9,559	9,217	9,517	6,189	3,050
	9,772	9,430	9,730	6,297	3,158

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods and the six months ended 30 June 2021 were as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Mr. Chen Rehao	71	71	71	36	36
Mr. Li Liangrong	71	71	71	36	36
Mr. Sheng Wenhao	71	71	71	36	36
	213	213	213	108	108

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods and the six months ended 30 June 2021.

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(b) Executive directors, a non-executive director and the chief executive

	Salaries, allowances and benefits		Performance related bonuses	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	Fees	in kind				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Year ended</u>						
<u>31 December</u>						
<u>2019</u>						
Executive						
directors:						
Mr. Tian Ming	–	1,867	–	–	49	1,916
Mr. Jin Lei	–	1,327	–	–	49	1,376
Ms. Wang Yan	–	1,075	–	827	49	1,951
Mr. Xu						
Xiangdong	–	1,075	–	–	49	1,124
Mr. Lu Wei	–	907	140	2,096	49	3,192
	–	6,251	140	2,923	245	9,559

	Salaries, allowances and benefits		Performance related bonuses	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	Fees	in kind				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Year ended</u>						
<u>31 December</u>						
<u>2020</u>						
Executive						
directors:						
Mr. Tian Ming	–	1,794	–	–	45	1,839
Mr. Jin Lei	–	1,276	–	–	45	1,321
Ms. Wang Yan	–	1,035	–	827	45	1,907
Mr. Xu						
Xiangdong	–	1,035	–	–	45	1,080
Mr. Lu Wei	–	759	144	2,122	45	3,070
	–	5,899	144	2,949	225	9,217

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	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Year ended</u>						
<u>31 December</u>						
<u>2021</u>						
Executive						
directors:						
Mr. Tian Ming	–	1,884	–	–	57	1,941
Mr. Jin Lei	–	1,344	–	–	57	1,401
Ms. Wang Yan	–	1,092	–	826	57	1,975
Mr. Xu						
Xiangdong	–	1,092	–	–	57	1,149
Mr. Lu Wei	–	924	–	2,070	57	3,051
	–	6,336	–	2,896	285	9,517

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Six months ended</u>						
<u>30 June 2022</u>						
Executive						
directors:						
Mr. Tian Ming	–	719	–	–	30	749
Mr. Jin Lei	–	580	–	–	30	610
Ms. Wang Yan	–	472	–	–	30	502
Mr. Xu						
Xiangdong	–	573	–	–	30	603
Mr. Lu Wei	–	556	–	–	30	586
	–	2,900	–	–	150	3,050

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	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Six months ended</u>						
<u>30 June 2021</u>						
<u>(unaudited)</u>						
Executive						
directors:						
Mr. Tian Ming	–	940	–	–	27	967
Mr. Jin Lei	–	670	–	–	27	697
Ms. Wang Yan	–	544	–	826	27	1,397
Mr. Xu						
Xiangdong	–	544	–	–	27	571
Mr. Lu Wei	–	460	–	2,070	27	2,557
	–	3,158	–	2,896	135	6,189

There were no fees and other emoluments payable to the non-executive director during the Relevant Periods and the six months ended 30 June 2021.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2021.

During the Relevant Periods and the six months ended 30 June 2021, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 included three, three, three, three and three directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining two, two, two, two and two highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods and the six months ended 30 June 2021 are as follows:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Salaries, allowances and benefits in kind	2,682	2,658	2,648	1,337	1,416
Performance related bonuses	452	741	195	200	371
Pension scheme contributions	49	45	57	27	30
Equity-settled share award expense	2,068	2,068	2,068	2,068	–
	5,251	5,512	4,968	3,632	1,817

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The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
				<i>(Unaudited)</i>	
Nil to HK\$1,000,000	–	–	–	–	1
HK\$1,000,001 to HK\$1,500,000	–	–	–	1	1
HK\$1,500,001 to HK\$2,000,000	–	–	1	–	–
HK\$2,000,001 to HK\$2,500,000	1	1	–	–	–
HK\$2,500,001 to HK\$3,000,000	–	–	–	–	–
HK\$3,000,001 to HK\$3,500,000	–	–	–	1	–
HK\$3,500,001 to HK\$4,000,000	1	1	–	–	–
HK\$4,000,001 to HK\$4,500,000	–	–	1	–	–
	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods and the six months ended 30 June 2021, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

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 Relevant Periods.

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 Relevant Periods.

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 the 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 entitled to a preferential income tax rate of 15% during the Relevant Periods, which will expire on 12 November 2023.

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The major components of income tax expense of the Group during the Relevant Periods and the six months ended 30 June 2021 are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current – Charge for the year/period	76,187	56,788	41,034	8,826	1,269
Deferred tax (note 28)	(14,903)	9,427	(16,733)	(1,600)	(158)
Total tax charge for the year/period	<u>61,284</u>	<u>66,215</u>	<u>24,301</u>	<u>7,226</u>	<u>1,111</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) before tax	<u>441,528</u>	<u>38,384</u>	<u>(327,445)</u>	<u>(18,199)</u>	<u>(12,263)</u>
Tax at the tax rate of 25%	110,382	9,596	(81,862)	(4,550)	(3,066)
Effect of preferential lower tax rates entitled	(45,484)	3,197	35,524	1,784	1,674
Profits and losses attributable to associates and joint ventures	385	143	221	265	370
Income not subject to tax	(15,679)	(24,960)	(9,334)	(1,365)	(1,395)
Effect of overseas withholding taxes	2,394	5,855	990	–	11
Expenses not deductible for tax*	10,084	73,769	73,506	7,258	1,191
Additional deductible allowance for research and development expenses	(3,500)	(3,022)	(3,409)	(449)	(488)
Profit and loss from disposal of subsidiaries	–	–	3,371	–	–
Tax losses not recognised	<u>2,702</u>	<u>1,637</u>	<u>5,294</u>	<u>4,283</u>	<u>2,814</u>
Tax charge at the Group’s effective tax rate	<u>61,284</u>	<u>66,215</u>	<u>24,301</u>	<u>7,226</u>	<u>1,111</u>

* Expenses not deductible for tax mainly consist of equity-settled share award expense, impairment of goodwill, expenses without invoices and changes in fair value of financial assets at fair value through profit or loss. These expenses are not to be deductible for tax.

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11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation and up to 30 June 2022.

For the year ended 31 December 2021, a subsidiary of the Group, FSML, declared dividends of USD30,000,000 (equivalent to RMB194,775,000) to its then shareholder. The dividends of RMB133,653,000 have been settled by offsetting against the amounts due from related parties. The remaining dividends have been settled by cash in July 2021.

For the year ended 31 December 2021, a subsidiary of the Group, Shanghai Canteng Culture & Media Co., Ltd., declared dividends of RMB1,930,000 to non-controlling shareholders. The dividends have been paid by 31 December 2021.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings/(loss) per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Reorganisation and the basis of presentation of the Historical Financial Information of the Group for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 as disclosed in note 2.1 to the Historical Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2019					
At 1 January 2019:					
Cost	50,685	1,139	66,086	4,456	122,366
Accumulated depreciation	(34,255)	(812)	(36,746)	–	(71,813)
Net carrying amount	<u>16,430</u>	<u>327</u>	<u>29,340</u>	<u>4,456</u>	<u>50,553</u>
At 1 January 2019, net of accumulated depreciation					
Additions	4	756	6,057	1,651	8,468
Disposals	(1,699)	–	–	–	(1,699)
Transfers	4,037	–	–	(4,037)	–
Depreciation provided during the year (note 6)	(10,406)	(121)	(12,879)	–	(23,406)
Exchange realignment	–	–	3	–	3
At 31 December 2019, net of accumulated depreciation	<u>8,366</u>	<u>962</u>	<u>22,521</u>	<u>2,070</u>	<u>33,919</u>
At 31 December 2019:					
Cost	52,241	1,179	72,140	2,070	127,630
Accumulated depreciation	(43,875)	(217)	(49,619)	–	(93,711)
Net carrying amount	<u>8,366</u>	<u>962</u>	<u>22,521</u>	<u>2,070</u>	<u>33,919</u>

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	Leasehold improvements	Motor vehicles	Office equipment	Construction in progress	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
31 December 2020					
At 1 January 2020:					
Cost	52,241	1,179	72,140	2,070	127,630
Accumulated depreciation	(43,875)	(217)	(49,619)	–	(93,711)
Net carrying amount	<u>8,366</u>	<u>962</u>	<u>22,521</u>	<u>2,070</u>	<u>33,919</u>
At 1 January 2020, net of accumulated depreciation					
At 1 January 2020, net of accumulated depreciation	8,366	962	22,521	2,070	33,919
Additions	–	342	135	3,258	3,735
Transfers	3,007	–	–	(3,007)	–
Depreciation provided during the year (<i>note 6</i>)	(5,825)	(259)	(10,088)	–	(16,172)
Exchange realignment	–	–	(7)	–	(7)
At 31 December 2020, net of accumulated depreciation	<u>5,548</u>	<u>1,045</u>	<u>12,561</u>	<u>2,321</u>	<u>21,475</u>
At 31 December 2020:					
Cost	12,692	1,521	72,257	2,321	88,791
Accumulated depreciation	(7,144)	(476)	(59,696)	–	(67,316)
Net carrying amount	<u>5,548</u>	<u>1,045</u>	<u>12,561</u>	<u>2,321</u>	<u>21,475</u>
31 December 2021					
At 1 January 2021:					
Cost	12,692	1,521	72,257	2,321	88,791
Accumulated depreciation	(7,144)	(476)	(59,696)	–	(67,316)
Net carrying amount	<u>5,548</u>	<u>1,045</u>	<u>12,561</u>	<u>2,321</u>	<u>21,475</u>
At 1 January 2021, net of accumulated depreciation					
At 1 January 2021, net of accumulated depreciation	5,548	1,045	12,561	2,321	21,475
Additions	–	1,237	2,153	37,906	41,296
Disposals	–	–	(49)	(485)	(534)
Depreciation provided during the year (<i>note 6</i>)	(1,928)	(408)	(5,559)	–	(7,895)
Exchange realignment	–	–	38	–	38
At 31 December 2021, net of accumulated depreciation	<u>3,620</u>	<u>1,874</u>	<u>9,144</u>	<u>39,742</u>	<u>54,380</u>
At 31 December 2021:					
Cost	12,408	2,758	74,052	39,742	128,960
Accumulated depreciation	(8,788)	(884)	(64,908)	–	(74,580)
Net carrying amount	<u>3,620</u>	<u>1,874</u>	<u>9,144</u>	<u>39,742</u>	<u>54,380</u>

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	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
30 June 2022					
At 1 January 2022:					
Cost	12,408	2,758	74,052	39,742	128,960
Accumulated depreciation	<u>(8,788)</u>	<u>(884)</u>	<u>(64,908)</u>	<u>–</u>	<u>(74,580)</u>
Net carrying amount	<u>3,620</u>	<u>1,874</u>	<u>9,144</u>	<u>39,742</u>	<u>54,380</u>
At 1 January 2022, net of accumulated depreciation					
	3,620	1,874	9,144	39,742	54,380
Additions	273	–	232	46,109	46,614
Disposals	–	–	–	(296)	(296)
Depreciation provided during the period (<i>note 6</i>)	(969)	(307)	(2,255)	–	(3,531)
Disposal of a subsidiary (<i>note 34</i>)	–	–	(221)	(882)	(1,103)
Exchange realignment	<u>–</u>	<u>–</u>	<u>6</u>	<u>–</u>	<u>6</u>
At 30 June 2022, net of accumulated depreciation					
	<u>2,924</u>	<u>1,567</u>	<u>6,906</u>	<u>84,673</u>	<u>96,070</u>
At 30 June 2022:					
Cost	12,681	2,758	71,582	84,673	171,694
Accumulated depreciation	<u>(9,757)</u>	<u>(1,191)</u>	<u>(64,676)</u>	<u>–</u>	<u>(75,624)</u>
Net carrying amount	<u>2,924</u>	<u>1,567</u>	<u>6,906</u>	<u>84,673</u>	<u>96,070</u>

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14. OTHER INTANGIBLE ASSETS

	<u>Trademarks</u>	<u>Software</u>	<u>Film rights</u>	<u>Music copyrights</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2019					
At 1 January 2019:					
Cost	26,938	1,263	304,383	77,406	409,990
Accumulated amortisation	(8,298)	(299)	(139,272)	(66,099)	(213,968)
Net carrying amount	<u>18,640</u>	<u>964</u>	<u>165,111</u>	<u>11,307</u>	<u>196,022</u>
Cost at 1 January 2019, net of accumulated amortisation	18,640	964	165,111	11,307	196,022
Additions	–	903	–	31,422	32,325
Amortisation provided during the year (note 6)	(1,032)	(272)	(15,064)	(28,851)	(45,219)
Exchange realignment	294	–	2,549	–	2,843
At 31 December 2019, net of accumulated amortisation	<u>17,902</u>	<u>1,595</u>	<u>152,596</u>	<u>13,878</u>	<u>185,971</u>
At 31 December 2019:					
Cost	27,382	2,166	309,394	108,828	447,770
Accumulated amortisation	(9,480)	(571)	(156,798)	(94,950)	(261,799)
Net carrying amount	<u>17,902</u>	<u>1,595</u>	<u>152,596</u>	<u>13,878</u>	<u>185,971</u>
31 December 2020					
At 1 January 2020:					
Cost	27,382	2,166	309,394	108,828	447,770
Accumulated amortisation	(9,480)	(571)	(156,798)	(94,950)	(261,799)
Net carrying amount	<u>17,902</u>	<u>1,595</u>	<u>152,596</u>	<u>13,878</u>	<u>185,971</u>

