

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 [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section headed “Risk Factors.” You should read the entire document carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are an established artist management company in China. According to Frost & Sullivan, we ranked first among artist management companies in China with a market share of 1.9% in terms of artist management revenue in 2021. Since our establishment in 2009, we have grown into a culture and entertainment platform comprising three complementary businesses of artist management, music IP production and operation, and pan-entertainment business.

Consumers’ ever-expanding demand for high-quality entertainment has put increased spotlights on established artists, around whom the entertainment industry has been evolving for many years. Today’s established artists no longer limit themselves to one particular genre in which they originally specialize. They perform in various types of entertainment content, including music, variety programs, drama series and movies. Further, through endorsement deals and business promotion activities, established artists help corporate customers raise the market awareness of their products or services. As a professional artist management company, we arrange our managed artists to provide high quality services to our customers, and assist our managed artists to pursue commercial opportunities and develop their career. Our business covers the entire artist management industry value chain, from artist training, artist operation to artist promotion. Our extensive industry expertise has laid the foundation for us to lead China’s artist management market and embrace the opportunities.

Our business model consists of the following three business lines:

- **Artist management.** We have established a full-fledged professional artist management system, which has enabled us to assemble a diverse team of managed artists and a robust pipeline of trainees. As of the Latest Practicable Date, we had 69 managed artists and 62 trainees enrolled in our trainee program. We continuously identify candidates with high artistic potential, and train them into artists with solid performing skills, strong professionalism and sound moral character. Benefiting from their positive public images and popularity, our managed artists have entered into endorsement deals with, and participated in business promotion activities, for a wide selection of well-known domestic and international brands. In addition, our managed artists have played important roles in various popular productions, such as the drama series “Faith Makes Great: Choice (理想照耀中國之抉擇),” “Luoyang (風起洛陽)” and “Floating Youth (冰球少年),” the movies “The Pioneer (革命者),” “The Founding of An Army (建軍大業)” and “Beginning of the Great Revival (建黨偉業),” and the variety programs “Street Dance of China (這！就是街舞)” and “One More Try (極限青春).” In a highly fragmented artist management market in China, we have the largest market share, in terms of artist management revenue in 2021, of 1.9%, according to Frost & Sullivan.

In the artist management business, we generate revenue primarily from providing services to customers, which include corporate customers, media platforms, content producers and advertising agencies, by arranging our managed artists to (i) participate in commercial activities, such as endorsement deals, business promotion activities and other commercial activities, and (ii) provide entertainment content services such as performing in movies,

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drama series and variety programs. Our cost of revenue consists primarily of payments to our managed artists and their related entities, who are our major suppliers. Pursuant to the artist management contracts, we share revenue with our managed artists after deducting relevant expenses, according to percentages set out in the artists’ contracts, which vary according to the terms of the contracts.

During the Track Record Period, we entered into cooperation agreements with certain media platforms, which allowed them to manage some of our managed artists for a period typically ranging from 18 to 24 months. We share the revenue generated with these platforms based on agreed percentages. After the conclusion of such arrangement, we will continue to manage the artists pursuant to their artist management contracts.

For more details about the business model of our artist management business, see “Business—Our Business—Artist Management.”

- **Music IP production and operation.** As many of our managed artists were trained to sing, we started our music IP production and operation business in 2009. We have established an extensive library of music IPs, comprising approximately 1,200 original music recordings and videos we produced for our managed artists and more than 56,000 musical works we licensed from third-party copyright holders as of September 30, 2022. The musical works in our music IP library cover a diverse range of genres, including pop, ballad, electronic dance, hip hop and rock. The digital singles and albums we produced for our managed artists enjoy high popularity. As of September 30, 2022, “No Feelings (無感)” and “My Rules (我的世界守則),” two digital singles we produced for Mr. Wang Yibo, sold over 17 million and 15 million copies, respectively. “Chapter Z,” a digital album we produced for Mr. Zhu Zhengting, sold approximately two million copies as of the same date. Musical works we produced for our managed artists are distributed on China’s top music streaming platforms, such as NetEase Cloud Music and Tencent Music, as well as international music streaming platforms for listeners to stream or download.

In the music IP production and operation business, we generate revenue primarily from (i) licensing of our original music IPs to music service providers, (ii) sub-licensing of our licensed music IPs to music service providers, and (iii) sales of digital and physical copies of our music IPs. Our customers primarily include major music streaming platforms and telecommunication companies in China. Our cost of revenue consists primarily of production cost of music content, such as licensing fees paid to service providers who provide us with demos, music compositions and lyrics. During the Track Record Period, in addition to our in-house music production team, we engaged third parties to facilitate our music production process from time to time. For more details about the business model of our music IP production and operation, see “Business—Our Business—Music IP Production and Operation.”

- **Pan-entertainment business.** Leveraging our industry experience in the artist management market, we have actively expanded our footprint in the pan-entertainment business, including commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise. We collaborated with a business partner to develop A-SOUL, a popular virtual artist group consisting of five digitally created members, which debuted in November 2020.

In the pan-entertainment business, we generate revenue primarily from (i) commercial development of virtual artists, (ii) variety program format licensing and (iii) sales of artist-

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related merchandise. During the Track Record Period, we collaborated with a business partner in the commercial development of A-SOUL and engaged third parties in the production and sales of artist-related merchandise.

We experienced rapid growth in 2019, 2020 and 2021. Our revenue increased from RMB631.4 million in 2019 to RMB922.0 million in 2020, and further increased to RMB1,290.4 million in 2021, at a CAGR of 43.0% between 2019 and 2021. Our profit for the year increased significantly from RMB119.3 million in 2019 to RMB291.9 million in 2020, and further increased to RMB335.3 million in 2021, at a CAGR of 67.6% between 2019 and 2021. Such increases reflected our continuous business growth and expansion in 2019, 2020 and 2021. Our revenue decreased by 15.9% from RMB895.1 million in the same period of 2021 to RMB752.6 million in the nine months ended September 30, 2022, primarily due to the impact of the COVID-19 pandemic. For more details, see “Financial Information—Impact of COVID-19.” Our profit for the period increased substantially to RMB1,344.7 million in the nine months ended September 30, 2022 from RMB236.7 million in the same period of 2021, primarily because we recorded fair value gains of convertible preferred shares of RMB1,204.0 million in the nine months ended September 30, 2022 as a result of the change in valuation of our convertible preferred shares. For more details, see “Financial Information—Period to Period Comparison of Results of Operations.”

OUR COMPETITIVE STRENGTHS

We believe our previous success is attributable to the following competitive strengths:

- An established artist management company in China;
- Yuehua model underpinned by systematic trainee cultivation and professional artist operation;
- Extensive, diversified and longstanding cooperation with business partners;
- Established Yuehua brand image underpinned by corporate social responsibility; and
- Visionary and experienced management team and resourceful investors.

For further details, see “Business—Our Competitive Strengths.”

OUR STRATEGIES

To achieve our business objectives, we intend to leverage our competitive strengths and implement the following strategies:

- Solidify our advantage by increasing the quality and quantity of our managed artists;
- Further expand our music IP library;
- Continue to diversify our business model and build a comprehensive culture and entertainment platform;
- Explore the overseas market and expand our global footprint; and
- Continue to recruit and retain talented professionals for our business and management teams.

For further details, see “Business—Our Strategies.”