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	<u>Trademarks</u>	<u>Software</u>	<u>Film rights</u>	<u>Music copyrights</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost at 1 January 2020, net of accumulated amortisation	17,902	1,595	152,596	13,878	185,971
Additions	–	–	–	20,871	20,871
Amortisation provided during the year (note 6)	(1,032)	(216)	(11,719)	(20,437)	(33,404)
Exchange realignment	(1,104)	–	(9,238)	–	(10,342)
	<u>15,766</u>	<u>1,379</u>	<u>131,639</u>	<u>14,312</u>	<u>163,096</u>
At 31 December 2020, net of accumulated amortisation	<u>15,766</u>	<u>1,379</u>	<u>131,639</u>	<u>14,312</u>	<u>163,096</u>
At 31 December 2020: Cost	25,610	2,166	289,379	129,699	446,854
Accumulated amortisation	(9,844)	(787)	(157,740)	(115,387)	(283,758)
Net carrying amount	<u>15,766</u>	<u>1,379</u>	<u>131,639</u>	<u>14,312</u>	<u>163,096</u>
31 December 2021					
At 1 January 2021: Cost	25,610	2,166	289,379	129,699	446,854
Accumulated amortisation	(9,844)	(787)	(157,740)	(115,387)	(283,758)
Net carrying amount	<u>15,766</u>	<u>1,379</u>	<u>131,639</u>	<u>14,312</u>	<u>163,096</u>
Cost at 1 January 2021, net of accumulated amortisation	15,766	1,379	131,639	14,312	163,096
Additions	–	–	–	20,363	20,363
Amortisation provided during the year (note 6)	(965)	(217)	(9,880)	(15,886)	(26,948)
Exchange realignment	(350)	–	(2,894)	–	(3,244)
	<u>14,451</u>	<u>1,162</u>	<u>118,865</u>	<u>18,789</u>	<u>153,267</u>
At 31 December 2021, net of accumulated amortisation	<u>14,451</u>	<u>1,162</u>	<u>118,865</u>	<u>18,789</u>	<u>153,267</u>
At 31 December 2021: Cost	25,024	2,166	282,764	150,062	460,016
Accumulated amortisation	(10,573)	(1,004)	(163,899)	(131,273)	(306,749)
Net carrying amount	<u>14,451</u>	<u>1,162</u>	<u>118,865</u>	<u>18,789</u>	<u>153,267</u>

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	<u>Trademarks</u>	<u>Software</u>	<u>Film rights</u>	<u>Music copyrights</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30 June 2022					
At 1 January 2022:					
Cost	25,024	2,166	282,764	150,062	460,016
Accumulated amortisation	<u>(10,573)</u>	<u>(1,004)</u>	<u>(163,899)</u>	<u>(131,273)</u>	<u>(306,749)</u>
Net carrying amount	<u>14,451</u>	<u>1,162</u>	<u>118,865</u>	<u>18,789</u>	<u>153,267</u>
Cost at 1 January 2022, net of accumulated amortisation					
	14,451	1,162	118,865	18,789	153,267
Additions	–	19	–	10,718	10,737
Disposal of a subsidiary (note 34)	–	(19)	–	–	(19)
Amortisation provided during the period (note 6)	(485)	(108)	(2,570)	(8,360)	(11,523)
Exchange realignment	<u>743</u>	<u>–</u>	<u>6,169</u>	<u>–</u>	<u>6,912</u>
At 30 June 2022, net of accumulated amortisation	<u>14,709</u>	<u>1,054</u>	<u>122,464</u>	<u>21,147</u>	<u>159,374</u>
At 30 June 2022:					
Cost	26,341	2,166	297,651	160,780	486,938
Accumulated amortisation	<u>(11,632)</u>	<u>(1,112)</u>	<u>(175,187)</u>	<u>(139,633)</u>	<u>(327,564)</u>
Net carrying amount	<u>14,709</u>	<u>1,054</u>	<u>122,464</u>	<u>21,147</u>	<u>159,374</u>

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15. LEASES

The Group as a lessee

The Group has lease contracts for office premises and land used in its operations. Leases of office premises generally have lease terms within 3 to 5 years. Leases of land generally have lease terms within 50 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	<u>Office premises</u>	<u>Leasehold land</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2019	29,257	–	29,257
Additions	1,305	–	1,305
Lease termination	(5,656)	–	(5,656)
Depreciation provided during the year	<u>(12,552)</u>	<u>–</u>	<u>(12,552)</u>
As at 31 December 2019 and 1 January 2020	12,354	–	12,354
Additions	10,947	–	10,947
Depreciation provided during the year	<u>(10,404)</u>	<u>–</u>	<u>(10,404)</u>
As at 31 December 2020 and 1 January 2021	12,897	–	12,897
Additions	2,992	99,577	102,569
Lease termination	(3,441)	–	(3,441)
Depreciation provided during the year*	<u>(8,265)</u>	<u>(1,494)</u>	<u>(9,759)</u>
As at 31 December 2021 and 1 January 2022	4,183	98,083	102,266
Additions	20,527	–	20,527
Disposal of a subsidiary (<i>note 34</i>)	(629)	–	(629)
Depreciation provided during the period*	<u>(4,536)</u>	<u>(996)</u>	<u>(5,532)</u>
At 30 June 2022	<u><u>19,545</u></u>	<u><u>97,087</u></u>	<u><u>116,632</u></u>

* The depreciation of leasehold land is capitalised in “Property, plant and equipment” in the consolidated statements of financial position. The depreciation of office premises is included in “Administrative expenses” in the consolidated statements of profit or loss.

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(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Carrying amount at 1 January	31,666	12,463	13,955	4,689
New leases	1,305	10,947	2,992	20,527
Reduction as a result of lease termination	(6,727)	–	(4,103)	–
Reduction as disposal of a subsidiary (note 34)	–	–	–	(800)
Accretion of interest recognised during the year/period	917	668	396	553
Payments	(14,698)	(10,123)	(8,551)	(2,871)
Carrying amount at end of year/period	<u>12,463</u>	<u>13,955</u>	<u>4,689</u>	<u>22,098</u>
Analysed into:				
Current portion	6,043	8,687	2,426	8,482
Non-current portion	<u>6,420</u>	<u>5,268</u>	<u>2,263</u>	<u>13,616</u>

Non-current portion of lease liabilities as at the end of each Relevant Periods is further analysed as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Repayable within:				
1 to 2 years	1,974	2,650	1,533	7,912
2 to 5 years	<u>4,446</u>	<u>2,618</u>	<u>730</u>	<u>5,704</u>
	<u>6,420</u>	<u>5,268</u>	<u>2,263</u>	<u>13,616</u>

The maturity analysis of lease liabilities is disclosed in note 41 to the Historical Financial Information.

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(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on lease liabilities	917	668	396	274	553
Depreciation of right-of-use assets (note 6)	12,552	10,404	8,265	4,663	4,536
Gain on lease termination	1,071	–	662	93	–
Expenses relating to short term leases (included in administrative expenses)	5,699	3,578	3,152	1,197	1,337
Total amount recognised in profit or loss	<u>20,239</u>	<u>14,650</u>	<u>12,475</u>	<u>6,227</u>	<u>6,426</u>

(d) The total cash outflow for leases is disclosed in note 35(c) to the Historical Financial Information.

16. GOODWILL

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022 RMB'000
Carrying amount at beginning of year/period	2,251,874	2,256,298	1,851,848	1,465,276
Exchange realignment	4,424	(17,671)	(5,841)	13,145
Impairment during the year/period (note 6)	–	(386,779)	(380,731)	–
Carrying amount at end of year/period	<u>2,256,298</u>	<u>1,851,848</u>	<u>1,465,276</u>	<u>1,478,421</u>

Impairment testing 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) FSML cash-generating unit (“FSML unit”), which engages in drama series and film IP operation and licensing.

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

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
MXQY unit	1,983,134	1,596,355	1,215,624	1,215,624
FSML unit	273,164	255,493	249,652	262,797
At end of year/period	<u>2,256,298</u>	<u>1,851,848</u>	<u>1,465,276</u>	<u>1,478,421</u>

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. Management considers that cash-generating unit’s value in use is higher than its fair value less costs of disposal based on the current available information. 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 at 31 December			As at
	2019	2020	2021	30 June
	%	%	%	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
FSML 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 31 December 2019, 2020 and 2021 and 30 June 2022, respectively. The same pre-tax discount rate was adopted for the FSML 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.

Assumptions were used in the value in use calculation of the cash-generating units for the Relevant 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, adjusted for expected market development.

Pre-tax discount rates – The discount rates used are before tax. They are determined by reference to the average rates for similar industries and the business risks of the relevant business units as of 31 December 2019, 2020 and 2021 and 30 June 2022, respectively.

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Growth rates – The growth rates used are based on the historical data and management’s expectation of the future market. 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 31 December 2019, 2020 and 2021 and 30 June 2022, respectively.

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.

As at 31 December 2019 and 30 June 2022, the recoverable amount of the MXQY unit exceeds its carrying amount by RMB154,560,000 and RMB62,387,000, respectively. As at 31 December 2020, the Group recognised impairment of RMB386,779,000 due to the outbreak of coronavirus disease (“COVID-19”) in early 2020 which affected the operation of the Group and the decrease in expected prices of new contracts of the program music recordings produced in 2021 with a leading online music platform based on latest negotiation. As at 31 December 2021, the Group recognised impairment of RMB380,731,000 due to the shift from exclusive license to non-exclusive license with online music platform primarily resulting from the new regulations promulgated by government in 2021 and 2022. The prices for non-exclusive licenses are lower than exclusive licenses. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the recoverable amount of the FSML unit exceeds its carrying amount by RMB275,534,000, RMB289,491,000, RMB154,942,000 and RMB278,462,000, 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 at 31 December			As at
	2019	2020	2021	30 June
	%	%	%	2022
				%
MXQY unit				
Budgeted gross margins	(4.69)	N/A	N/A	(2.51)
Pre-tax discount rate	1.03	N/A	N/A	0.61
Terminal growth rate	(8.38)	N/A	N/A	(4.29)
FSML unit				
Budgeted gross margins	(12.22)	(12.59)	(7.54)	(12.06)
Pre-tax discount rate	6.95	8.22	5.28	8.35
Terminal growth rate	(13.12)	(16.74)	(9.83)	(15.15)

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.

Possible changes of key assumptions	Recoverable amount of the cash-generating unit exceeds/(below) its carrying amount by			
	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
				RMB’000
MXQY unit				
Gross margins decrease by 1%	121,775	N/A	N/A	37,265
Gross margins decrease by 3%	55,724	N/A	N/A	(12,117)
Discount rates increase by 1%	4,084	N/A	N/A	(36,326)
Discount rates increase by 3%	(240,893)	N/A	N/A	(193,757)
Growth rates decrease by 1%	136,317	N/A	N/A	47,508
Growth rates decrease by 3%	99,350	N/A	N/A	18,613

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Possible changes of key assumptions	Recoverable amount of the cash-generating unit exceeds/(below) its carrying amount by			
	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000
FSML unit				
Gross margins decrease by 1%	269,302	282,278	148,160	271,511
Gross margins decrease by 3%	256,839	267,852	134,596	257,607
Discount rates increase by 1%	215,490	232,344	115,084	223,985
Discount rates increase by 3%	121,989	143,299	52,602	139,092
Growth rates decrease by 1%	232,398	248,530	127,085	237,470
Growth rates decrease by 3%	165,298	184,811	83,751	173,703

With regards to the assessment of the value in use of the FSML unit, the directors of the Company 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 at 31 December 2019, 2020 and 2021 and 30 June 2022.

17. INVESTMENTS IN JOINT VENTURES

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000
Share of net assets	403,505	403,233	403,974	403,806

The Group’s loans receivable balances due from a joint venture are disclosed in note 38 to the Historical Financial Information.

Particulars of the Group’s material joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest/profit sharing	Voting power	Principal activities
Mengxiang Qi’an Culture Development (Shanghai) Co., Ltd. (“ <i>Mengxiang Qi’an</i> ”) 夢響啟岸文化發展(上海)有限公司	Ordinary shares	PRC/ Mainland China	70%	50%	Real estate development

The Group owns 70% equity interests in Mengxiang Qi’an but only controls 50% voting rights with unanimous consent from all investors required for the relevant activities of Mengxiang Qi’an. Mengxiang Qi’an is accounted for as a joint venture of the Group. The Group’s shareholdings in the joint venture comprise completely equity shares held through a wholly-owned subsidiary of the Company.

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The following table illustrates the summarised financial information in respect of Mengxiang Qi’an adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cash and cash equivalents	5,905	3,921	9,268	4,340
Other current assets	5,968	16,919	40,030	41,383
Non-current assets	960,708	1,171,504	1,390,441	1,419,104
Current liabilities	(306,973)	(384,209)	(322,775)	(330,372)
Non-current liabilities	(89,173)	(232,089)	(541,283)	(559,019)
Net assets	<u>576,435</u>	<u>576,046</u>	<u>575,681</u>	<u>575,436</u>
Reconciliation to the Group’s interest in the joint venture:				
Proportion of the Group’s ownership	70%	70%	70%	70%
Group’s share of net assets of the joint venture	<u>403,505</u>	<u>403,233</u>	<u>402,977</u>	<u>402,805</u>
Revenue	–	–	–	–
Loss for the year/period	(2,673)	(389)	(366)	(245)
Total comprehensive loss for the year/period	<u>(2,673)</u>	<u>(389)</u>	<u>(366)</u>	<u>(245)</u>

The following table illustrates the financial information of the Group’s joint venture that is not individually material:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Share of the joint venture’s profits and losses for the year/period	–	–	(3)	4
Share of the joint venture’s total comprehensive income/(loss) for the year/period	–	–	(3)	4
Aggregate carrying amount of the Group’s investment in the joint venture	<u>–</u>	<u>–</u>	<u>997</u>	<u>1,001</u>

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18. INVESTMENTS IN ASSOCIATES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
Share of net assets	5,936	5,353	422,246	428,938

The Group’s trade payable balance and prepayments to an associate are disclosed in note 38 to the Historical Financial Information.

Particulars of the Group’s material associates as at 30 June 2022 are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest/profit sharing	Voting power	Principal activities
Shaanxi Star Shuolan Real Estate Co., Ltd. (“Shuolan”) 陝西星空碩藍置業有限公司	Ordinary shares	PRC/Mainland China	40%*	40%	Real estate development and operation
Shaanxi Star Yuanlv Real Estate Co., Ltd (“Yuanlv”) 陝西星空原綠置業有限公司	Ordinary shares	PRC/Mainland China	40%*	40%	Real estate development and operation

* On 7 July 2021, the Group set up two associates, Shuolan and Yuanlv, with 50% and 20% equity interest held by the Group, respectively. The Group’s shareholding in these two associates were subsequently changed. As at 30 June 2022, the Group’s shareholding in these two associates were 40% and 40%, respectively. Further details are included in note 34 to the Historical Financial Information.

The Group’s shareholdings in the above associates comprise completely equity shares held through a wholly-owned subsidiary of the Company.

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

	As at	As at
	31 December	30 June
	2021	2022
	RMB’000	RMB’000
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

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	As at 31 December	As at 30 June
	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>
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
	<u>48,000</u>	<u>47,998</u>
Revenue	–	–
Loss for the year/period	(1)	(5)
Total comprehensive loss for the year/period	(1)	(5)
	<u>(1)</u>	<u>(5)</u>

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

	As at 31 December	As at 30 June
	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>
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)
	<u>928,102</u>	<u>928,095</u>
Net assets	928,102	928,095
	<u>928,102</u>	<u>928,095</u>
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
	<u>371,241</u>	<u>371,238</u>
Revenue	–	–
Profit/(loss) for the year/period	2,322	(7)
Total comprehensive income/(loss) for the year/period	2,322	(7)
	<u>2,322</u>	<u>(7)</u>

The following table illustrates the aggregate financial information of the Group’s associates that are not individually material:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Share of the associates’ profits and losses for the year/period	(696)	(683)	(2,178)	(1,467)
Share of the associates’ total comprehensive income/(loss) for the year/period	(696)	(683)	(2,178)	(1,467)
Aggregate carrying amount of the Group’s investments in the associates	5,936	5,353	3,005	9,702
	<u>5,936</u>	<u>5,353</u>	<u>3,005</u>	<u>9,702</u>

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19. INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 December	As at 30 June
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
FSML	8	8
STAR CM (HK) LIMITED	1,922,585	1,922,585
	<u>1,922,593</u>	<u>1,922,593</u>

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity investments, at fair value				
Tencent Music Entertainment Group	27,223	45,124	16,839	13,021
	<u>27,223</u>	<u>45,124</u>	<u>16,839</u>	<u>13,021</u>

The above equity investments were classified as financial assets at fair value through profit or loss as they were mandatorily designated as such. The Group cannot transfer any of the above equity investments during a period commencing on the date of closing of the subscription and ending on the third anniversary of the closing date (“Lock-Up Period”). At any time after the closing date and prior to the expiration of the Lock-Up Period, the Group has right, but not the obligation, to cause Tencent Music Entertainment Group to purchase all or a portion of the above equity investments at the calculated price agreed in the investment contract. On 5 February 2021, the contractual restriction was lifted and the put option expired.

21. INVENTORIES

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Low-value consumable	94	109	138	141
Scripts	20,020	23,362	3,188	3,188
	<u>20,114</u>	<u>23,471</u>	<u>3,326</u>	<u>3,329</u>

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22. PROGRAM COPYRIGHTS

(a) Program copyrights in the consolidated statements of financial position comprise:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Program under production	11,210	5,544	16,193	43,045
Drama series	4,286	90,274	93,432	93,432
	<u>15,496</u>	<u>95,818</u>	<u>109,625</u>	<u>136,477</u>

(b) Movements of program copyrights are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
At beginning of year/period	39,398	15,496	95,818	109,625
Additions	11,507	89,522	17,952	34,884
Recognised as cost of sales	(19,157)	(1,232)	(4,145)	(8,032)
Impairment (<i>note 6</i>)	(16,252)	(7,968)	–	–
At end of year/period	<u>15,496</u>	<u>95,818</u>	<u>109,625</u>	<u>136,477</u>

23. TRADE AND NOTES RECEIVABLES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Trade receivables	1,258,932	1,067,793	1,011,194	783,461
Notes receivable	59,204	162,205	12,264	52,000
	<u>1,318,136</u>	<u>1,229,998</u>	<u>1,023,458</u>	<u>835,461</u>
Less: Impairment of trade receivables	(181,930)	(157,098)	(164,126)	(173,415)
	<u>1,136,206</u>	<u>1,072,900</u>	<u>859,332</u>	<u>662,046</u>

The Group’s trading terms with its customers are mainly on credit. The credit period is generally 30 days depending on the specific payment terms in each contract. Each customer has a maximum credit limit. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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An aging analysis of the trade receivables as at the end of each of the Relevant Periods, based on the transaction dates and net of loss allowance, is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
Within 3 months	438,874	719,503	386,035	142,702
3 to 6 months	456,042	16,266	276,414	14,308
6 to 12 months	58,939	21,698	47,113	257,580
1 to 2 years	93,379	143,167	111,123	120,336
2 to 3 years	29,768	10,061	19,911	67,943
Over 3 years	–	–	6,472	7,177
	<u>1,077,002</u>	<u>910,695</u>	<u>847,068</u>	<u>610,046</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
At beginning of year/period	145,057	181,930	157,098	164,126
Impairment losses/(reversal of impairment losses) (note 6)	41,897	(13,315)	9,698	9,205
Amounts written off as uncollectible	(5,130)	(11,151)	(2,592)	(13)
Exchange realignment	106	(366)	(78)	97
At end of year/period	<u>181,930</u>	<u>157,098</u>	<u>164,126</u>	<u>173,415</u>

Included in the Group’s trade receivables were amounts due from the Group’s related parties of nil, nil, RMB236,000 and RMB4,000 as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, which were repayable on credit terms similar to those offered to the major customers of the Group.

An impairment analysis is performed at the end of each of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by aging and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the Relevant Periods about past events, current conditions and forecasts of future economic conditions.

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Set out below is the information about the credit risk exposure on the Group’s trade receivables using a provision matrix:

As at 31 December 2019

	Trade receivables aging					Total
	Current	Less than 1 year past due	1 to 2 years past due	2 to 3 years past due	More than 3 years past due	
Expected credit loss rate	1.12%	1.12%	9.65%	70.33%	100%	14.45%
Gross carrying amount RMB’000	397,878	566,816	103,350	100,318	90,570	1,258,932
Expected credit losses RMB’000	4,470	6,369	9,971	70,550	90,570	181,930

As at 31 December 2020

	Trade receivables aging					Total
	Current	Less than 1 year past due	1 to 2 years past due	2 to 3 years past due	More than 3 years past due	
Expected credit loss rate	1.71%	1.71%	5.25%	48.63%	100%	14.71%
Gross carrying amount RMB’000	286,587	484,048	151,101	19,587	126,470	1,067,793
Expected credit losses RMB’000	4,897	8,271	7,934	9,526	126,470	157,098

As at 31 December 2021

	Trade receivables aging					Total
	Current	Less than 1 year past due	1 to 2 years past due	2 to 3 years past due	More than 3 years past due	
Expected credit loss rate	1.22%	1.22%	4.91%	35.39%	95.54%	16.23%
Gross carrying amount RMB’000	392,746	325,582	116,864	30,815	145,187	1,011,194
Expected credit losses RMB’000	4,793	3,973	5,741	10,904	138,715	164,126

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As at 30 June 2022

	Trade receivables ageing					Total
	Current	Less than 1 year past due	1 to 2 years past due	2 to 3 years past due	More than 3 years past due	
Expected credit loss rate	2.31%	2.31%	5.98%	10.65%	95.37%	22.13%
Gross carrying amount						
RMB’000	146,607	277,804	127,994	76,045	155,011	783,461
Expected credit losses						
RMB’000	3,393	6,428	7,658	8,102	147,834	173,415

The Group’s notes receivable were all aged within one year and were neither past due nor impaired. As at the end of each of the Relevant Periods, the loss allowance was assessed to be minimal.

At the end of each of the Relevant Periods, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the “Endorsed Notes”) to certain of its suppliers in order to settle the trade payables due to such suppliers with carrying amounts in aggregate of nil, nil, RMB16,719,000 and nil, respectively (the “Endorsement”). In addition, the Group discounted certain notes receivable (the “Discounted Notes”) with carrying amounts in aggregate of nil, nil, RMB19,951,000 and nil as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively (the “Discount”). The above Discounted Notes included bank acceptance bills of nil, nil, RMB19,951,000 and nil as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively. The Endorsed Notes and the Discounted Notes have a maturity within three months as at 31 December 2021. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes may exercise the right of recourse against any, several or all of the persons liable for the Endorsed Notes and Discounted Notes, including the Group, in disregard of the order of precedence (the “Continuing Involvement”).

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with amounts of nil, nil, RMB14,969,000 and nil as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, and the Discounted Notes accepted by large and reputable banks with amounts of nil, nil, RMB19,951,000 and nil as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively (the “Derecognised Notes”). The risk of the Group being claimed by the holders of the Derecognised Notes is remote in the absence of a default of the accepted banks. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Notes are not significant. During the Relevant Periods, the Group recognised the interest expense on the Discounted Notes receivable amounting to nil, nil, RMB1,345,000 and nil, respectively. During the year ended 31 December 2021, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement. The Endorsement and Discount have been made evenly throughout the year.

The Group continued to recognise the remaining Endorsed Notes and the related trade payables with amounts of nil, nil, RMB1,750,000 and nil as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes. Subsequent to the Endorsement, the Group did not retain any rights on the use of such Endorsed Notes, including the sale, transfer or pledge of such Endorsed Notes to any other third parties.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, notes receivable of nil, nil, nil and RMB20,000,000, respectively, whose fair values approximate to their carrying values, were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant during the Relevant Periods.

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24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
				RMB’000
Other receivables	22,712	16,488	14,892	15,587
Prepaid [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loan receivable (note)	–	10,266	11,268	3,268
Prepayments	117,095	86,578	76,856	175,624
Other current assets	16,154	40,024	17,090	25,587
	155,961	153,356	124,657	226,211
Impairment allowance	(11,119)	(5,540)	(6,142)	(6,725)
	144,842	147,816	118,515	219,486
Analysed into:				
Current portion	144,842	147,816	118,515	130,625
Non-current portion	–	–	–	88,861
	144,842	147,816	118,515	219,486

Note: Included in the loan receivable, nil, RMB10,000,000, RMB10,000,000 and RMB2,000,000 as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, is the financial investment in a drama series provided to a third party. The Group made an investment in the drama series, under which the Group is entitled to a fixed investment return based on the principal investment amount, an agreed rate of return and investment period rather than exposure to the risk of variable returns of the invested drama series. The contractual interest rate of the loan is 10% per year. The loan is repayable by 31 December 2021.

An impairment analysis was performed at the end of each of the Relevant Periods. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate.

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The movements in the loss allowance for impairment of other receivables are as follows:

	Expected credit losses			Total
	Stage 1	Stage 2	Stage 3	
	RMB'000	RMB'000	RMB'000	
At 1 January 2019	–	–	7,785	7,785
Impairment losses (<i>note 6</i>)	–	–	3,334	3,334
At 31 December 2019 and 1 January 2020	–	–	11,119	11,119
Reversal of impairment losses (<i>note 6</i>)	–	–	(5,552)	(5,552)
Amount written off as uncollectible	–	–	(27)	(27)
At 31 December 2020 and 1 January 2021	–	–	5,540	5,540
Impairment losses (<i>note 6</i>)	–	–	602	602
At 31 December 2021 and 1 January 2022	–	–	6,142	6,142
Impairment losses (<i>note 6</i>)	–	–	583	583
At 30 June 2022	–	–	6,725	6,725

The Company

	As at	As at
	31 December	30 June
	2021	2022
	RMB'000	RMB'000
Prepaid [REDACTED] expenses	[REDACTED]	[REDACTED]
Other receivables	2	–
Prepayments	174	1,217
	4,727	7,362

25. CASH AND CASH EQUIVALENTS

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Cash and bank balances	651,681	903,376	547,182	437,863
Restricted cash	–	–	43,594	39,090
	651,681	903,376	590,776	476,953

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	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Less:				
Restricted cash				
for litigation	–	–	(28,133)	(23,629)
for leasehold land	–	–	(15,461)	(15,461)
Cash and cash equivalents	651,681	903,376	547,182	437,863
Denominated in RMB	451,300	606,494	472,723	347,436
Denominated in HKD	4,518	7,143	247	9,968
Denominated in USD	189,079	286,795	74,183	79,100
Denominated in EUR	6,784	2,944	–	1,330
Denominated in AUD	–	–	29	29
Cash and cash equivalents	651,681	903,376	547,182	437,863

The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

As at 31 December 2021 and 30 June 2022, time deposits of RMB15,461,000 and RMB15,461,000 have been pledged for the purchase of leasehold land.

As at 31 December 2021 and 30 June 2022, time deposits of RMB28,133,000 and RMB23,629,000 have been pledged for litigation as disclosed in note 36 to the Historical Financial Information.

The Company

	As at	As at
	31 December	30 June
	2021	2022
	RMB'000	RMB'000
Cash and bank balances	13,855	10,443
Cash and cash equivalents	13,855	10,443
Denominated in RMB	13,791	10,378
Denominated in HKD	7	5
Denominated in USD	57	60
Cash and cash equivalents	13,855	10,443

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26. TRADE PAYABLES

An aging analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Within 1 year	170,459	145,505	299,774	177,040
1 to 2 years	29,672	89,637	7,760	8,496
2 to 3 years	37,703	27,139	7,620	6,532
Over 3 years	14,817	34,463	28,378	29,633
	<u>252,651</u>	<u>296,744</u>	<u>343,532</u>	<u>221,701</u>

The trade payables are non-interest-bearing and are normally settled on 90 to 180 days’ terms.

Included in the trade payables were trade payables of RMB13,967,000, RMB10,226,000, RMB8,649,000 and RMB8,669,000 as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, due to the Group’s related parties which were repayable within 30 days, which represented credit terms similar to those offered by the related parties to their major customers.

Included in the trade payables were liabilities arising from contracts with suppliers that are subject to legal cases of RMB40,816,000, RMB27,940,000, RMB10,200,000 and RMB10,800,000 as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, details of which are disclosed in note 36 to the Historical Financial Information.

27. OTHER PAYABLES AND ACCRUALS

The Group

	Notes	As at 31 December			As at
		2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
				RMB'000	
Contract liabilities	(a)	100,709	17,032	19,732	71,520
Other payables	(b)	11,485	16,115	31,678	39,531
Payroll payable		11,124	10,919	7,042	2,922
Deferred income		9,464	8,850	9,947	11,211
Taxes payable other than corporate income tax		16,273	15,306	23,872	8,898
		<u>149,055</u>	<u>68,222</u>	<u>92,271</u>	<u>134,082</u>
Analysed into:					
Current portion		144,960	59,942	84,796	84,741
Non-current portion		4,095	8,280	7,475	49,341
		<u>149,055</u>	<u>68,222</u>	<u>92,271</u>	<u>134,082</u>

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Notes:

(a) Details of contract liabilities as at the end of each of the Relevant Periods are as follows:

	As at 1 January	As at 31 December			As at 30 June
	2019	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Short-term advances received from customers</i>					
Variety program IP production, operation, and licensing	5,362	88,412	5,748	7,907	1,861
Music IP operation and licensing	2,104	2,681	596	1,499	2,476
Drama series and film IP operation and licensing	20,297	5,506	6,959	5,946	58,585
Other IP-related business	7,683	4,110	3,729	4,380	8,598
Total contract liabilities	35,446	100,709	17,032	19,732	71,520

Contract liabilities include short-term advances received to license variety programs, audios, films and other related services. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers in relation to the variety program IP production, operation, and licensing at the end of 2019. The decrease in contract liabilities in 2020 was mainly due to the decrease in short-term advances received from customers in relation to variety program IP production, operation, and licensing at the end of 2020. The increase in contract liabilities in 2021 was mainly due to the increase in short-term advances received from customers in relation to variety program IP production, operation, and licensing at the end of 2021. The increase in contract liabilities at 30 June 2022 was mainly due to the increase in short-term advances received from customers in relation to drama series and film IP operation and licensing at 30 June 2022.

(b) Other payables are non-interest-bearing and repayable on demand.