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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 [REDACTED] in our Shares. Some of the major risks that we face include:

- Our business depends significantly on our managed artists’ reputation and the public’s perception of our brand. Any negative publicity on our managed artists, our Company and management, business partners or industry, may harm our brand image, which could materially and adversely affect our business, financial condition or results of operations;
- We generate a substantial portion of our revenue from our artist management business. If we fail to maintain our relationship with artists and trainees or enlarge the number of artists and trainees managed by us, our business, financial condition and results of operations could be materially and adversely affected;
- Our business is highly sensitive to public tastes and is dependent on our ability to secure and develop popular artists, and we may not be able to anticipate or respond effectively to changes in audience’s preferences and market trends, which could materially and adversely affect our business, financial condition and results of operations;
- Our business depends, in significant part, on the general prosperity and development of China’s overall entertainment industry, corporate spending and discretionary consumer spending. Challenging economic conditions and other negative factors may impact corporate and consumer spending, which could have a material adverse effect on our business, financial condition and results of operations; and
- If we fail to maintain our business relationship with our major customers or expand our customer base, our business, financial condition and results of operations could be materially and adversely affected.

MAJOR CUSTOMERS AND SUPPLIERS

During the Track Record Period, our customers consisted primarily of (i) domestic and international brands; (ii) content producers and media platforms; and (iii) music service providers that license music IPs from us. Our revenues attributable to the five largest customers for each year or period during the Track Record Period were RMB173.3 million, RMB245.2 million, RMB301.2 million and RMB148.1 million, respectively, accounting for approximately 27.4%, 26.5%, 23.4% and 19.6% of our total revenue for the corresponding year or period, respectively.

During the Track Record Period, our suppliers consisted primarily of (i) our managed artists and entities controlled by them; (ii) media platforms; (iii) service providers who provide styling, personal security and photography services; and (iv) service providers who provide demos, music compositions and lyrics in connection with our music IP production and operation. Our purchases of services attributable to the five largest suppliers for each year or period during the Track Record Period were RMB152.1 million, RMB229.5 million, RMB424.6 million and RMB270.0 million, respectively, accounting for approximately 43.3%, 53.6%, 61.6% and 59.8% of our total purchases for the corresponding year or period, respectively.

Relationship with Our Managed Artists

Our managed artists play an important role in our business development and our cooperation with them is an integral part of our business operation. Our rich industry resources, professional artist

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management teams and proven track record of nurturing well-known artists have allowed us to continuously attract talented young people and promote the performing art careers of our managed artists, helping us create and maintain a mutually beneficial and complementary relationship with the artists.

We have established and maintained stable, long-term business relationships with our managed artists, normally enter into exclusive artist management contracts with artists. The majority of these long-term contracts have terms ranging from five to 15 years. Our contracts with artists who are graduates of our Yuehua trainee program typically have even longer terms, ranging from eight to 15 years.

57 of our 69 managed artists as of the Latest Practicable Date are graduates of our Yuehua trainee program. The long-term working relationship between our managed artists and us formed during the trainee stage also instills a sense of belonging and facilitates the smooth execution of artist management contracts. Benefiting from stable cooperation with our managed artists, we are able to build a continuously expanding artist roster.

The revenue attributable to our top ten artists for 2019, 2020, 2021 and the nine months ended September 30, 2022, accounted for 74.8%, 83.0%, 85.6% and 87.2% of our total revenue for the corresponding periods, respectively. The revenue attributable to our top one artist for 2019, 2020, 2021 and the nine months ended September 30, 2022, accounted for 16.8%, 36.7%, 49.5% and 58.8% of our total revenue for the corresponding periods, respectively. A majority of our top ten artists debuted between 2014 and 2018. As the top ten artists gradually established themselves in the market, their recognition and commercial value started to rise rapidly. Therefore, they contributed a significant portion of our revenue during the Track Record Period. Among them, the artist controlling one of our major suppliers which is referred to as Supplier B in this document had successfully become an established artist in China and maintained his popularity during the Track Record Period. The revenue attributable to such artist was a major contributor to our revenue growth, in particular starting from 2020. Our revenue growth attributable to such artist accounted for over 80% of our overall revenue growth in 2020 and 2021.

According to Frost & Sullivan, it is an industry norm that, at any given time, artists with high popularity contribute a significant portion of revenue of the artist management companies they work with. However, artists with high popularity change from time to time due to the changing audience preferences, according to Frost & Sullivan. To keep our competitive advantage, we will (i) continue to promote our managed artists who debuted after 2018, who have gradually established themselves in the market, and (ii) continue to expand our artist roster by training and arranging debut for our trainees, so that we can keep identifying, training and promoting artists with high popularity and commercial value. For details, see “Business—Our Business—Relationship with Our Managed Artists.”

DATA PRIVACY AND SECURITY

As an artist management company operating in the entertainment industry, we are not heavily engaged in the collection or processing of private data. We mainly collect (i) data that is publicly available, (ii) personal information provided by applicants, trainees and artists with their consent, and (iii) business data, such as sales data of commercial promotion activities and number of clicks, views and downloads of musical works and performance of virtual artist group, provided by our business partners. We use personal information only for the purpose of trainee selection or providing trainees

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and artists with appropriate training and artist operation services in accordance with the contracts signed with them. With respect to business data, we mostly use it for accounting and expense settlement with our business partners.

In the course of our business, we do not actively collect or maintain any personal information of the fans of our managed artists. We set up official fan club accounts on Weibo for our managed artists and publish posts with latest updates of the artists. Those who have accounts on Weibo can choose to follow our official fan club accounts. We only have information that is publicly available on Weibo, such as the number of followers of each fan club account, as well as followers’ nicknames and profile pictures. We may also have fans’ email addresses if they contact us via email. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any investigation, penalty or recourse with respect to data security and personal information protection.

Based on the facts above, our PRC Legal Advisor is of the opinion that we had complied with the laws and regulations on data security and personal information protection in all material aspects up to the Latest Practicable Date.

COMPLIANCE AND LITIGATION

We are subject to a wide range of PRC laws and regulations in the ordinary course of business. For details, see “Regulations.” During the Track Record Period and up to the Latest Practicable Date, we did not have any non-compliance incidents which our Directors believe would, individually or in the aggregate, have a material operational or financial impact on our business as a whole. For details, see “Business—Compliance and Litigation.”

We may be involved in legal or other disputes in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending litigation, arbitration or administrative proceedings that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation. Our Directors had not been involved in any actual or threatened material claims or litigation during the Track Record Period and up to the Latest Practicable Date.

RECENT REGULATORY DEVELOPMENT

A series of new regulations and policies were issued and promulgated from time to time during the past several years by relevant administrative authorities in the PRC, which were intended to encourage a healthy and orderly development of the entertainment market.

Regulations relating to management of the activities of artists and artist management companies (collectively, the “Notices” and each a “Notice”)

On August 25, 2021, Office of the Central Cyberspace Affairs Commission (中共中央網絡安全和信息化委員會辦公室) issued the Notice on Further Strengthening the Supervision of the Chaotic Celebrity Fan Culture (《關於進一步加強“飯圈”亂象治理的通知》), which requires (i) strengthening the responsibility of artist management companies to guide fans to act responsibly; (ii) prohibiting the incitement of fans to spend money irrationally, such as ranking fans in terms of spending on artists; (iii) prohibiting paid voting for artists in variety programs; (iv) requiring market participants to strictly prohibit minors from spending money for artists and restricting them from engaging in various fan club activities; and (v) tightening regulation on fans’ fundraising activities to promote artists.