The Company

	As at 31 December	As at 30 June
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued [REDACTED] expense	[REDACTED]	[REDACTED]

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28. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Impairment of trade receivables and other receivables	Accrued expenses	Payroll payable	Deferred income	Lease liabilities	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2019	24,551	11,678	150	1,826	5,836	44,041
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	<u>8,195</u>	<u>7,779</u>	<u>(150)</u>	<u>(1,135)</u>	<u>(3,508)</u>	<u>11,181</u>
At 31 December 2019 and 1 January 2020	32,746	19,457	–	691	2,328	55,222
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	<u>(7,141)</u>	<u>(2,753)</u>	<u>–</u>	<u>(92)</u>	<u>236</u>	<u>(9,750)</u>
At 31 December 2020 and 1 January 2021	25,605	16,704	–	599	2,564	45,472
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	<u>982</u>	<u>15,159</u>	<u>–</u>	<u>(60)</u>	<u>(2,015)</u>	<u>14,066</u>
At 31 December 2021 and 1 January 2022	<u>26,587</u>	<u>31,863</u>	<u>–</u>	<u>539</u>	<u>549</u>	<u>59,538</u>
Deferred tax credited/(charged) to profit or loss during the period (<i>note 10</i>)	<u>1,450</u>	<u>(1,936)</u>	<u>–</u>	<u>180</u>	<u>2,759</u>	<u>2,453</u>
At 30 June 2022	<u><u>28,037</u></u>	<u><u>29,927</u></u>	<u><u>–</u></u>	<u><u>719</u></u>	<u><u>3,308</u></u>	<u><u>61,991</u></u>

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Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary	Right-of-use assets	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2019	5,916	5,426	11,342
Deferred tax credited to the statement of profit or loss during the year (<i>note 10</i>)	(531)	(3,191)	(3,722)
Exchange realignment	92	–	92
At 31 December 2019 and at 1 January 2020	<u>5,477</u>	<u>2,235</u>	<u>7,712</u>
Deferred tax charged/(credited) to the statement of profit or loss during the year (<i>note 10</i>)	(421)	98	(323)
Exchange realignment	(331)	–	(331)
At 31 December 2020 and at 1 January 2021	<u>4,725</u>	<u>2,333</u>	<u>7,058</u>
Deferred tax credited to the statement of profit or loss during the year (<i>note 10</i>)	(824)	(1,843)	(2,667)
Exchange realignment	(95)	–	(95)
At 31 December 2021 and at 1 January 2022	<u>3,806</u>	<u>490</u>	<u>4,296</u>
Deferred tax charged/(credited) to the statement of profit or loss during the period (<i>note 10</i>)	(140)	2,435	2,295
Exchange realignment	195	–	195
At 30 June 2022	<u>3,861</u>	<u>2,925</u>	<u>6,786</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the Historical Financial Information. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net deferred tax assets recognised in the consolidated statements of financial position	52,987	43,139	59,048	59,066
Net deferred tax liabilities recognised in the consolidated statements of financial position	<u>5,477</u>	<u>4,725</u>	<u>3,806</u>	<u>3,861</u>

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Deferred tax assets have not been recognised in respect of the following items:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022
Tax losses	18,464	25,010	46,185	57,331
Impairment of program copyrights	2,917	2,917	2,917	2,917
	<u>21,381</u>	<u>27,927</u>	<u>49,102</u>	<u>60,248</u>

The Group has tax losses arising in Mainland China of RMB18,464,000, RMB25,010,000, RMB46,185,000 and RMB57,331,000 as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At the end of each of the Relevant Periods, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB172,407,000, RMB159,220,000, RMB122,360,000 and RMB121,704,000 at 31 December 2019, 2020, 2021 and 30 June 2022, respectively.

29. INTEREST-BEARING BANK LOANS

	As at 31 December 2019		
	Effective interest rate (%)	Maturity	RMB’000
Current			
Bank loans – unsecured	5.00%	2020	180,000
Bank loans – secured (<i>note a</i>)	4.57%	2020	5,000
			<u>185,000</u>

	As at 31 December 2020		
	Effective interest rate (%)	Maturity	RMB’000
Current			
Bank loans – unsecured	4.35%	2021	<u>100,000</u>

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	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	185,000	100,000	–	–

Note:

(a) As at 31 December 2019, Canxing Culture’s bank loan amounting to RMB5,000,000 was guaranteed by its subsidiary, Star International.

30. SHARE CAPITAL

The Group and the Company

	As at	As at
	31 December	30 June
	2021	2022
	USD	USD
Authorised:		
50,000,000,000 ordinary shares of USD0.000001 each	50,000	50,000
Issued and fully paid:		
383,399,768 ordinary shares of USD0.000001 each	383	383

The movements in the Company’s share capital during the Relevant Periods are as follows:

	Number of shares in issue	Share capital
		RMB'000
At 29 March 2021 (date of incorporation)	1	–*
New shares issued on 28 April 2021	318,707,882	2
New shares issued on 14 July 2021	10,205,901	–*
New shares issued on 31 August 2021	54,485,984	–*
At 31 December 2021 and 30 June 2022	383,399,768	2

* The amounts of share capital were less than RMB500.

On 29 March 2021, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. The initial authorised share capital of the Company was USD50,000 divided into 50,000,000,000 shares of a par value of USD0.000001 each. On the same day, one subscriber share of the Company was allotted and issued to Mapcal Limited, the initial subscriber and an independent third party, at par, which then transferred such share to Harvest Sky Investment Holdings Limited at par.

On 28 April 2021, the Company issued 79,740,380 shares, 236,465,996 shares and 2,501,506 shares at par to Harvest Sky Investment Holdings Limited, Unionstars Investment Holdings Limited and Dream Radius Investment Holdings Limited, respectively.

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On 14 July 2021, the Company issued 2,105,982 shares at par to Hanfor International Limited. On the same day, the Company issued 4,499,955 shares and 3,599,964 shares to Taobao China Holding Limited and Premier Asia Holdings Limited, respectively, at a total consideration of RMB360,000,000.

On 31 August 2021, the Company issued 1,800,000 shares, 1,800,000 shares, 864,000 shares, 900,000 shares, 21,851,163 shares, 2,741,860 shares, 6,877,373 shares, 4,151,721 shares, 7,739,924 shares, 3,599,964 shares and 2,159,979 shares to Beijing Langma Yongan Investment Management Co., Ltd., Jundu Derui Equity Investment Management Center of Ningbo Meishan Free Trade Port (L.P.), Xinyu Haikun Chongwei Investment Partnership (Limited Partnership), Suzhou Haikun Yujie Investment Partnership (Limited Partnership), Tibet Yuanhe Enterprise Management Co., Ltd, Shanghai Yanheng Investment Management Partnership (Limited Partnership), Pingtan Fenghuai Investment Management LLP, Shanghai Fengpu Investment Management LLP, Shanghai Aoxia Management Partnership (Limited Partnership), Ningbo Fanghua Investment Centre (Limited Partnership) and Ningbo Meishan Free Trade Port Fengcai Investment Management Partnership (Limited Partnership), respectively, at a total consideration of RMB1,537,065,000.

No authorised and issued share capital as at 31 December 2019 and 2020 is presented since the Company had not yet been incorporated as at those dates.

31. RESERVES

The Group

The amounts of the Group’s reserves and the movements therein for the Relevant Periods and the six months ended 30 June 2021 presented in the consolidated statements of changes in equity of the Group.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group, details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

Pursuant to the shareholders’ resolutions adopted by Canxing Culture on 14 May 2021, certain then shareholders (“16.32% non-controlling shareholders”) of Canxing Culture exited from Canxing Culture by way of capital reduction in their equity holdings for a total consideration of RMB1,897,065,000. The reduction price of the 16.32% non-controlling shareholders exceeded the respective net assets attributable to the 16.32% equity interest, so the Group recorded the difference of RMB1,315,275,000 in capital reserve. After the capital reduction, all the 16.32% non-controlling shareholders, either by themselves or through designated offshore investment vehicles, subscribed for the shares of the Company representing their corresponding interests in Canxing Culture prior to the Reorganisation, at the consideration in a total amount of RMB1,897,065,000.

After the capital reduction of Canxing Culture, the remaining non-controlling shareholders (“1.20% non-controlling shareholders”) of Canxing Culture and the Controlling Shareholders are the registered shareholders of Canxing Culture. Shanghai Jiuwu Yisheng entered into the Contractual Arrangements with the registered shareholders in order to exercise and maintain control over the operation of and obtain economic benefits from Canxing Culture and its subsidiaries which engaged in businesses subject to foreign ownership restrictions or prohibitions. With the effect of the Contractual Arrangements, the Group acquired the 1.20% non-controlling interest of Canxing Culture with no consideration. The Group recorded the respective net assets attributable to the 1.20% equity interest of RMB42,831,000 in capital reserve.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

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The Company

	<u>Capital reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 29 March 2021 (date of incorporation)	–	–	–
Issue of shares	1,897,065	–	1,897,065
Loss for the year	–	(21,513)	(21,513)
	<hr/>	<hr/>	<hr/>
At 31 December 2021	1,897,065	(21,513)	1,875,552
Loss for the period	–	(7,180)	(7,180)
	<hr/>	<hr/>	<hr/>
At 30 June 2022	<u>1,897,065</u>	<u>(28,693)</u>	<u>1,868,372</u>

32. SHARE AWARD

One of the Company’s subsidiary, Canxing Culture adopted a share award scheme (the “Scheme”) in order to recognise and reward the contribution of certain former employees to the growth and development of the Group, and retain certain eligible employees for the continual operation and development of the Group through an award of shares of the intermediate shareholders of Canxing Culture and CMC Asia Group Holdings Ltd. (“CMC Asia”) (the relationship between the Group and CMC Asia is disclosed in note 38 to the Historical Financial Information). Shanghai Zhaoxing Investment Co., Ltd. (“SH Zhaoxing”), Shanghai Yuxing Juhui Culture Media Limited Partnership (L.P.) (“SH Yuxing”) and Shanghai Jingxing Juhui Culture Media Limited Partnership (L.P.) (“SH Jingxing”) are the intermediate shareholders of Canxing Culture and CMC Asia. During the Relevant Periods, Canxing Culture granted the shares of those intermediate shareholders, which allow the grantees with indirect interest in Canxing Culture and CMC Asia, under the Scheme through SH Zhaoxing, SH Yuxing and SH Jingxing to certain personnel.

On 30 December 2016, 38.38% of equity interest in SH Zhaoxing was granted to forty eligible employees for a consideration of RMB1,753,000, 100% of equity interest in SH Yuxing was granted to four former employees and thirty-eight eligible employees for a consideration of RMB131,000, and 100% of equity interest in SH Jingxing was granted to two former employees and twenty-six eligible employees for a consideration of RMB115,000.

On 21 February 2017, SH Yuxing and SH Jingxing which are the share incentive entities of the Group, subscribed for approximately 2.87% and 2.51% of equity interest in SH Zhaoxing, respectively, by way of entering into capital increase agreements.

On 9 May 2017, 8.45% of equity interest in SH Yuxing was granted to four eligible employees for a consideration of RMB11,000.

On 25 August 2017, 6.34% of equity interest in SH Yuxing was granted to three eligible employees for a consideration of RMB8,000.

On 27 July 2018, 0.16% of equity interest in SH Zhaoxing was granted to one eligible employee for a consideration of RMB7,000, 2.82% of equity interest in SH Yuxing was granted to one eligible employee for a consideration of RMB4,000, and 6.45% of equity interest in SH Jingxing was granted to three eligible employees for a consideration of RMB7,000.

On 7 May 2020, 0.24% of equity interest in SH Zhaoxing was granted to three eligible employees for a consideration of RMB11,000, 15.49% of equity interest in SH Yuxing was granted to six eligible employees for a consideration of RMB20,000, and 12.90% of equity interest in SH Jingxing was granted to four eligible employees for a consideration of RMB15,000.

For the grants to the six former employees, there are no service periods or performance target requirements. For other grants to the employees, there is no performance target requirements for the eligible employees except that each of them remains as an employee of the Group during the vesting period of five years.

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The offer of a grant of the share awards may be accepted upon the date of offer, upon payment of a nominal consideration of RMB1.00 in total by the grantee.

The following share awards were outstanding under the Scheme during the Relevant Periods:

	Weighted average subscription price RMB per share	Number of shares
As at 1 January 2019	1.00	1,898,223
Forfeited during the year	1.00	(24,018)
As at 31 December 2019 and at 1 January 2020	1.00	1,874,205
Granted during the year	1.00	46,084
Forfeited during the year	1.00	(7,389)
Exercised during the year	1.00	(3,696)
As at 31 December 2020 and at 1 January 2021	1.00	1,909,204
Forfeited during the year	1.00	(22,171)
Cancelled during the year	1.00	(1,887,033)
As at 31 December 2021 and at 30 June 2022	1.00	<u><u>–</u></u>

The weighted average subscription price for share awards during the Relevant Periods was RMB1.00 per share.

The fair value of services received in return for shares granted was measured by reference to the fair value of shares granted and the subscription price paid by employees. The fair value of the shares granted is measured at the grant date by 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. The fair value of shares granted were adjusted to take into account the terms and conditions upon which the shares were granted. No expected dividends of the shares granted was incorporated into the measurement of the fair value. Best estimates of key assumptions of the DCF method, such as the discount rates and projections of future performance, are required to be determined by management. The fair value of the share award granted during the Relevant Periods were as follows:

	Fair value RMB’000
Granted during the year ended 31 December 2020	3,342

The weighted average fair value of share award at the measurement date was RMB73 per share.

The share award scheme has been cancelled on 14 May 2021. During the Relevant Periods, share award expenses of RMB26,030,000, RMB27,496,000 and RMB27,396,000, respectively, were charged to profit or loss.

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33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group’s subsidiary that has material non-controlling interests are set out below:

	As at 31 December			As at
	2019	2020	2021	30 June
	%	%	%	2022

Percentage of equity interest held by non-controlling interests:

Canxing Culture	17.53%	17.53%	0.00%	0.00%
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	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000

Profit/(loss) for the year/period allocated to non-controlling interests:

Canxing Culture	56,823	(20,180)	7,674	(4,111)	–
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	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	2022

Accumulated balances of non-controlling interests at the reporting date:

Canxing Culture	709,561	689,872	–	–
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The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000

Revenue	1,695,715	1,396,086	N/A*	139,843	N/A*
Total expenses	(1,373,021)	(1,520,701)	N/A*	(153,879)	N/A*
Profit/(loss) for the year/period	322,694	(124,615)	N/A*	(14,036)	N/A*
Total comprehensive income/(loss) for the year/period	322,694	(124,615)	N/A*	(14,036)	N/A*

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	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000
Current assets	1,913,259	2,082,861	N/A*	N/A*
Non-current assets	2,545,631	2,147,304	N/A*	N/A*
Current liabilities	(605,934)	(470,804)	N/A*	N/A*
Non-current liabilities	(10,515)	(13,548)	N/A*	N/A*

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Net cash flows from operating activities	389,805	268,115	N/A*	208,035	N/A*
Net cash flows used in investing activities	(7,245)	(15,978)	N/A*	(131,309)	N/A*
Net cash flows used in financing activities	(69,540)	(100,265)	N/A*	(103,834)	N/A*
Net increase/(decrease) in cash and cash equivalents	313,020	151,872	N/A*	(27,108)	N/A*

* Pursuant to the Reorganisation, certain then shareholders of Canxing Culture exited from Canxing Culture, further details of which are given in note 31 to the Historical Financial Information. As at 31 December 2021 and 30 June 2022, there is no equity interest held by non-controlling interests of Canxing Culture.

34. DISPOSAL OF SUBSIDIARIES

On 7 July 2021, the Group set up two associates, Shuolan and Yuanlv, with a third-party company to develop a piece of leasehold land in Xi’an. The Group’s shareholding in these two associates were 50% and 20%, respectively.

On 12 July 2021, the Group set up two subsidiaries, Xixian New Area Qinhan Xincheng Shenlan Real Estate Co., Ltd (“Qinhan Shenlan”, 西咸新區秦漢新城深藍置業有限公司) and Xixian New Area Qinhan Xincheng Yuanlv Real Estate Co., Ltd (“Qinhan Yuanlv”, 西咸新區秦漢新城原綠置業有限公司), to purchase the leasehold land.

On 23 August 2021, the Group disposed the two subsidiaries, Qinhan Shenlan and Qinhan Yuanlv, to Shuolan and Yuanlv, respectively, with no consideration.

	Qinhan Shenlan RMB’000	Qinhan Yuanlv RMB’000
Net assets disposed of:		
Prepayments for leasehold land	64,525	353,785
Due from related parties	–	16,525
Due to related parties	(16,525)	–
Accruals and other payables	(48,000)	(370,310)
Gain on disposal of subsidiaries	–	–
Consideration	–	–

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There were no gain and no cash flows in respect of the disposal of these two subsidiaries.

On 22 September 2021, the Group acquired the remaining interest in Shuolan and Yuanlv due to the third-party company failing to pay the contribution to Shuolan and Yuanlv, respectively. The above transactions are accounted for as asset acquisitions as Shuolan and Yuanlv did not constitute businesses.

According to the cooperation agreement signed by the Group and SH Zhouxing on 24 September 2021, the Group agreed to contribute RMB48,000,000 and RMB370,310,000 to Shuolan and Yuanlv, respectively, and SH Zhouxing agreed to contribute RMB72,000,000 and RMB555,470,000 to Shuolan and Yuanlv, respectively. Consequently, the equity interest of the Group in Shuolan changed from 50% to 40% and the equity interest of the Group in Yuanlv changed from 20% to 40%, respectively.

On 11 February 2022, the Group disposed 31% of its subsidiary, Shanghai Canteng Culture Media Co., Ltd. (“Canteng Culture”), at a cash consideration of RMB12,733,000. The Group accounted for the remained 20% of Canteng Culture as an associate.

	<i>RMB’000</i>
Net assets disposed of:	
Cash and cash equivalent	33,468
Prepayments, other receivables and other assets	1,530
Right-of-use assets (<i>note 15</i>)	629
Property, plant and equipment (<i>note 13</i>)	1,103
Other intangible assets (<i>note 14</i>)	19
Lease liabilities (<i>note 15</i>)	(800)
Other payables and accruals	(131)
Non-controlling interests	(17,551)
	18,267
Gain on disposal of a subsidiary (<i>note 5</i>)	1,630
	19,897
Satisfied by:	
Cash	12,733
An associate acquired	7,164
	19,897

An analysis of the cash flows in respect of the disposal of a subsidiary for the six months ended 30 June 2022 is as follows:

	<i>RMB’000</i>
Cash consideration received	12,733
Cash and bank balances disposed	(33,468)
	(20,735)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(20,735)

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35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions:

During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,305,000, RMB10,947,000, RMB2,992,000 and RMB20,527,000, respectively, in respect of lease arrangements for office premises.

During the year ended 31 December 2019, RMB336,000,000 has been transferred from amounts due from related parties to long-term investment in Mengxiang Qi’an in accordance with the shareholders’ meeting resolution on 31 July 2019.

For the year ended 31 December 2021, a subsidiary of the Group, FSML, declared dividends of USD30,000,000 (equivalent to RMB194,775,000) to its then shareholder. The dividends of RMB133,653,000 have been settled by offsetting against the amounts due from related parties. The remaining dividends have been settled by cash in July 2021.

For the year ended 31 December 2021, prepayments for leasehold land of Qinhan Shenlan and Qinhan Yuanlv paid by the Group of RMB418,310,000 have been transferred to investments in associates, Shuolan and Yuanlv.

For the six months ended 30 June 2022, the Group disposed 31% of its subsidiary and accounted for the remained 20% of Canteng Culture as an associate.

(b) Changes in liabilities arising from financing activities:

	Dividend payable	Due to related parties	Bank loans	Lease liabilities
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2019	–	14,275	280,000	31,666
New leases	–	–	–	1,305
Changes from financing cash flows	–	(14,275)	(106,932)	(14,698)
Changes from non-cash activities	–	–	–	(6,727)
Interest expense accrued	–	1,219	11,932	917
At 31 December 2019 and 1 January 2020	–	1,219	185,000	12,463
New leases	–	–	–	10,947
Changes from financing cash flows	–	(1,219)	(90,613)	(10,123)
Interest expense accrued	–	–	5,613	668
At 31 December 2020 and 1 January 2021	–	–	100,000	13,955
New leases	–	–	–	2,992
Dividend declared	196,705	–	–	–
Changes from financing cash flows	(63,362)	–	(100,998)	(8,551)
Changes from non-cash activities	(133,653)	–	–	(4,103)
Effect of foreign exchange rate changes	310	–	–	–
Interest expense accrued	–	–	998	396
At 31 December 2021 and 1 January 2022	–	–	–	4,689
New leases	–	–	–	20,527
Changes from financing cash flows	–	–	–	(2,871)
Changes from non-cash activities	–	–	–	(800)
Interest expense accrued	–	–	–	553
At 30 June 2022	–	–	–	22,098

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(c) **Total cash outflow for leases**

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within operating activities	5,699	3,578	3,152	1,197	1,337
Within financing activities	14,698	10,123	8,551	5,063	2,871
	<u>20,397</u>	<u>13,701</u>	<u>11,703</u>	<u>6,260</u>	<u>4,208</u>

36. CONTINGENT LIABILITIES

During the Relevant Periods, some subsidiaries of the Group were defendants in lawsuits. The Group has accrued the probable liabilities for these lawsuits. The movements of the related liabilities in aggregate are as follows:

For the year ended 31 December 2019

	Carrying amount at 1 January	Addition	Change in estimates	Payments	Carrying amount at 31 December
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
MBC – King of Mask Singer I*	6,339	–	–	–	6,339
MBC – Awesome Challenge – Amazing*	10,068	–	625	–	10,693
MBC – Outdoor Reality Show*	10,000	–	–	–	10,000
Others	12,208	1,576	–	–	13,784
	<u>38,615</u>	<u>1,576</u>	<u>625</u>	<u>–</u>	<u>40,816</u>

For the year ended 31 December 2020

	Carrying amount at 1 January	Addition	Change in estimates	Payments	Carrying amount at 31 December
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
MBC – King of Mask Singer I*	6,339	–	–	(6,339)	–
MBC – Awesome Challenge – Amazing*	10,693	–	625	–	11,318
MBC – Outdoor Reality Show*	10,000	–	–	–	10,000
Others	13,784	–	281	(7,443)	6,622
	<u>40,816</u>	<u>–</u>	<u>906</u>	<u>(13,782)</u>	<u>27,940</u>

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For the year ended 31 December 2021

	Carrying amount at 1 January	Addition	Change in estimates	Payments	Carrying amount at 31 December
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
MBC – Awesome Challenge – Amazing*	11,318	–	(935)	(10,383)	–
MBC – Outdoor Reality Show*	10,000	–	–	–	10,000
Others	6,622	–	(2,800)	(3,622)	200
	<u>27,940</u>	<u>–</u>	<u>(3,735)</u>	<u>(14,005)</u>	<u>10,200</u>

For the period ended 30 June 2022

	Carrying amount at 1 January	Addition	Change in estimates	Payments	Carrying amount at 30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
MBC – Outdoor Reality Show*	10,000	–	–	–	10,000
Others	200	800	–	(200)	800
	<u>10,200</u>	<u>800</u>	<u>–</u>	<u>(200)</u>	<u>10,800</u>

* During the Relevant Periods, the Group made provision for the above three material lawsuits with Munhwa Broadcasting Corporation (“MBC”)

By 30 June 2022, a subsidiary of the Group is still a defendant in a lawsuit brought by MBC alleging that the subsidiary breached and repudiated contracts to pay the variety programs’ co-development fee, revenue sharing, liquidated damages and interest arising from delay in payment of the above amounts. The amount claimed is RMB110,260,000. The directors, based on the advice from the Group’s legal counsel, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation. Time deposits of RMB23,629,000 have been frozen by court, which is disclosed in note 25 to the Historical Financial Information.

By 30 June 2022, a subsidiary of the Group is still a defendant in a lawsuit brought by one party alleging that the subsidiary should pay the remuneration for its artist’s performances in the variety programs. The amount claimed is RMB16,500,000. The directors, based on the advice from the Group’s legal counsel, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation.

By 30 June 2022, a subsidiary of the Group is still a defendant in a lawsuit brought by one party alleging that the subsidiary broke a contract. The amount claimed is RMB598,000. The directors, based on the advice from the Group’s legal counsel, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation.

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37. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>2022</i>
				<i>RMB’000</i>
Contracted, but not provided for:				
Leasehold land and construction in progress	–	104,144	886,002	920,629

In addition, the Group’s share of the joint ventures’ and associates’ own capital commitments, which are not included in the above, is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>2022</i>
				<i>RMB’000</i>
Contracted, but not provided for				
Construction in progress	308,866	241,213	97,612	81,303

38. RELATED PARTY TRANSACTIONS

Details of the Company’s related parties are as follows:

<u>Name</u>	<u>Relationship with the Company</u>
CMC Asia	An entity controlled by the Controlling Shareholders
Star China Media Ltd. (“SCML”)	An entity controlled by the Controlling Shareholders
Shanghai Minxing Culture Media Limited Partnership (“SH Minxing”)	An entity controlled by one of the Controlling Shareholders
SH Zhouxing	An entity controlled by one of the Controlling Shareholders
Guangdong Nangua Cultural & Broadcasting Ltd. (“Guangdong Nangua”)	An associate
Mengxiang Qi’an	A joint venture
Shuolan	An associate
Yuanlv	An associate

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- (a) The Group had the following transactions with related parties during the Relevant Periods and the six months ended 30 June 2021:

		Year ended 31 December			Six months ended	
		2019	2020	2021	30 June	
		RMB'000	RMB'000	RMB'000	2021	2022
			<i>(Unaudited)</i>			
Loans to:						
Mengxiang						
Qi'an	(i)	–	–	2,700	–	5,110
Loans from:						
SH Minxing	(iii)	–	–	9,670	9,670	–
SH Zhouxing	(iii)	–	–	19,326	19,326	–
Total		–	–	28,996	28,996	–
Interest to:						
CMC Asia	(ii)	1,219	–	–	–	–
Interest from:						
Mengxiang						
Qi'an	(i)	–	–	–	–	107
Rental paid by:						
SCML		763	790	705	258	–
Royalty licensing						
fee from:						
SCML		–	–	478	–	–
Receiving services						
from:						
Guangdong						
Nangua	(iv)	4,632	459	81	–	–
SCML	(iv)	632	411	289	114	20
		5,264	870	370	114	20

Notes:

- (i) The loans to the related party was unsecured and repayable on demand with interests ranging from 0.0% to 5.4%.
- (ii) The loans from CMC Asia bear interest at the rate of 4.5% per annum. The balance was unsecured, and repayable on demand.
- (iii) The loans from SH Minxing and SH Zhouxing were unsecured, interest-free, and repayable on demand.
- (iv) The services received from related parties were made based on the published prices and conditions offered by the related parties to their major customers.
- (v) For the year ended 31 December 2021, prepayments for leasehold land of Qinhan Shenlan and Qinhan Yuanlv paid by the Group of RMB418,310,000 have been transferred to investments in associates, Shuolan and Yuanlv.

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(b) Outstanding balances with related parties:

The Group

		As at 31 December			As at
		2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
					RMB'000
Due from related parties (non-trade):					
Mengxiang Qi'an	(i)	184,030	181,076	183,813	189,030
CMC Asia	(ii)	101,155	94,611	–	–
SCML	(ii)	50,388	39,712	–	–
Total		<u>335,573</u>	<u>315,399</u>	<u>183,813</u>	<u>189,030</u>
Trade receivables (trade):					
SCML		<u>–</u>	<u>–</u>	<u>236</u>	<u>4</u>
Prepayments (trade):					
Guangdong Nangua		<u>–</u>	<u>–</u>	<u>3,000</u>	<u>–</u>
Due to a related party (non-trade):					
CMC Asia	(iv)	<u>1,219</u>	<u>–</u>	<u>–</u>	<u>–</u>
Trade payables (trade):					
Guangdong Nangua	(iii)	4,593	1,717	–	–
SCML	(iii)	9,374	8,509	8,649	8,669
Total		<u>13,967</u>	<u>10,226</u>	<u>8,649</u>	<u>8,669</u>

The Company

		As at	As at
		31 December	30 June
		2021	2022
		RMB'000	RMB'000
Due to a subsidiary:			
FSML	(ii)	<u>62,065</u>	<u>68,765</u>

Notes:

- (i) During the year ended 31 December 2019, RMB336,000,000 has been transferred from amounts due from related parties to long-term investment in Mengxiang Qi'an in accordance with the shareholders' meeting resolution on 31 July 2019.

The amounts due from Mengxiang Qi'an were unsecured and repayable on demand with interest ranging from 0.0% to 5.4%.

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- (ii) The amounts due from the related parties and due to a subsidiary were unsecured, interest-free, and repayable on demand.
 - (iii) Trade payables were unsecured, interest-free and repayable on 30 days’ terms.
 - (iv) The loans from CMC Asia bear interest at the rate of 4.5% per annum. The balance was unsecured, and repayable on demand.
- (c) Compensation of key management personnel of the Group:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Salaries, bonuses, allowances and benefits in kind	7,579	7,174	7,681	3,828	3,480
Pension scheme contributions	294	268	340	161	179
Equity-settled share award expense	4,990	5,017	4,964	4,964	–
Total compensation paid to key management personnel	<u>12,863</u>	<u>12,459</u>	<u>12,985</u>	<u>8,953</u>	<u>3,659</u>

Further details of directors’ and the chief executive’s emoluments are included in note 8 to the Historical Financial Information.