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On September 2, 2021, the NRTA issued the Notice on Emphasizing the Management and Regulation of Entertainment Programs and Related Personnel (《關於進一步加強文藝節目及其人員管理的通知》), which requires that broadcasting and television organizations and online video platforms (i) must not allow artists (a) who have committed illegal or immoral acts, (b) who have incorrect political stances and whose thoughts and values have diverged from core societal values, and (c) who have violated public order or morality, to perform; (ii) must not broadcast variety programs in the idol development genre; (iii) must not use voting mechanisms that induce the audience to spend money on contestants in competitive variety programs; (iv) must not use “yin-yang contracts” and shall strictly implement the regulations on maximum wages for artists who provide entertainment content services; and (v) strengthen supervision on content.

On September 29, 2021, Ministry of Culture and Tourism issued the Notice on Regulating Performance Agency Conduct, Strengthening Administration of Performers and Promoting the Healthy and Orderly Development of Performance Market (《關於規範演出經紀行為加強演員管理促進演出市場健康有序發展的通知》), pursuant to which (i) those who engage in performance agency activities and artist management activities shall obtain a Commercial Performance License (營業性演出許可證); (ii) those who engage in artist management activities shall obtain a Performance Brokerage Qualification Certificate (演出經紀資格); (iii) those who engage in performance agency or artist management activities for minors shall guarantee the minors’ right to receive and complete mandatory education pursuant to the relevant laws and regulations; and (iv) those who engage in artist management activities shall strengthen their guidance of fan behaviors, supervise the contents of the social media accounts of authorized fan clubs, and urge artists to take the initiative to provide positive guidance for fans groups when they have inappropriate behaviors.

On October 26, 2021, Office of the Central Cyberspace Affairs Commission (中共中央網絡安全和信息化委員會辦公室) issued the Notice on Further Strengthening the Work Related to the Regulation of Online Information for Entertainment Artists (《關於進一步加強娛樂明星網上信息規範相關工作的通知》), pursuant to which the official social media account of an artist’s fan club must be authorized or certified by the artist’s artist management company, which shall be responsible for the daily maintenance and supervision of the account. Unauthorized individuals or organizations are not allowed to register social media accounts for artist fan clubs.

On May 20, 2022, the NRTA issued 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 management companies: (i) shall confirm the identity of its managed artists; (ii) shall obtain the consent of the guardians when providing artist management services to minors, and shall not arrange minors to perform in activities that would harm their physical or psychological well-being; (iii) shall not arrange its managed artists to perform in illegal or immoral entertainment content; (iv) shall recruit enough staff to meet business needs and the ratio of the number of managers to the number of their managed persons, which, as advised by our PRC Legal Advisor, include both artists and trainees managed by managers, shall be no lower than 1/100 in principle; (v) shall not authorize minors to serve as the owner or operator of the official social media accounts of an artist’s fan club; (vi) shall not publish, or hire others to publish, information that could incite fans to attack each other; and (vii) shall not arrange managed artists to perform in advertisements with illegal content.

On October 31, 2022, the SAMR, Office of the Central Cyberspace Affairs Commission (中共中央網絡安全和信息化委員會辦公室), Ministry of Culture and Tourism, the NRTA, China Banking and

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Insurance Regulatory Commission (中國銀行保險監督管理委員會), the CSRC and China Film Administration (國家電影局) jointly issued Guidance on Further Regulating the Endorsement by Artists in Advertising Activities (《關於進一步規範明星廣告代言活動的指導意見》), which requires regulatory authorities to strengthen supervision over artist endorsements in advertising activities, and hold artists, management companies, advertisers, advertising agents, advertisement publishers and relevant internet information service providers accountable for false or illegal artist endorsements. In particular, artists are prohibited from endorsing products or services which are (i) illegal, (ii) not used by the artists before the endorsement, (iii) manufactured or sold by entities without licenses required for operation, or (iv) in certain categories such as tobacco products or healthcare products. If the artists make false or illegal endorsements, the artists themselves will be penalized pursuant to applicable laws, and any penalty imposed on the artist management companies may not be used as a substitute for the penalty on the artists. Where an artist management company participates in endorsement activities, it will be treated as an advertising agent for legal liabilities.

As advised by our PRC Legal Advisor, the Notices do not have any retrospective effect and we had complied with each of the Notices that are currently in effect in all material aspects since they became effective and up to the Latest Practicable Date. For details, see “Business—Recent Regulatory Development.” In addition, during the Track Record Period and up to the Latest Practicable Date, we, and to the best knowledge and belief of our Directors after making all reasonable inquiries, our managed artists and their related entities had not been the subject of any review, inquiry, or investigation by any PRC regulatory authority pursuant to any of the Notices that are currently in effect.

Regulations relating to restriction of wages (the “Maximum Wage Order”)

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” (《關於電視劇網絡劇製作成本配置比例的意見》) issued by the NRTA in September 2017, 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 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 remuneration of the actors and actresses.

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. As advised by our PRC Legal Advisor, content production companies and broadcasting platforms of web movies, drama series and variety programs shall submit reports disclosing the payments to all actors and principal actors to the competent authorities for review before they can obtain the necessary license to distribute such content. Most of the works in which our managed artists performed during the Track Record Period had been distributed or had obtained the license for distribution. We have obtained confirmations from the respective content production companies and media platforms for some undistributed works which represent a majority of the undistributed works measured by the contract amount. For the remaining undistributed works, the remuneration our managed artists received is comparable to those in works of similar type and scale. All of our managed artists as of the Latest Practicable Date who performed in works subject to the Maximum Wage Order have confirmed that they and their related entities (if any) had complied with the Maximum Wage

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Order. Our PRC Legal Advisor is of the view that, based on the above and public searches conducted by it, 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.

Regulations relating to taxation of culture and entertainment industry (collectively, the “Tax Notices”)

On October 2, 2018, the State Administration of Taxation issued the Notice on Further Regulating the Taxation Order of the Film and Television Industry (《關於進一步規範影視行業稅收秩序有關工作的通知》), in response to issues such as tax evasion by high-income practitioners in the film and television industry, the tax authorities has further standardized the order of tax collection and management in the film and television industry.

On September 18, 2021, the State Taxation Administration issued the Notice on Strengthening the Taxation Management of Employees in the Entertainment Field (《關於加強文娛領域從業人員稅收管理的通知》), pursuant to which the tax department shall (i) further strengthen the daily tax management of employees in the field of culture and entertainment, and guide the individual studios and enterprises set up by artists to establish accounts and systems in accordance with laws and regulations; (ii) focus on strengthening the tax management of artists and content production companies, urging them to fulfill obligations of tax withholding, paying personal income tax, providing relevant information, and cooperating with the tax authorities to implement relevant regulation; and (iii) strictly prohibit tax evasion and other tax-related violations.

We had not received any rectification requirements or been punished under the Tax Notices and all other relevant regulations and laws during the Track Record Period and up to the Latest Practicable Date. Specifically, during the Track Record Period and up to the Latest Practicable Date, neither we, nor, to the best knowledge and belief of our Directors after making all reasonable inquiries, any of our managed artists and their related entities, had entered into any “yin-yang contract” with any media platforms or content production companies with respect to movies, drama series or variety programs in which our managed artists performed. Nor had we entered into any “yin-yang contract” with respect to the movie we produced, through Horgos Yuehua, during the Track Record Period.

In October 2018, the SAT issued a public notice, requesting local tax authorities to require content production companies, artist management companies, celebrity artists and their related entities to conduct self-examinations on their tax filings since 2016, and report to the local tax authorities by the end of 2018. Pursuant to such requirements of tax authorities, Beijing Yuehua, Tianjin Yuehua, Tibet Yuehua and Horgos Yuehua (each an “Entity” and together the “Entities”) each conducted a tax compliance self-examination in 2018 for their respective tax filings for the period starting from 2016.

After the completion of tax compliance self-examination in 2018, each of the Entities submitted a self-examination report in 2018 to the local tax authority. We paid an aggregate amount of approximately RMB2.3 million additional tax and an aggregate amount of approximately RMB0.5 million surcharges for overdue tax payments by December 2018. We made the additional tax payments and surcharges for each of the Entities without being subject to any legal or administrative penalties from their respective local tax authorities. Also, we obtained a written confirmation for each of Beijing Yuehua, Tianjin Yuehua and Tibet Yuehua in October 2022, and a written confirmation for Horgos Yuehua in May 2022, confirming that the relevant entity did not have any outstanding tax payments on the issuance date of the written confirmation. For details, see “Business—Our Business—Recent Regulatory Development—Regulations relating to the taxation of culture and entertainment industry.”

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Regulations relating to anti-trust control (the “Decision”)

On July 24, 2021, State Administration for Market Regulation issued the Decision on Certain Major Digital Streaming Platform (《市場監管總局作出責令解除網絡音樂獨家版權等處罰》) to relinquish exclusive deals held with its suppliers, which encourages an open, fair and healthy industry environment. Pursuant to the Decision, music streaming platforms shall not sign exclusive copyright agreements except in a limited number of circumstances. As of the Latest Practicable Date, we did not have any exclusive music licensing contracts with music streaming platforms that were in effect. As advised by our PRC Legal Advisor, we had complied with the Decision since it became effective and up to the Latest Practicable Date.

Document relating to entertainment content service contracts

On May 7, 2022, China Federation of Radio and Television Association (中國廣播電視社會組織聯合會) and China Netcasting Services Association (中國網絡視聽節目服務協會) together issued the Template Entertainment Content Service Contract (Trial) (《演員聘用合同示範文本(試行)》) (the “Template Contract”). The Template Contract provides standard clauses, including (i) artists must enter into entertainment content service contracts on their own behalf; (ii) the remuneration for artists shall be pre-tax and may not be paid in cash; (iii) the allocation between artists and their respective artist management companies shall be set out in the entertainment content service contracts; (iv) parties to entertainment content service contracts shall not disguise remuneration in other forms; (v) artists shall not commit any harmful act that is illegal, immoral or would otherwise hinder the preparation, production or distribution of the entertainment content.

As advised by our PRC Legal Advisor, the Template Contract is issued by industry associations, which are self-regulatory organizations rather than qualified legislative agencies under PRC law, and therefore is not mandatory. Nevertheless, we can use the Template Contract as a reference in future contract negotiation.

Regulations relating to cybersecurity

On December 28, 2021, the MIIT, CRSC and nine other governmental authorities jointly promulgated the revised Measures for Cybersecurity Review (《網絡安全審查辦法》) (the “Revised Cybersecurity Review Measures”), which came into effect on February 15, 2022. Pursuant to the Revised Cybersecurity Review Measures, the following circumstances shall be subject to cybersecurity review, (i) the purchase of network products and services by a critical information infrastructure operator (關鍵信息基礎設施運營者) (the “CIIO”), as defined in Regulations on the Security Protection of Critical Information Infrastructure (《關鍵資訊基礎設施安全保護條例》), which affects or may affect national security; (ii) the plan of listing abroad of network platform operator holding personal information of more than one million users; and (iii) any network products or services, or data processing activities that the competent authorities believe affect or may affect national security.

On November 14, 2021, the CAC promulgated the Draft Internet Data Security Regulations (《網絡資料安全管理條例(徵求意見稿)》) (the “Draft Regulations”), which requires data processors to apply for a cybersecurity review if they (i) carry out any merger, reorganization or separation of internet platform operators with a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (ii) seek a listing abroad by data processors that handle personal information of more than one million persons; (iii) seek a listing in Hong Kong by data processors, which affects or may affect national security; or (iv) conduct other data processing activities that affect or may affect national security.

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Our PRC Legal Advisor consulted, on behalf of us, with China Cybersecurity Review Technology and Certification Center (“CCRC”), which is delegated by the CAC for public inquiries relating to the cybersecurity review under the Revised Cybersecurity Review Measures. During the consultation, CCRC informed the PRC Legal Advisor that [REDACTED] in Hong Kong will not be deemed as [REDACTED] abroad under the Revised Cybersecurity Review Measures. Our PRC Legal Advisor is of view that CCRC is the competent authority for such inquiry based on the delegation of the CAC. Furthermore, as of the Latest Practical Date, we did not operate any network platform or provide any network product or service.

As advised by our PRC Legal Advisor, our Directors are of the view that (i) as of the date of this document, we are not a “network platform operator processing more than one million users’ personal information” under the Revised Cybersecurity Review Measures; (ii) we would be able to comply with the Revised Cybersecurity Review Measures and the Draft Regulations in all material aspects, assuming the Draft Regulations are implemented in their current form; (iii) the possibility of our business operations or our proposed [REDACTED] in Hong Kong being deemed as affecting national security based on the factors set out in the Revised Cybersecurity Review Measures is remote; and (iv) the Revised Cybersecurity Review Measures and the Draft Regulations, assuming the Draft Regulations are implemented in their current form, would not have a material adverse impact on our business operations or our proposed [REDACTED] in Hong Kong. For details, see “Business—Our Business—Recent Regulatory Development” and “Regulations—Regulations Relating to Cybersecurity.”

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.

Based on the above, we are of the view, with the advice provided by our PRC Legal Advisor, that the recent regulatory changes have not and will not have any material adverse impact on our business operation or financial performance. For details, see “Business—Our Business—Recent Regulatory Development,” “Regulations—Laws and Regulations in Relation to Our Business in the PRC—Special Regulations Relating to Cultural Programs and Entertainment Artists” and “Regulations—Laws and Regulations in Relation to Our Business in the PRC—Regulations Relating to Maximum Wage Order.” We have implemented robust internal control measures in reaction to the recent regulatory development. For details, please see “Business—Our Business—Recent Regulatory Development” and “Business—Risk Management and Internal Control Systems—Regulatory Compliance Risk Management.”

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.

OUR CONTROLLING SHAREHOLDERS

Upon completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised), Ms. Du will be indirectly interested in and control, through her controlled entities, an aggregate of [REDACTED]% of the issued share capital of our Company. Mr. Sun is cohabiting with Ms. Du as a spouse. By virtue of such relationship, immediately after completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised), Ms. Du and Mr. Sun will be indirectly interested in and through their respective controlled

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entities control (being DING GUOHUA LIMITED, HuaDingGuo Limited, Xihaha International Holding Limited, QINGDINGDANG LIMITED, Dawei International Holding Limited and DingDangQing Limited) an aggregate of [REDACTED]% of the issued share capital of our Company. Therefore, Ms. Du, Mr. Sun and their respective controlled entities will constitute a group of Controlling Shareholders. See “Relationship with the Controlling Shareholders” for further details.