- (d) Loans to related parties:

Maximum amount outstanding for amounts due from related parties during the Relevant Periods are as follows:

Name	At 30 June 2022	Maximum amount outstanding during the period	At 31 December 2021 and 1 January 2022	Maximum amount outstanding during the year	At 31 December 2020 and 1 January 2021	Maximum amount outstanding during the year	At 31 December 2019 and 1 January 2020	Maximum amount outstanding during the year	At 1 January 2019	Security held
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Mengxiang										
Qi’an	189,030	189,030	183,813	183,813	181,076	184,030	184,030	522,210	522,210	None
CMC Asia	–	–	–	95,284	94,611	103,408	101,155	111,747	99,516	None
SCML	–	–	–	39,712	39,712	50,388	50,388	50,388	43,642	None
	<u>189,030</u>		<u>183,813</u>		<u>315,399</u>		<u>335,573</u>		<u>665,368</u>	

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39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

The Group

As at 31 December 2019

Financial assets

	Financial assets at fair value through profit or loss		
	Mandatorily designated as such	Financial assets at amortised cost	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade and notes receivables	–	1,136,206	1,136,206
Financial assets included in prepayments, other receivables and other assets	–	11,593	11,593
Due from related parties	–	335,573	335,573
Financial assets at fair value through profit or loss	27,223	–	27,223
Cash and cash equivalents	–	651,681	651,681
	<u>27,223</u>	<u>2,135,053</u>	<u>2,162,276</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	252,651	252,651
Financial liabilities included in other payables and accruals	11,485	11,485
Interest-bearing bank borrowings	185,000	185,000
Due to related parties	1,219	1,219
	<u>450,355</u>	<u>450,355</u>

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ACCOUNTANTS’ REPORT

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at 31 December 2020

Financial assets

	Financial assets at fair value through profit or loss		
	Mandatorily designated as such	Financial assets at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and notes receivables	–	1,072,900	1,072,900
Financial assets included in prepayments, other receivables and other assets	–	21,214	21,214
Due from related parties	–	315,399	315,399
Financial assets at fair value through profit or loss	45,124	–	45,124
Cash and cash equivalents	–	903,376	903,376
	<u>45,124</u>	<u>2,312,889</u>	<u>2,358,013</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	296,744	296,744
Financial liabilities included in other payables and accruals	16,115	16,115
Interest-bearing bank borrowings	100,000	100,000
	<u>412,859</u>	<u>412,859</u>

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The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at 31 December 2021

Financial assets

	Financial assets at fair value through profit or loss		
	Mandatorily designated as such	Financial assets at amortised cost	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables	–	847,068	847,068
Notes receivables	–	12,264	12,264
Financial assets included in prepayments, other receivables and other assets	–	20,018	20,018
Due from related parties	–	183,813	183,813
Financial assets at fair value through profit or loss	16,839	–	16,839
Restricted cash	–	43,594	43,594
Cash and cash equivalents	–	547,182	547,182
	<u>16,839</u>	<u>1,653,939</u>	<u>1,670,778</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	343,532	343,532
Financial liabilities included in other payables and accruals	31,678	31,678
	<u>375,210</u>	<u>375,210</u>

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ACCOUNTANTS’ REPORT

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at 30 June 2022

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Mandatorily designated as such	Debt investments		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	–	–	610,046	610,046
Notes receivables	–	20,000	32,000	52,000
Financial assets included in prepayments, other receivables and other assets	–	–	12,130	12,130
Due from related parties	–	–	189,030	189,030
Financial assets at fair value through profit or loss	13,021	–	–	13,021
Restricted cash	–	–	39,090	39,090
Cash and cash equivalents	–	–	437,863	437,863
	<u>13,021</u>	<u>20,000</u>	<u>1,320,159</u>	<u>1,353,180</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	221,701	221,701
Financial liabilities included in other payables and accruals	39,531	39,531
	<u>261,232</u>	<u>261,232</u>

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The Company

As at 31 December 2021

Financial assets

	Financial assets at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	13,855	13,855
	<u>13,855</u>	<u>13,855</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Due to a subsidiary	62,065	62,065
Other payable and accruals	3,556	3,556
	<u>65,621</u>	<u>65,621</u>

As at 30 June 2022

Financial assets

	Financial assets at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	10,443	10,443
	<u>10,443</u>	<u>10,443</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Due to a subsidiary	68,765	68,765
Other payable and accruals	3,259	3,259
	<u>72,024</u>	<u>72,024</u>

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ACCOUNTANTS’ REPORT

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss	–	–	27,223	27,223

As at 31 December 2020

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss	–	–	45,124	45,124

As at 31 December 2021

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss	16,839	–	–	16,839

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As at 30 June 2022

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through other comprehensive income	–	20,000	–	20,000
Financial assets at fair value through profit or loss	13,021	–	–	13,021
	<u>13,021</u>	<u>20,000</u>	<u>–</u>	<u>33,021</u>

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2019, 2020, 2021 and 30 June 2022.

During the years ended 31 December 2019 and 2020 and the six months ended 30 June 2022, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets. During the year ended 31 December 2021, the listed equity investment was transferred out of Level 3 to Level 1 due to the contractual restriction having been lifted since 5 February 2021, and no transfers into or out of Level 2 for financial assets.

The movements in fair value measurements within Level 3 during the years ended 31 December 2019 and 2020 are as follows:

	Year ended 31 December	
	2019	2020
	RMB'000	RMB'000
Financial assets at fair value through profit or loss		
At 1 January	28,755	27,223
Total gains/(losses) recognised in profit or loss (note 6)	<u>(1,532)</u>	<u>17,901</u>
	<u>27,223</u>	<u>45,124</u>

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to related parties and interest-bearing borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the restricted cash have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The carrying amounts of the restricted cash are the same as their fair values.

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The fair values of listed equity investments are determined by discounted quoted market prices at 31 December 2019 and 2020, due to the contractual restriction to the equity investments, resulting in diminished liquidity of the equity investments that would impact the price. The valuation requires the directors to adopt the stock price of the investment as of the valuation date and make estimates about the discount for illiquidity based on the lock-up period. The discount for illiquidity was estimated using the Black-Scholes method by referring to the comparable public companies (peers). The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at 31 December 2019 and 2020. The fair values of listed equity investments are based on quoted market prices at 31 December 2021 and 30 June 2022, due to the contractual restriction having been lifted.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under IFRS 9 as at the end of each of the Relevant Periods have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, and thus their fair values approximate to their carrying values.

For Level 3 financial assets, the Group adopts the valuation techniques to determine the fair value. The fair value measurement of the financial instruments involves unobservable inputs such as discount for lack of marketability (“DLOM”). The Group periodically reviews the significant unobservable inputs and valuation adjustments used to measure the fair values of financial assets in Level 3.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2020:

As at 31 December 2019

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Adjusted stock price	DLOM	9% to 19%	5% decrease/increase in DLOM would result in increase/decrease in fair value by RMB1,583,000/(RMB1,583,000)

As at 31 December 2020

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Adjusted stock price	DLOM	2% to 12%	5% decrease/increase in DLOM would result in increase/decrease in fair value by RMB2,426,000/(RMB2,426,000)

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments, comprise interest-bearing bank loans and cash. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units’ functional currencies. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group’s foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the USD, HKD, EUR and AUD exchange rate, with all other variables held constant, of the Group’s profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group’s equity.

	Increase/ (decrease) in rate of foreign currency	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	RMB’000	RMB’000
Year ended 31 December 2019			
If RMB weakens against HKD	5	(225)	(188)
If RMB strengthens against HKD	5	225	188
If RMB weakens against USD	5	(172)	(18,106)
If RMB strengthens against USD	5	172	18,106
If RMB weakens against EUR	5	(339)	(283)
If RMB strengthens against EUR	5	339	283
Year ended 31 December 2020			
If RMB weakens against HKD	5	(148)	(124)
If RMB strengthens against HKD	5	148	124
If RMB weakens against USD	5	(67)	(21,789)
If RMB strengthens against USD	5	67	21,789
If RMB weakens against EUR	5	(357)	(298)
If RMB strengthens against EUR	5	357	298
Year ended 31 December 2021			
If RMB weakens against HKD	5	(12)	(10)
If RMB strengthens against HKD	5	12	10
If RMB weakens against USD	5	(103)	(13,774)
If RMB strengthens against USD	5	103	13,774
If RMB weakens against AUD	5	(1)	(1)
If RMB strengthens against AUD	5	1	1
Six months ended 30 June 2022			
If RMB weakens against HKD	5	(499)	(4)
If RMB strengthens against HKD	5	499	4
If RMB weakens against USD	5	(125)	(15,334)
If RMB strengthens against USD	5	125	15,334
If RMB weakens against AUD	5	(1)	(1)
If RMB strengthens against AUD	5	1	1

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Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group’s 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.

Maximum exposure and year/period-end staging as at the end of each of the Relevant Periods

The table below shows the credit quality and the maximum exposure to credit risk based on the Group’s credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification as at 31 December 2019, 2020 and 2021 and 30 June 2022. The amounts presented are gross carrying amounts for financial assets.

31 December 2019

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Trade receivables*	–	–	–	1,258,932	1,258,932
Notes receivable					
– Normal**	59,204	–	–	–	59,204
Financial assets included in prepayments, other receivables and other assets					
– Normal**	11,593	–	–	–	11,593
– Doubtful**	–	–	11,119	–	11,119
Due from related parties					
– Normal**	335,573	–	–	–	335,573
Cash and cash equivalents					
– Not yet past due	651,681	–	–	–	651,681
	<u>1,058,051</u>	<u>–</u>	<u>11,119</u>	<u>1,258,932</u>	<u>2,328,102</u>

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Trade receivables*	–	–	–	1,067,793	1,067,793
Notes receivable					
– Normal**	162,205	–	–	–	162,205
Financial assets included in prepayments, other receivables and other assets					
– Normal**	21,214	–	–	–	21,214
– Doubtful**	–	–	5,540	–	5,540
Due from related parties					
– Normal**	315,399	–	–	–	315,399
Cash and cash equivalents					
– Not yet past due	903,376	–	–	–	903,376
	<u>1,402,194</u>	<u>–</u>	<u>5,540</u>	<u>1,067,793</u>	<u>2,475,527</u>

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As at 31 December 2021

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables*	–	–	–	1,011,194	1,011,194
Notes receivable					
– Normal**	12,264	–	–	–	12,264
Financial assets included in prepayments, other receivables and other assets					
– Normal**	20,018	–	–	–	20,018
– Doubtful**	–	–	6,142	–	6,142
Due from related parties					
– Normal**	183,813	–	–	–	183,813
Restricted cash					
– Not yet past due	43,594	–	–	–	43,594
Cash and cash equivalents					
– Not yet past due	547,182	–	–	–	547,182
	<u>806,871</u>	<u>–</u>	<u>6,142</u>	<u>1,011,194</u>	<u>1,824,207</u>

As at 30 June 2022

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables*	–	–	–	783,461	783,461
Notes receivable					
– Normal**	52,000	–	–	–	52,000
Financial assets included in prepayments, other receivables and other assets					
– Normal**	12,130	–	–	–	12,130
– Doubtful**	–	–	6,725	–	6,725
Due from related parties					
– Normal**	189,030	–	–	–	189,030
Restricted cash					
– Not yet past due	39,090	–	–	–	39,090
Cash and cash equivalents					
– Not yet past due	437,863	–	–	–	437,863
	<u>730,113</u>	<u>–</u>	<u>6,725</u>	<u>783,461</u>	<u>1,520,299</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the Historical Financial Information.

** The credit quality of notes receivable, the financial assets included in prepayments, other receivables and other assets and amounts due from related parties is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

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Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 23 to the Historical Financial Information.

At the end of each of the Relevant Periods, the Group had certain concentrations of credit risk as 26.58%, 21.96%, 33.34% and 34.04% of the Group’s trade receivables were due from the Group’s largest debtor, and 75.73%, 73.19%, 72.08% and 70.84% of the Group’s trade receivables were due from the Group’s five largest debtors, respectively.

Liquidity risk

The Group monitors its 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.

The Group maintains a balance between continuity of funding and flexibility through the use of lease liabilities and interest-bearing loans.

The maturity profile of the Group’s financial liabilities and lease liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	31 December 2019				
	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	–	252,651	–	–	252,651
Due to related parties	1,219	–	–	–	1,219
Lease liabilities	–	6,442	6,992	–	13,434
Interest-bearing bank borrowings	–	187,617	–	–	187,617
Financial liabilities included in other payables and accruals	11,485	–	–	–	11,485
	<u>12,704</u>	<u>446,710</u>	<u>6,992</u>	<u>–</u>	<u>466,406</u>
	<u><u>12,704</u></u>	<u><u>446,710</u></u>	<u><u>6,992</u></u>	<u><u>–</u></u>	<u><u>466,406</u></u>
	31 December 2020				
	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	–	296,744	–	–	296,744
Lease liabilities	–	9,134	5,532	–	14,666
Interest-bearing bank borrowings	–	101,299	–	–	101,299
Financial liabilities included in other payables and accruals	16,115	–	–	–	16,115
	<u>16,115</u>	<u>407,177</u>	<u>5,532</u>	<u>–</u>	<u>428,824</u>
	<u><u>16,115</u></u>	<u><u>407,177</u></u>	<u><u>5,532</u></u>	<u><u>–</u></u>	<u><u>428,824</u></u>

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31 December 2021

	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	–	343,532	–	–	343,532
Lease liabilities	–	2,658	2,348	–	5,006
Financial liabilities included in other payables and accruals	31,678	–	–	–	31,678
	<u>31,678</u>	<u>346,190</u>	<u>2,348</u>	<u>–</u>	<u>380,216</u>

30 June 2022

	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	–	221,701	–	–	221,701
Lease liabilities	–	9,010	14,600	–	23,610
Financial liabilities included in other payables and accruals	39,531	–	–	–	39,531
	<u>39,531</u>	<u>230,711</u>	<u>14,600</u>	<u>–</u>	<u>284,842</u>

Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders’ value.

The Group regards equity attributable to owners of the parent as its capital and manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

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The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank borrowings, due to related parties and lease liabilities. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at
	2019	2020	2021	30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank borrowings	185,000	100,000	–	–
Due to related parties	1,219	–	–	–
Lease liabilities	12,463	13,955	4,689	22,098
Total debt	<u>198,682</u>	<u>113,955</u>	<u>4,689</u>	<u>22,098</u>
Total equity	<u>4,645,658</u>	<u>4,590,963</u>	<u>4,057,976</u>	<u>4,032,182</u>
Gearing ratio	<u>4.28%</u>	<u>2.48%</u>	<u>0.12%</u>	<u>0.55%</u>

42. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its subsidiaries in respect of any period subsequent to 30 June 2022.