LISTING ON AND DELISTING FROM NEEQ AND A SHARE LISTING ATTEMPT

On September 22, 2015, shares of Yuehua Limited were listed on the NEEQ under the stock code 833564. On February 26, 2018, the board of Yuehua Limited resolved to voluntarily delist Yuehua Limited’s shares from the NEEQ, which was duly approved by the then shareholders of Yuehua Limited. On March 22, 2018, Yuehua Limited was delisted from the NEEQ by way of a voluntary application for delisting. Following the continued growth in the scale of business of Yuehua Limited and with a view to tapping into capital markets with a boarder investor base, Yuehua Limited considered exploring the option of listing on the main board of the Shanghai Stock Exchange in 2018. In this connection, on March 3, 2018, Yuehua Limited filed the Pre-listing Tutoring with the Beijing Office of the CSRC. Subsequently, having taken into account our long-term business development plan and financing needs for our further expansion, our Directors considered the Stock Exchange to be a more appropriate [REDACTED] venue that would provide us with brand recognition and a good platform to access the international equity market. Accordingly, on May 26, 2021, Yuehua Limited voluntarily terminated the Pre-listing Tutoring. For details, see “History, Reorganization and Corporate Structure—Listing on and Delisting from NEEQ and A Share Listing Attempt.”

[REDACTED] INVESTMENTS

We have attracted certain [REDACTED] Investors since our establishment to raise funds for the development of our business. 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.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, which are extracted from the Accountant’s Report set out in Appendix I to this document. The summary of consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

SUMMARY

Key Components of Consolidated Statements of Comprehensive Income

The table below sets forth selected items of consolidated statements of comprehensive income for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
	(Unaudited)				
Revenue	631,436	922,042	1,290,449	895,127	752,629
Cost of revenue	(351,932)	(429,060)	(688,490)	(467,326)	(451,706)
Gross profit	279,504	492,982	601,959	427,801	300,923
Selling and marketing expenses	(23,359)	(30,823)	(34,523)	(22,882)	(20,633)
General and administrative expenses	(39,406)	(44,081)	(71,530)	(46,317)	(73,033)
Net impairment losses on financial assets	(1,374)	(8,954)	(3,296)	(776)	(3,687)
Other income	3,778	7,303	18,420	17,545	3,210
Other (losses)/gains, net	(39,996)	(18,522)	(5,889)	(12,827)	6,275
Operating profit	179,147	397,905	505,141	362,544	213,055
Finance income	1,222	3,693	5,215	3,010	4,506
Finance costs	(1,921)	(6,366)	(42,749)	(31,792)	(5,382)
Finance costs, net	(699)	(2,673)	(37,534)	(28,782)	(876)
Share of losses of investments accounted for using the equity method	(9,217)	(2,697)	(6,568)	(6,261)	(1,795)
Fair value changes of convertible preferred shares ..	—	—	—	—	1,204,024
Profit before income tax	169,231	392,535	461,039	327,501	1,414,408
Income tax expense	(49,898)	(100,589)	(125,707)	(90,776)	(69,743)
Profit for the year/period	119,333	291,946	335,332	236,725	1,344,665
Profit attributable to:					
Owners of our Company	119,023	291,370	336,684	235,556	1,343,941
Non-controlling interests	310	576	(1,352)	1,169	724
	<u>119,333</u>	<u>291,946</u>	<u>335,332</u>	<u>236,725</u>	<u>1,344,665</u>

Non-IFRS Measures

To supplement our consolidated financial statements which are presented under IFRS, we also use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that the 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 [REDACTED] 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 may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures has limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net profit as profit for the year/period adjusted for (i) equity settled share-based payments, (ii) fair value changes of convertible preferred shares, (iii) [REDACTED] and (iv) interest expenses on redemption liabilities. Equity settled share-based payments consist of non-cash

SUMMARY

expenses arising from granting RSUs to eligible individuals under our Share Incentive Plan. Fair value changes of convertible preferred shares reflects the changes in fair value of the Series A-1, A-2 and A-3 convertible preferred shares issued by our Company to certain shareholders on January 28, 2022. For details, see “History, Reorganization and Corporate Structure—Reorganization.” [REDACTED] mainly include professional fees paid in relation to the [REDACTED] and the [REDACTED]. Interest expenses on redemption liabilities mainly refer to unwinding of interests on redemption liabilities in relation to the preferential rights certain shareholders of Yuehua Limited are entitled to pursuant to a shareholders’ agreement dated November 16, 2020. For more details, see “History, Reorganization and Corporate Structure—[REDACTED] Investments.” We define adjusted net profit margin as adjusted net profit divided by revenue. The table below sets forth our adjusted net profit and adjusted net profit margin for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands, except for percentages)				
	(Unaudited)				
Profit for the year/period	<u>119,333</u>	<u>291,946</u>	<u>335,332</u>	<u>236,725</u>	<u>1,344,665</u>
Adjusted for:					
Equity settled share-based payments	—	—	2,068	—	66,235
Fair value changes of convertible preferred shares	—	—	—	—	(1,204,024)
	[REDACTED]				
Interest expenses on redemption liabilities	—	3,909	40,481	30,070	3,406
Non-IFRS measures:					
Adjusted net profit	<u>119,333</u>	<u>295,855</u>	<u>394,571</u>	<u>272,985</u>	<u>229,819</u>
Adjusted net profit margin	<u>18.9%</u>	<u>32.1%</u>	<u>30.6%</u>	<u>30.5%</u>	<u>30.5%</u>

Revenue

The following table sets out a breakdown of our revenue by business line both in absolute terms and as a percentage of our revenue for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
	(RMB in thousands, except percentages)									
	(Unaudited)									
Artist management	530,228	84.0%	808,241	87.7%	1,174,842	91.0%	817,866	91.3%	677,726	90.1%
Music IP production and operation	74,734	11.8%	92,719	10.0%	77,738	6.1%	51,505	5.8%	58,187	7.7%
Pan-entertainment business	26,474	4.2%	21,082	2.3%	37,869	2.9%	25,756	2.9%	16,716	2.2%
Total	<u>631,436</u>	<u>100.0%</u>	<u>922,042</u>	<u>100.0%</u>	<u>1,290,449</u>	<u>100.0%</u>	<u>895,127</u>	<u>100.0%</u>	<u>752,629</u>	<u>100.0%</u>

Our revenue increased by 46.0% from RMB631.4 million in 2019 to RMB922.0 million in 2020, and further increased by 40.0% to RMB1,290.4 million in 2021, primarily due to the continuous expansion of our business. Our revenue decreased by 15.9% from RMB895.1 million in the nine months

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ended September 30, 2021 to RMB752.6 million in the nine months ended September 30, 2022 primarily due to the impact of COVID-19.

Our revenue generated from artist management business increased from RMB530.2 million in 2019 to RMB808.2 million in 2020, and further increased to RMB1,174.8 million in 2021, primarily attributable to the growing number of contracts generating revenue from business activities and the increasing popularity, influence and commercial value of our managed artists. Our revenue generated from artist management business decreased by 17.1% from RMB817.9 million in the nine months ended September 30, 2021 to RMB677.7 million in the nine months ended September 30, 2022, primarily due to a decrease in the number of contracts generating revenue from business activities of our artist management business, as a result of the impact of COVID-19.

Our revenue generated from music IP production and operation increased from RMB74.7 million in 2019 to RMB92.7 million in 2020, mainly attributable to an increase in sales of digital singles and albums in 2020 driven by increased popularity of our digital singles and albums. Our revenue generated from music IP production and operation decreased from RMB92.7 million in 2020 to RMB77.7 million in 2021. This is primarily attributable to a decrease in revenue generated from sales of digital singles and albums in relation the restrictive rules adopted by major music streaming platforms in China we cooperated with on the purchase number of digital albums and singles. Our revenue generated from music IP production and operation increased by 13.0% from RMB51.5 million in the nine months ended September 30, 2021 to RMB58.2 million in the nine months ended September 30, 2022, primarily due to an increase in sales of digital singles and albums which we produced for our managed artists and artist groups and released in the nine months ended September 30, 2022.

Our revenue generated from pan-entertainment business decreased from RMB26.5 million in 2019 to RMB21.1 million in 2020, primarily because we generated revenue in 2019 from a movie of which we were the lead investor while no such revenue was generated in 2020. Our revenue generated from pan-entertainment business increased from RMB21.1 million in 2020 to RMB37.9 million in 2021, primarily due to revenue generated from the commercial development of the virtual artist group, A-SOUL, launched in the end of 2020. Our revenue generated from pan-entertainment business decreased by 35.0% from RMB25.7 million in the nine months ended September 30, 2021 to RMB16.7 million in the nine months ended September 30, 2022, primarily due to a decrease in revenue generated from licensing the program format of an idol development variety program.

We generated substantially all of our revenue in the PRC during the Track Record Period. The following table sets out a breakdown of our revenue by geographical region of our customers both in absolute terms and as a percentage of our revenue for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
	(RMB in thousands, except for percentages)									
	(Unaudited)									
China	621,734	98.5%	885,559	96.0%	1,245,437	96.5%	865,475	96.7%	693,756	92.2%
Overseas ⁽¹⁾	9,702	1.5%	36,483	4.0%	45,012	3.5%	29,652	3.3%	58,873	7.8%
Total	631,436	100.0%	922,042	100.0%	1,290,449	100.0%	895,127	100.0%	752,629	100.0%

Note:

(1) Including Korea, Hong Kong, Japan, Malaysia, Indonesia, Thailand, the United States, Mexico and Singapore.

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Cost of Revenue

The table below sets forth a breakdown of our cost of revenue by nature in absolute amounts and as percentages of our cost of revenue.

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	% of cost of revenue	Amount	% of cost of revenue	Amount	% of cost of revenue	Amount	% of cost of revenue	Amount	% of cost of revenue
	(RMB in thousands, except percentages) (Unaudited)									
Revenue sharing for artist management business	240,774	68.4%	318,653	74.3%	529,193	76.8%	368,748	78.9%	322,887	71.5%
Artist promotion costs	34,091	9.7%	43,890	10.2%	73,436	10.7%	43,458	9.3%	26,565	5.9%
Production costs of music content	27,002	7.7%	41,608	9.7%	45,737	6.6%	27,001	5.8%	36,600	8.1%
Employee benefits expenses	7,643	2.2%	10,900	2.5%	20,607	3.0%	14,758	3.2%	14,321	3.2%
Amortization of intangible assets ⁽¹⁾	32,344	9.1%	1,821	0.4%	1,821	0.3%	1,366	0.3%	1,366	0.3%
Equity settled share-based payments ⁽²⁾	—	—	—	—	107	0.0%	—	—	40,535	9.0%
Others ⁽³⁾	10,078	2.9%	12,188	2.9%	17,589	2.6%	11,995	2.5%	9,432	2.0%
Total	351,932	100.0%	429,060	100.0%	688,490	100.0%	467,326	100.0%	451,706	100.0%

Notes:

- (1) Consisting primarily of (i) amortization of production expenses in relation to a movie we produced and (ii) amortization of music IP procurement expenses.
- (2) Consisting primarily of expenses arising from granting RSUs to eligible individuals under our Share Incentive Plan. We adopted our Share Incentive Plan on December 10, 2021. We granted 1,542,500 RSUs and 3,594,750 RSUs to eligible individuals on December 10, 2021 and March 4, 2022, respectively.
- (3) Consisting primarily of (i) expenses for training our trainees, (ii) travel and car rental expenses for artists and assistants to participate in various business activities and (iii) costs for sale of artist-related merchandise on e-commerce platforms.

Our cost of revenue increased from RMB351.9 million in 2019 to RMB429.1 million in 2020, and further increased to RMB688.5 million in 2021, primarily attributable to (i) an increase in revenue sharing for artist management business, primarily due to an increase in our revenue generated from artist management business and the higher revenue sharing ratio of certain established artists in 2021; and (ii) an increase in artist promotion costs along with our growing artist management business. Our cost of revenue decreased by 3.3% from RMB467.3 million in the nine months ended September 30, 2021 to RMB451.7 million in the nine months ended September 30, 2022, primarily attributable to a decrease in revenue sharing for artist management business and artist promotion costs, partially offset by an increase in equity settled share-based payments.

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Gross Profit and Gross Profit Margin

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 nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
(RMB in thousands, except for percentages) (Unaudited)										
Artist management	242,629	45.8%	424,487	52.5%	540,593	46.0%	380,431	46.5%	271,941	40.1%
Music IP production and operation	49,481	66.2%	56,580	61.0%	31,946	41.1%	28,558	55.4%	17,515	30.1%
Pan-entertainment business	(12,606)	(47.6%)	11,915	56.5%	29,420	77.7%	18,812	73.0%	11,467	68.6%
Total/Overall	279,504	44.3%	492,982	53.5%	601,959	46.6%	427,801	47.8%	300,923	40.0%

Our gross profit increased from RMB279.5 million in 2019 to RMB493.0 million in 2020, and further increased to RMB602.0 million in 2021, primarily due to an increase in gross profit for artist management. Our gross profit margin increased from 44.3% in 2019 to 53.5% in 2020, but decreased to 46.6% in 2021. Our gross profit decreased from RMB427.8 million in the nine months ended September 30, 2021 to RMB300.9 million in the nine months ended September 30, 2022, primarily due to a decrease in gross profit for artist management and music IP production and operation. Our gross profit margin decreased from 47.8% in the nine months ended September 30, 2021 to 40.0% in the nine months ended September 30, 2022.

Our gross profit for artist management increased from RMB242.6 million in 2019 to RMB424.5 million in 2020, and further increased to RMB540.6 million in 2021. The gross profit margin for our artist management business increased from 45.8% in 2019 to 52.5% in 2020, primarily due to the increase in our revenue generated from artist management business which outpaced the increase in cost of revenue for artist management business. The gross profit margin for our artist management decreased from 52.5% in 2020 to 46.0% in 2021, primarily because certain established artists enjoyed a higher revenue sharing ratio in 2021 pursuant to their contracts with us. Our gross profit for artist management decreased from RMB380.4 million in the nine months ended September 30, 2021 to RMB271.9 million in the nine months ended September 30, 2022. The gross profit margin for artist management decreased from 46.5% in the nine months ended September 30, 2021 to 40.1% in the nine months ended September 30, 2022, primarily because, in the nine months ended September 30, 2022, (i) we incurred equity settled share-based payments and (ii) certain established artists enjoyed a higher revenue sharing ratio pursuant to their contracts with us.