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

**SUMMARY OF THE CONSTITUTION OF THE
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is on display on the websites of the Stock Exchange and the Company as specified in Appendix V in the section headed “— Documents on Display.”

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$[50,000] divided into [50,000,000,000] shares of US\$[0.000001] each.

2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the

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Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

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- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

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The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his term of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to

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be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

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(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths of the voting rights of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third of the voting rights of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Act.

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2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting (a) every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have the right to speak, (b) on a show of hands, every member present in such manner shall have one vote, and (c) on a poll, every member present in such manner shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

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A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting for each financial year, to be held within six months (or such other period as may be permitted by the Listing Rules or the Stock Exchange) after the end of such financial year. The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights, on a one vote per share basis, of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be

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added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

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2.10 Auditors

The Company shall at every annual general meeting by ordinary resolution appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed by ordinary resolution or in the manner specified in such resolution.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

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The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

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The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

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2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

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Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may

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disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

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2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

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A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

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A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

Subject to the Companies Act, the Company may by special resolution resolve that the Company be wound up voluntarily.

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the

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benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three months period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 years period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 years period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 March 2021 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

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3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account." At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

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Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

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6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

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9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and

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liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (a) 75% in value of shareholders, or (b) a majority in number representing 75% in value of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

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16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

18 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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19 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

20 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

21 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

22 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is on display on the websites as referred to in the section headed "Documents on display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on March 29, 2021. Our registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our Company has established a principal place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 18, 2021. Ms. Leung Wing Han Sharon (梁穎嫻) of Tricor Services Limited has been appointed as the authorized representative of our Company for the acceptance of service of process and notice in Hong Kong. The address for service of process in Hong Kong is at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

As our Company was incorporated in the Cayman Islands, our Company’s corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles is set out in “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law.”

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our authorized share capital was US\$50,000, divided into 50,000,000,000 Shares of a nominal or par value of US\$0.000001.

Save as disclosed herein and in “History, Reorganization and Corporate Structure,” there has been no alteration in the share capital of our Company during the two years preceding the date of this document.

3. Changes in the Share Capital of Our Subsidiaries and Consolidated Affiliated Entities

Our subsidiaries and Consolidated Affiliated Entities during the Track Record Period are referred to in the Accountants’ Report set out in Appendix I to this document. The following sets out the changes in the share capital of our subsidiaries and Consolidated Affiliated Entities during the two years immediately preceding the date of this document:

Shanghai Jiuwu Yisheng

On April 28, 2021, the registered capital of Shanghai Jiuwu Yisheng was increased from RMB1,000,000 to RMB300,000,000.

On July 23, 2021, the registered capital of Shanghai Jiuwu Yisheng was increased from RMB300,000,000 to RMB2,000,000,000.

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Shanghai Shengzhong

On March 9, 2020, the registered capital of Shanghai Shengzhong Network Technology Co., Ltd. (上海聲眾網絡科技有限公司) was increased from RMB710,000 to RMB1,000,000.

Xinkong Industry

On March 11, 2021, the registered capital of Xinkong (Shanghai) Industry Co., Ltd. (歆空(上海)實業有限公司) was increased from RMB100,000,000 to RMB400,000,000.

Xinfeng Culture

On March 9, 2021, the registered capital of Shanghai Xinfeng Culture Development Co., Ltd. (上海歆豐文化發展有限公司) was increased from RMB100,000,000 to RMB400,000,000.

Canxing Culture

On August 5, 2021, the registered capital of Canxing Culture was decreased from RMB383,399,768 to RMB320,813,865.

Beiyi Culture

On September 10, 2020, the registered capital of Beiyi Culture was increased from RMB2,000,000 to RMB3,000,000.

Save as disclosed herein and in “History, Reorganization and Corporate Structure,” there has been no alteration in the share capital of our subsidiaries and Consolidated Affiliated Entities during the two years immediately preceding the date of this document.

4. Resolutions Passed by Our Shareholders

Written resolutions of our Shareholders were passed on [●], pursuant to which, among others:

- (a) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon the [REDACTED];
- (b) conditional on (i) the Stock Exchange granting the approval for the [REDACTED] of, and permission to deal in, the Shares in issue and Shares to be issued and such [REDACTED] and permission not subsequently having been revoked prior to the commencement of [REDACTED] in the Shares on the Stock Exchange, (ii) the [REDACTED] being determined, and (iii) the obligations of the [REDACTED]

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under the [REDACTED] becoming unconditional and the [REDACTED] not being terminated in accordance with their terms or otherwise, in each case on or before such dates as may be specified in the [REDACTED]:

- (i) the [REDACTED] and the [REDACTED] were approved, and our Directors were authorized to effect the same and to allot and issue the [REDACTED] pursuant to the [REDACTED] and the [REDACTED];
 - (ii) the grant of the [REDACTED] by the Company to the [REDACTED] to allot and issue up to [REDACTED]% of the [REDACTED] initially available under the [REDACTED] to cover, among other things, the [REDACTED] in the [REDACTED] was approved; and
 - (iii) the proposed [REDACTED] was approved, and our Directors were authorized to implement the [REDACTED];
- (c) a general unconditional mandate was granted to our Directors to, inter alia, allot, issue and deal with the Shares, securities convertible into Shares (the “**Convertible Securities**”) or options, warrants or similar rights to subscribe for any Shares or such convertible securities (the “**Options and Warrants**”) and to make or grant offers, agreements or options which might require such Shares, the Convertible Securities or the Options and Warrants to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares or the underlying Shares relating to the Convertible Securities or the Options and Warrants so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]).

This mandate does not cover the Shares to be allotted, issued or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders. Such mandate will remain in effect until:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest;

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- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase the Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the Shares in issue immediately following completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will remain in effect until:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest;

- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase the Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED])).

5. Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED]. See the section headed “History, Reorganization and Corporate Structure — Reorganization” in this document for information relating to the Reorganization.

6. Repurchase of Shares by Our Company

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholder’s approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution of our Company passed at an extraordinary general meeting of our Company held on [●], 2022, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorizing the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the Shares in issue and to be issued immediately following the completion of the [REDACTED], at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum and Articles of Association to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. As a matter of Cayman law, any purchases by our Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles and subject to the Cayman Companies Act.

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(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate nominal value of the company's shares in issue on the date the repurchase mandate is granted. A listed company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

The Listing Rules also prohibit a listed company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase made on behalf of the listed company as the Stock Exchange may require.

(iv) Status of repurchased securities

All repurchased shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those shares must be canceled and destroyed. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman Islands laws.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for a listed company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may

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not repurchase its securities on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company’s annual report is required to disclose details regarding repurchases of securities made during the year reviewed, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Core connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “core connected person,” that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective close associates and a core connected person is prohibited from knowingly selling his securities to the company on the Stock Exchange.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to receive the general authority from our Shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will be in the interest of our Company and our Shareholders. Such repurchases may, depending on market conditions, funding arrangements and other circumstances at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws of the Cayman Islands.

There could be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this document) if the Repurchase Mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the Repurchase Mandate to

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such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing position of our Company which in the opinion of our Directors are from time to time appropriate for our Company.

(d) Share capital

Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] (excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]), could accordingly result in up to [REDACTED] Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum and Articles of Association to be held; or
- (iii) the date on which the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

(e) General

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of any repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of the increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

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Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) an exclusive consulting and service agreement dated July 23, 2021 entered into between the WFOE and Canxing Culture, pursuant to which, among others, Canxing Culture engaged the WFOE to provide a wide range of business support, technical services and consultation services in exchange for service fees;
- (b) an exclusive consulting and service agreement dated November 7, 2022 entered into between the WFOE and Beiyi Culture, pursuant to which, among others, Beiyi Culture engaged the WFOE to provide a wide range of business support, technical services and consultation services in exchange for service fees;
- (c) an exclusive consulting and service agreement dated November 7, 2022 entered into between the WFOE and Canxing Film, pursuant to which, among others, Canxing Film engaged the WFOE to provide a wide range of business support, technical services and consultation services in exchange for service fees;
- (d) an exclusive purchase option agreement dated July 23, 2021 entered into among the WFOE, Canxing Culture and the Registered Shareholders, pursuant to which the Registered Shareholders irrevocably granted the WFOE an option to purchase or cause any person(s) designated by the WFOE to purchase all or any part of the Registered Shareholders' equity interests or assets of Canxing Culture for a consideration equals to RMB1 or the lowest price as permitted by the PRC laws;
- (e) an exclusive purchase option agreement dated November 7, 2022 entered into between the WFOE, Canxing Culture and Beiyi Culture, pursuant to which Canxing Culture irrevocably granted the WFOE an option to purchase or cause any person(s) designated by the WFOE to purchase all or any part of Canxing Culture' equity interests in or assets of Beiyi Culture for a consideration equals to RMB1 or the lowest price as permitted by the PRC laws;

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- (f) an exclusive purchase option agreement dated November 7, 2022 entered into between the WFOE, Canxing Culture and Canxing Film, pursuant to which Canxing Culture irrevocably granted the WFOE an option to purchase or cause any person(s) designated by the WFOE to purchase all or any part of Canxing Culture' equity interests in or assets of Canxing Film for a consideration equals to RMB1 or the lowest price as permitted by the PRC laws;
- (g) an equity pledge agreement dated July 23, 2021 entered into among the WFOE, Canxing Culture and the Registered Shareholders, pursuant to which the Registered Shareholders agreed to pledge all of their respective equity interests in Canxing Culture to the WFOE as collateral security to guarantee performance of their contractual obligations under the Contractual Arrangements;
- (h) an equity pledge agreement dated November 7, 2022 entered into between the WFOE, Canxing Culture and Beiyi Culture, pursuant to which Canxing Culture agreed to pledge all of their respective equity interests in Beiyi Culture to the WFOE as collateral security to guarantee performance of their contractual obligations under the Contractual Arrangements;
- (i) an equity pledge agreement dated November 7, 2022 entered into between the WFOE, Canxing Culture and Canxing Film, pursuant to which Canxing Culture agreed to pledge all of their respective equity interests in Canxing Film to the WFOE as collateral security to guarantee performance of their contractual obligations under the Contractual Arrangements;
- (j) a voting right trust agreement dated July 23, 2021 entered into among the WFOE, Canxing Culture and the Registered Shareholders, pursuant to which the Registered Shareholders agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all their voting rights as the shareholders of Canxing Culture;
- (k) a voting right trust agreement dated November 7, 2022 entered into between the WFOE, Canxing Culture and Beiyi Culture, pursuant to which Canxing Culture agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all their voting rights as the shareholder of Beiyi Culture;
- (l) a voting right trust agreement dated November 7, 2022 entered into between the WFOE, Canxing Culture and Canxing Film, pursuant to which Canxing Culture agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all their voting rights as the shareholder of Canxing Film; and
- (m) the [REDACTED].



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2. Intellectual Property Rights of Our Group

(a) Trademarks

(i) Trademarks registered in the PRC

As of the Latest Practicable Date, we were the registered owner of and had the right to use the following trademarks which we consider to be or may be material to our business:





No.	Trademark	Registration Number	Registered Owner	Class	Registration Date	Expiry Date
1		13671127, 13672571	Canxing Culture	9, 38	January 28, 2015	January 27, 2025
		13671960		24	February 7, 2015	February 6, 2025
		13672369, 13671645		28, 21	March 7, 2015	March 6, 2025
		13671202		14	February 14, 2015	February 13, 2025
		13672713		41	June 14, 2015	June 13, 2025
		13671356		16	August 28, 2015	August 27, 2025
2		13672353	Canxing Culture	28	February 28, 2015	February 27, 2025
		13672232		25	February 21, 2015	February 20, 2025
		13671888		24	March 7, 2015	March 6, 2025
		13671565, 13672527		21, 38	April 28, 2015	April 27, 2025
		13672639, 13671076		9, 41	April 14, 2015	April 13, 2025
		13671186, 13671445		14, 18	February 14, 2015	February 13, 2025

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No.	Trademark	Registration Number	Registered Owner	Class	Registration	
					Date	Expiry Date
3		20546578, 20547086, 20547160	Canxing Culture	15, 36, 40	August 28, 2017	August 27, 2027
		20546869		21	September 21, 2018	September 20, 2028
		20546248, 20546519, 20546670, 20547190		9, 16, 38, 42	November 28, 2018	November 27, 2028
		20546330, 20546744, 20546920, 20547225		18, 25, 35, 45	October 14, 2018	October 13, 2028
		20546113		41	September 28, 2019	September 27, 2029
		28186563		35	July 21, 2019	July 20, 2029
4		21295396, 21295465, 21295367, 21295403	Canxing Culture	41, 38, 35, 9	November 14, 2017	November 13, 2027
5		21371155, 21371273, 21371379, 21371591	Canxing Culture	41, 38, 35, 9	November 14, 2017	November 13, 2027
6		20369284, 20369407, 20368889, 20369513	Canxing Culture	9, 16, 41, 42	April 21, 2018	April 20, 2028
		20369474, 20369519		18, 25	August 7, 2017	August 6, 2027
		20369236		15	January 28, 2019	January 27, 2029
		20368945		38	May 14, 2019	May 13, 2029
		20369044		35	October 28, 2019	October 27, 2029

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(ii) Trademarks registered in Hong Kong

No.	Trademark	Registration Number	Registered Owner	Class	Registration Date	Expiry Date
1		303997261	Canxing Culture	35, 38, 41	December 19, 2016	December 18, 2026
2		303997270	Canxing Culture	35, 38, 41	December 19, 2016	December 18, 2026
3		303997289	Canxing Culture	35, 38, 41	December 19, 2016	December 18, 2026
4		303997298	Canxing Culture	35, 38, 41	December 19, 2016	December 18, 2026

(b) Copyrights

As of the Latest Practicable Date, we were the owner of and had the right to use the following copyrights which we consider to be or may be material to our business:

No.	Name of Copyright	Registered Owner	Type of Works	Registration Number	Date of Completion of Creation	Date of First Publication
1	Sing! China 2016 (《中國新歌声》第一季)	Canxing Culture and Zhejiang Satellite TV	Films and works using similar production methods	Guo Zuo Deng Zi-2018-I-00578836	October 7, 2016	October 7, 2016
2	Sing! China 2017 (《中國新歌声》第二季)	Canxing Culture and Zhejiang Satellite TV	Films and works using similar production methods	Guo Zuo Deng Zi-2018-F-00544757	October 8, 2017	October 8, 2017
3	Sing! China 2018 (《中國好声音》第三季)	Canxing Culture and Zhejiang Satellite TV	Films and works using similar production methods	Guo Zuo Deng Zi-2019-I-00746659	October 7, 2018	October 12, 2018
4	Sing! China 2019 (《中國好声音》第四季)	Canxing Culture and Zhejiang Satellite TV	Films and works using similar production methods	Guo Zuo Deng Zi-2020-I-01055318	October 7, 2019	October 7, 2019

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No.	Name of Copyright	Registered Owner	Type of Works	Registration Number	Date of Completion of Creation	Date of First Publication
5	Guess the Singer! 2016 (《蒙面唱將猜猜猜》第一季)	Canxing Culture	Films and works using similar production methods	Guo Zuo Deng Zi-2016-I-00347290	November 26, 2016	November 27, 2016
6	Guess the Singer! 2017 (《蒙面唱將猜猜猜》第二季)	Canxing Culture	Films and works using similar production methods	Guo Zuo Deng Zi-2018-I-00533451	November 17, 2017	November 19, 2017
7	Guess the Singer! 2018 (《蒙面唱將猜猜猜》第三季)	Canxing Culture	Films and works using similar production methods	Guo Zuo Deng Zi-2019-I-00756466	December 20, 2018	December 30, 2018
8	Guess the Singer! 2020 (《蒙面唱將猜猜猜》第五季)	Canxing Culture	Films and works using similar production methods	Guo Zuo Deng Zi-2021-I-00141122	December 29, 2020	December 29, 2020
9	Sing My Song 2014 (《中國好歌曲》第一季)	Star International and CCTV	Films and works using similar production methods	Guo Zuo Deng Zi-2020-I-01097561	March 18, 2014	March 21, 2014
10	Sing My Song 2015 (《中國好歌曲》第二季)	Star International and CCTV	Films and works using similar production methods	Guo Zuo Deng Zi-2020-I-01097563	March 10, 2015	March 13, 2015
11	Sing My Song 2016 (《中國好歌曲》第三季)	Canxing Culture and CCTV	Films and works using similar production methods	Guo Zuo Deng Zi-2020-I-01097562	April 7, 2016	April 8, 2016

(c) Domain names

As of the Latest Practicable Date, we had registered the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registrant	Expiry Date
1.	canxingtv.com	Canxing Culture	May 26, 2023
2.	canxingmedia.com	Canxing Culture	September 9, 2023
3.	starcmgroupp.com	Shanghai Jiuwu Yisheng	July 15, 2026

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the [REDACTED]

Immediately following the completion of the [REDACTED] (without taking into account the Shares which may be allotted and issued upon the exercise of the [REDACTED]), the interest or short position of our Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, once the Shares are [REDACTED] will be as follows:

(i) Interests and short positions in the Shares

<u>Name of Director or Chief Executive</u>	<u>Nature of Interest⁽¹⁾</u>	<u>Number of Shares</u>	<u>Approximate Percentage of interests</u>
Mr. Tian	Interest in controlled corporations; interest held jointly with other persons ⁽²⁾	[REDACTED]	[REDACTED]%
Mr. Jin	Interest in a controlled corporation; interest held jointly with other persons ⁽²⁾	[REDACTED]	[REDACTED]%
Mr. Xu	Interest in a controlled corporation; interest held jointly with other persons ⁽²⁾	[REDACTED]	[REDACTED]%

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Notes:

- (1) All interests stated are long positions.
- (2) As of the Latest Practicable Date, Unionstars directly held 236,465,996 Shares and Harvest Sky directly held 79,740,381 Shares in our Company. Unionstars is owned as to 7.53%, 17.64%, 34.18% and 40.65% by East Brothers, Goldenbroad, Beamingstars and Harvest Sky, respectively. East Brothers is owned as to 81.76%, 6.22% and 12.02% by Mr. Tian, Mr. Jin and Mr. Xu, respectively. Goldenbroad is wholly owned by Mr. Jin. Beamingstars is owned as to 51.99% and 48.01% by SH Zhihua and Harvest Sky, respectively. Harvest Sky is wholly owned by Mr. Tian. Pursuant to the Joint Control Agreement, each of Unionstars, East Brothers, Goldenbroad, Beamingstars, Harvest Sky, Mr. Tian, Mr. Jin, Mr. Xu and other parties thereto agreed to vote unanimously at board meetings and general meetings (as applicable) at all levels along the control chain to jointly exercise control over the Company. Therefore, each of Mr. Tian, Mr. Jin and Mr. Xu is deemed to be interested in the 236,465,996 Shares held by Unionstars and the 79,740,381 Shares held by Harvest Sky under the SFO. For further details, see “History, Reorganization and Corporate Development — Reorganization — Offshore Restructuring — Step 5. Signing of the Joint Control Agreement.”

(ii) *Interests in our associated corporations*

Name of Director or Chief Executive	Nature of Interest ⁽¹⁾	Associated Corporations	Approximate Percentage of Shareholding
Mr. Tian	Interest in a controlled corporation	Shaanxi Star Shuolan Real Estate Co., Ltd.	100.00% ⁽²⁾
	Interest in a controlled corporation	Shaanxi Star Yuanlv Real Estate Co., Ltd.	100.00% ⁽³⁾
	Beneficial interest	Canxing Culture	1.77%
	Interest in a controlled corporation		23.09% ⁽⁴⁾
	Interest in a controlled corporation; interest held jointly with other persons		73.71% ⁽⁵⁾
Mr. Jin	Interest in a controlled corporation; interest held jointly with other persons	Canxing Culture	73.71% ⁽⁵⁾
Mr. Xu	Interest in a controlled corporation; interest held jointly with other persons	Canxing Culture	73.71% ⁽⁵⁾

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Notes:

- (1) All interests stated are long positions.
- (2) As of the Latest Practicable Date, Shaanxi Star Shuolan Real Estate Co., Ltd. was owned as to 60% by SH Zhouxing, a company wholly owned by Mr. Tian and 40% by Qinhan New City Star Chinese Culture Media Co., Ltd., a wholly-owned subsidiary of our Company in which Mr. Tian controlled more than one-third of voting power, respectively. Therefore Mr. Tian is deemed to be interested in the shares in Shaanxi Star Shuolan Real Estate Co., Ltd. held by SH Zhouxing and the shares in Qinhan New City Star Chinese Culture Media Co., Ltd. held by our Company under the SFO.
- (3) As of the Latest Practicable Date, Shaanxi Star Yuanlv Real Estate Co., Ltd. was owned as to 60% by SH Zhouxing, a company wholly owned by Mr. Tian and 40% by Qinhan New City Star Chinese Culture Media Co., Ltd., a wholly-owned subsidiary of our Company in which Mr. Tian controlled more than one-third of voting power, respectively. Therefore Mr. Tian is deemed to be interested in the shares in Shaanxi Star Yuanlv Real Estate Co., Ltd. held by SH Zhouxing and the shares in Qinhan New City Star Chinese Culture Media Co., Ltd. held by our Company under the SFO.
- (4) As of the Latest Practicable Date, SH Zhouxing was wholly owned by Mr. Tian. Therefore Mr. Tian is deemed to be interested in the shares in Canxing Culture held by SH Zhouxing under the SFO.
- (5) Each of Mr. Tian, Mr. Jin, and Mr. Xu is a party to the Canxing JCA. See “History, Reorganization and Corporate Structure — Reorganization.” In light of the Canxing JCA, each of Mr. Tian, Mr. Jin and Mr. Xu is deemed to be interested in the shares in Canxing Culture held by SH Xingtou under the SFO.

(b) Interests and short positions disclosable under Divisions 2 and 3 of the Part XV of the SFO

Save as disclosed in “Substantial Shareholders” in this document, our Directors are not aware of any other person who will, immediately following the completion of the [REDACTED], have an interest or short position in the Shares or underlying shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

Save as disclosed in this appendix and in notes to the diagram under “History, Reorganization and Corporate Structure — Our Structure Immediately Prior to the [REDACTED],” to the best knowledge of our Directors, immediately following the completion of the [REDACTED], no persons will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any other members of our Company.

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2. Particulars of Directors’ Service Contracts and Appointment Letters

(a) *Executive Directors*

Each of our executive Directors, [has] entered into a service contract with our Company, under which they agreed to act as executive Directors for an initial term of three years commencing from the [REDACTED], which may be terminated by not less than three months’ notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Memorandum and Articles of Association.

(b) *Non-executive Director and Independent Non-executive Directors*

Each of our non-executive Director and independent non-executive Directors [has] signed an appointment letter with our Company for a term of three years with effect commencing from the [REDACTED]. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director’s fee while the non-executive Director is not entitled to any remuneration.

The appointments of the non-executive Directors and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Memorandum and Articles of Association.

3. Directors’ Remuneration

The aggregate amounts of remuneration paid to the Directors for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 were approximately RMB9.8 million, RMB9.4 million, RMB9.7 million and RMB3.2 million, respectively.

It is estimated that remuneration equivalent to approximately RMB6.8 million (excluding possible share-based payments) in aggregate will be paid to the Directors by our Company for the year ending December 31, 2022, based on the arrangements in force as of the date of this document.

For details of the remuneration of our Directors, see “Directors and Senior Management — Compensation of Directors and Senior Management” and Note 8 to the Accountants’ Report set out in Appendix I to this document.

4. Personal Guarantees

Save as disclosed in this document, our Directors have not provided personal guarantees in favor of lenders in connection with banking facilities granted or to be granted to any member of our Group.

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5. Agency Fees or Commissions Received

Save as disclosed in this document, none of our Directors or any of the persons whose names are listed under the paragraph headed “— D. Other Information — 8. Consents of Experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

6. Disclaimers

- (a) Save as disclosed in this document, none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are [REDACTED];
- (b) none of our Directors or any of the experts referred to under the paragraph headed “— D. Other Information — 7. Qualification of Experts” below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (d) save as disclosed in this document, none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) save as disclosed in this document, taking no account of any Shares which may be taken up under the [REDACTED], so far as is known to our Directors or the chief executive of our Company, no person (not being a Director or chief executive of our Company) who will, immediately following the completion of the [REDACTED], have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and

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- (f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in the five largest customers or the five largest suppliers of our Group during the Track Record Period.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this document, as of the Latest Practicable Date, we were not aware of any litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

3. Indemnity

Certain Registered Shareholders of Canxing Culture, namely SH Xingtou (a company controlled by our Ultimate Controlling Shareholders), SH Zhouxing (a company wholly owned by Mr. Tian) and Mr. Tian, have provided an undertaking to jointly and severally indemnify us, in portion to their respective shareholding percentage in Canxing Culture, against any losses arising from the litigations, including, among others, those as set out in “Business – Compliance and Litigation – Contract disputes with MBC” to the extent of the difference between the amounts awarded in the final judgment or settlement and the provisions having been made for such litigations as of the date of the undertaking. For further details of the litigations, see “Business – Compliance and Litigation – Contract disputes with MBC.”

4. Joint Sponsors and Joint Sponsors’ Fees

The Joint Sponsors have made an application on our behalf to the Stock Exchange for the [REDACTED] of, and permission to [REDACTED], the Shares in issue and the Shares to be issued as mentioned in this document (including the additional Shares which may fall to be issued pursuant to exercise of the [REDACTED] (if any)).

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Each of the Joint Sponsors will be paid by our Company a fee of USD600,000 to act as a sponsor to our Company in connection with the [REDACTED].

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5. Preliminary Expenses

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

6. Promoter

Our Company does not have any promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoter in connection with the [REDACTED] and the related transactions described in this document.

7. Taxation of Holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.13% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Cayman Islands*

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(c) *Consultation with Professional Advisors*

Intending holders of the Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the [REDACTED] will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercise of any rights attaching to them.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

8. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

<u>Name</u>	<u>Qualifications</u>
China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
China Securities (International) Corporate Finance Company Limited	Licensed corporation under the SFO for type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants and Registered Public Interest Entity Auditor
Zhong Lun Law Firm	PRC legal advisor to our Company
Maples and Calder (Hong Kong) LLP	Cayman Islands legal advisors to our Company
Frost & Sullivan	Independent industry consultant
Shanghai Guanghai Law Firm* (上海市 廣海律師事務所)	Special litigation counsel

9. Consents of Experts

Each of the experts named in paragraph 7 above has given and has not withdrawn its consent to the issue of this document with the inclusion of its view, report and/or letter and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

* For illustration purpose only.

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10. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance on the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Miscellaneous

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of our Company or any of our subsidiaries had been issued or agreed to be issued or proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms had been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (iii) no commission had been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) no share or loan capital of our Company or any of our subsidiaries had been under option or agreed conditionally or unconditionally to be put under option;
- (c) there are no founder, management or deferred shares, convertible debt securities nor any debentures in our Company or any of our subsidiaries;
- (d) our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since June 30, 2022 (being the date to which the latest audited combined financial statements of our Group were made up);
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;

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- (f) our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by [REDACTED]. All transfer and other documents of title of the Shares must be lodged for registration with and registered by our share registrar in Hong Kong.
- (g) all necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (h) no company within our Group is listed on any stock exchange or traded on any trading system and at present, and our Group is not seeking or proposing to seek any listing of, or permission to deal in, the share or loan capital of our Company on any other stock exchange; and
- (i) there is no arrangement under which future dividends are waived or agreed to be waived.

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE ON DISPLAY**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 8. Consent of Experts” in Appendix IV to this document; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at starcmgrou.com during a period of 14 days from the date of this document:

- (a) the Memorandum and the Articles of Association;
- (b) the Accountants’ Report of our Group prepared by Ernst & Young, the texts of which are set out in Appendix I to this document;
- (c) the report issued by Ernst & Young in relation to the unaudited [REDACTED] financial information of our Group, the text of which is set forth in Appendix II to this document;
- (d) the audited consolidated financial statements of our Group for the three financial years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022;
- (e) the PRC legal opinions issued by our PRC Legal Advisor on PRC law, in respect of certain general corporate matters of our Group and the property interests of our Group and in respect of certain aspects of PRC law referred to in “Contractual Arrangements”;
- (f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands law, summarizing certain aspects of the Cayman Islands company law referred to in Appendix III to this document;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE ON DISPLAY**

- (g) the report issued by Frost& Sullivan, from which information in “Industry Overview” of this document is extracted;
- (h) the Cayman Companies Act;
- (i) the written consents referred to in “Statutory and General Information — D. Other Information — 8. Consent of Experts” in Appendix IV to this document;
- (j) the material contracts referred to in “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this document;
- (k) the service contracts and the letters of appointment with our Directors referred to in “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Particulars of Directors’ Service Contracts and Appointment Letters” in Appendix IV to this document; and
- (l) the legal memorandum issued by Shanghai Guanghai Law Firm* (上海市廣海律師事務所), a special litigation counsel to our Company with respect to the litigation with MBC.

* For illustration purpose only.