Our gross profit for our music IP production and operation increased from RMB49.5 million in 2019 to RMB56.6 million in 2020, but decreased to RMB31.9 million in 2021. The gross profit margin for our music IP production and operation business decreased from 66.2% in 2019 to 61.0% in 2020, primarily due to an increase in revenue generated from musical works produced by Yuehua Korea, which recorded relatively lower gross profit margin as compared to the gross profit margin from musical works produced in China, as music production cost in Korea is generally higher than that in China. The gross profit margin for our music IP production and operation business further decreased

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from 61.0% in 2020 to 41.1% in 2021, primarily due to a decrease in revenue generated from music IP production and operation. Our gross profit for music IP production and operation decreased from RMB28.6 million in the nine months ended September 30, 2021 to RMB17.5 million in the nine months ended September 30, 2022. The gross profit margin for music IP production and operation decreased from 55.4% in the nine months ended September 30, 2021 to 30.1% in the nine months ended September 30, 2022, primarily due to (i) an increase in musical works produced by Yuehua Korea, which usually have a lower gross profit margin as compared to that of musical works produced in China, as music production cost in Korea is generally higher than that in China; and (ii) an increase in the production cost incurred for our managed artists’ musical works.

We incurred a gross loss of RMB12.6 million in 2019 for the pan-entertainment business, primarily attributable to a movie distributed in 2019 of which we were the lead investor, revenue from which could not sufficiently cover the cost. We recognized a gross profit of RMB11.9 million for the pan-entertainment business in 2020, representing a gross profit margin of 56.5%, primarily because (i) we no longer participated as the lead investor in drama series and movie production, as part of our strategic decision to focus more on artist management and music IP production and operation businesses, and (ii) we generated more revenue from sub-licensing the program format of a variety program in 2020. Our gross profit for pan-entertainment business increased significantly from RMB11.9 million in 2020 to RMB29.4 million in 2021. The gross profit margin for our pan-entertainment business increased from 56.5% in 2020 to 77.7% in 2021, primarily because we started to generate revenue from the commercial development of the virtual artist group, A-SOUL, launched in the end of 2020, which has a relatively higher gross profit margin. Our gross profit for pan-entertainment business decreased from RMB18.8 million in the nine months ended September 30, 2021 to RMB11.5 million in the nine months ended September 30, 2022. The gross profit margin for our pan-entertainment business decreased from 73.0% in the nine months ended September 30, 2021 to 68.6% in the nine months ended September 30, 2022, primarily due to a decrease in revenue generated from licensing the program format of an idol development variety program, which has a relatively higher gross profit margin.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets are primarily related to the credit risk of our trade receivables and other receivables. In 2019, 2020 and 2021 and nine months ended September 30, 2021 and 2022, our net impairment losses on financial assets amounted to RMB1.4 million, RMB9.0 million, RMB3.3 million, RMB0.8 million and RMB3.7 million, respectively.

Other Income

Our other income consists of (i) government subsidies, (ii) tax credit of input tax additional deduction and (iii) rental income from investment properties. The government subsidies are non-recurring in nature and are mainly related to the rewards granted by China-Singapore Tianjin Eco-City Administrative Committee for tax contribution from our Group to the local economic development in Tianjin Eco-City. We are entitled to such subsidies every year during the period from September 1, 2016 to December 31, 2027, subject to the satisfaction of certain conditions set forth in our agreement with China-Singapore Tianjin Eco-City Administrative Committee. The tax credit of input tax additional deduction is a kind of exemptions on value-added tax granted by PRC government authorities as tax benefits applicable to certain subsidiaries of us. The rental income from investment properties is generated from rents we collect from leases of our office building in Korea which we

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purchased in September 2019. In 2019, 2020 and 2021 and nine months ended September 30, 2021 and 2022, our other income was RMB3.8 million, RMB7.3 million, RMB18.4 million, RMB17.5 million and RMB3.2 million, respectively.

Other Gains or Losses, Net

Our other gains or losses primarily comprise (i) fair value losses on movies, drama series and variety programs, (ii) fair value gains from wealth management products, (iii) gain on deemed disposal of an associate in relation to the financing activities of an associate, (iv) gains on disposal of associates in relation to sale of our equity interest in associates, (v) net exchange gains or losses, and (vi) fair value gains from a listed equity security. Our net other losses were RMB40.0 million, RMB18.5 million and RMB5.9 million in 2019, 2020 and 2021 respectively. Our net other losses were RMB12.8 million in the nine months ended September 30, 2021, and our net other gains were RMB6.3 million in the nine months ended September 30, 2022.

Profit for the Year or Period

Our profit for the year increased significantly from RMB119.3 million in 2019 to RMB291.9 million in 2020, primarily due to: (i) the increase in gross profit from RMB279.5 million in 2019 to RMB493.0 million in 2020 due to increase in gross profit from artists management and music IP production and operation business; and (ii) decrease in net other losses from RMB40.0 million in 2019 to RMB18.5 million in 2020. Such increase was partially offset by: (i) increase in selling and marketing expenses from RMB23.4 million in 2019 to RMB30.8 million in 2020; and (ii) increase in general and administrative expenses from RMB39.4 million in 2019 to RMB44.1 million in 2020.

Our profit for the year increased from RMB291.9 million in 2020 to RMB335.3 million in 2021, primarily due to: (i) the increase in gross profit from RMB493.0 million in 2020 to RMB602.0 million in 2021 due to increase in gross profit from artists management business; and (ii) decrease in net other losses from RMB18.5 million in 2020 to RMB5.9 million in 2021. Such increase was partially offset by: (i) the increase in selling and marketing expenses from RMB30.8 million in 2020 to RMB34.5 million in 2021; (ii) increase in general and administrative expenses from RMB44.1 million in 2020 to RMB71.5 million in 2021 as a result of [REDACTED] incurred in 2021; and (iii) the increase in finance costs from RMB6.4 million in 2020 to RMB42.7 million in 2021, in relation to the redemption liabilities we recorded for shareholders’ preferential rights pursuant to a shareholders’ agreement dated November 16, 2020.

Our profit for the period increased from RMB236.7 million in the nine months ended September 30, 2021 to RMB1,344.7 million in the nine months ended September 30, 2022, primarily because we recorded fair value gains of convertible preferred shares of RMB1,204.0 million in the nine months ended September 30, 2022 as a result of the change in valuation of our convertible preferred shares.

For more details, see “Financial Information—Key Components of Consolidated Statements of Comprehensive Income” and “Financial Information—Period to Period Comparison of Results of Operations.”

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Selected Items from the Consolidated Statements of Financial Position

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicate.

	As of December 31,			As of
	2019	2020	2021	September 30, 2022
	(RMB in thousands)			
Assets				
Non-Current Assets				
Property, plant and equipment	105,741	106,448	103,645	94,909
Right-of-use assets	12,108	16,683	12,221	10,533
Investments properties	16,292	15,993	14,112	12,944
Intangible assets	9,495	7,669	5,843	4,534
Investments accounted for using the equity method	43,014	46,081	39,076	15,545
Financial assets at fair value through profit or loss	—	800	2,800	46,167
Prepayments and other receivables	2,446	3,694	2,158	1,123
Deferred income tax assets	1,192	2,842	3,103	3,669
Total non-current assets	190,288	200,210	182,958	189,424
Current assets				
Inventories	2,096	1,108	1,132	4,130
Trade receivables	54,332	80,981	106,833	125,705
Prepayments and other receivables	17,816	26,242	48,730	26,761
Amounts due from shareholders	—	—	344,600	—
Financial assets at fair value through profit or loss	79,986	214,713	448,085	290,243
Cash and cash equivalents	616,662	651,924	546,559	663,476
Total current assets	770,892	974,968	1,495,939	1,110,315
Total Assets	961,180	1,175,178	1,678,897	1,299,739
LIABILITIES				
Non-current liabilities				
Borrowings	72,381	71,964	—	59,574
Lease liabilities	5,176	6,542	5,066	5,685
Redemption liabilities	—	570,995	488,202	—
Financial liabilities at fair value through profit or loss	—	—	—	1,119,859
Contract liabilities	31,569	50,899	52,851	23,360
Total non-current liabilities	109,126	700,400	546,119	1,208,478
Current liabilities				
Borrowings	—	—	64,322	—
Trade payables	163,733	156,591	213,483	150,907
Other payables and accruals	126,474	100,896	109,332	32,320
Redemption liabilities	—	—	123,274	—
Financial liabilities at fair value through profit or loss	—	—	—	187,371
Contract liabilities	71,666	151,342	187,234	174,466
Current income tax liabilities	30,373	75,094	110,432	87,044
Lease liabilities	4,777	4,314	5,143	5,035
Total current liabilities	397,023	488,237	813,220	637,143
Total liabilities	506,149	1,188,637	1,359,339	1,845,621
Net Current Assets	373,869	486,731	682,719	473,172

SUMMARY

	As of December 31,			As of
	2019	2020	2021	September 30, 2022
	(RMB in thousands)			
EQUITY				
Share capital	—	—	—	50
Combined capital	110,046	110,046	110,046	—
Treasury shares	—	—	—	(4)
Reserves	84,321	(455,287)	(459,873)	(2,556,501)
Retained earnings	259,277	325,673	662,351	2,006,292
Equity attributable to equity owners of the Company	453,644	(19,568)	312,524	(550,163)
Non-controlling interests	1,387	6,109	7,034	4,281
Total equity/(deficit)	455,031	(13,459)	319,558	(545,882)

We had net liabilities, representing the equity holder’s deficit, of RMB13.5 million as of December 31, 2020, as compared to net assets of RMB455.0 million as of December 31, 2019, primarily due to a decrease in reserves of RMB539.6 million, mainly in relation to the redemption liabilities of RMB567.1 million we recorded for shareholders’ preferential rights pursuant to a shareholders’ agreement dated November 16, 2020. For details, see “History, Reorganization and Corporate Structure—[REDACTED] Investments.” The decrease was partially offset by an increase in retained earnings of RMB66.4 million, mainly as a result of the net effect of the profit for the year of RMB291.4 million we generated in 2020 and the dividends of RMB200.0 million paid to then shareholders of Yuehua Limited in 2020.

We reverted to a net asset position and had net assets of RMB319.6 million as of December 31, 2021, primarily due to an increase in retained earnings as a result of the profit for the year of RMB336.7 million we generated in 2021.

We had net liabilities of RMB545.9 million as of September 30, 2022, as compared to net assets of RMB319.6 million as of December 31, 2021, primarily due to a decrease in reserves as a result of (i) exchange of redemption liabilities with convertible preferred shares of RMB1,869.5 million in relation to the issuance of Series A-1, A-2 and A-3 convertible preferred shares by our Company to certain shareholders on January 28, 2022; and (ii) the dividends of RMB260.0 million declared to the ordinary shareholders of our Company, which was fully settled and paid in March 2022. The decrease was partially offset by an increase in retained earnings attributable to the profit for the period of RMB1,343.9 million we generated in the nine months ended September 30, 2022.

For more details, see “Consolidated Statements of Changes in Equity” in the Accountant’s Report set out in Appendix I to this document.

Financial Assets at Fair Value Through Profit or Loss

Our financial assets at fair value through profit or loss comprise our investments in wealth management products, movies, drama series and variety programs, unlisted equity securities at fair value and a listed equity security at fair value. Our financial assets at fair value through profit or loss increased substantially from RMB80.0 million as of December 31, 2019 to RMB215.5 million as of December 31, 2020, and further increased to RMB450.9 million as of December 31, 2021, primarily due to our increased investment in wealth management products. Our financial assets at fair value through profit or loss decreased from RMB450.9 million as of December 31, 2021 to RMB336.4 million as of September 30, 2022, primarily due to a decrease in our investments in wealth management products.

SUMMARY

We invested in substantial amounts of wealth management products during the Track Record Period. Our investments in wealth management products were mainly investment products issued by large commercial banks in the PRC with guaranteed principal and floating return rate of investment ranging from 1.49% to 4.65% during the Track Record Period. In 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, we recognized fair value gains from wealth management products of RMB12.1 million, RMB14.0 million, RMB20.9 million, RMB15.2 million and RMB10.0 million, respectively. In 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, the net realized gains of wealth management products amounted to RMB12.1 million, RMB12.6 million, RMB19.6 million, RMB13.1 million and RMB8.7 million, respectively, and the unrealized gains of wealth management products amounted to RMB2,000, RMB1.4 million, RMB1.3 million, RMB2.1 million and RMB1.2 million, respectively. Our results of operations may be affected by fair value changes for financial assets at fair value through profit or loss.

Our investments in movies, drama series and variety programs mainly represent our investments in certain movies, drama series and variety programs in which we hold a minority interest. Our investments in unlisted equity securities represent our minority interests in certain private companies in which we have no significant influence.

Redemption Liabilities

Pursuant to a shareholders’ agreement signed on November 16, 2020, certain shareholders of Yuehua Limited were granted preferential rights to require our Group to repurchase the shares of Yuehua Limited held by them in full or in part when certain conditions are met in future dates. The purchase prices were either a fixed amount, or determined by making reference to the fair value of the equity shares of Yuehua Limited in future periods, or calculated using simple interest basis. As a result of such preferential rights, our Group redesignated the ordinary shares of Yuehua Limited held by these certain shareholders as redemption liabilities which were initially recognized at the present value of the estimated future cash outflows under the redemption arrangement. For more details about the preferential rights, see “History, Reorganization and Corporate Structure—[REDACTED] Investments.”

Our redemption liabilities increased by 7.1% from RMB571.0 million as of December 31, 2020 to RMB611.5 million as of December 31, 2021, primarily due to unwinding of interests in 2021. For more details about our redemption liabilities, see Note 32 to the Accountant’s Report in Appendix I to this document.

Financial Liabilities at Fair Value Through Profit or Loss

Our Company issued Series A-1, A-2 and A-3 convertible preferred shares to certain shareholders on January 28, 2022. For details, see “History, Reorganization and Corporate Structure—Reorganization.” Following such issuance, these convertible preferred shares were recognized as financial liabilities measured at fair value through profit or loss while the redemption liabilities were derecognized and reclassified into equity in the nine months ended September 30, 2022. The convertible preferred shares will be re-designated from financial liabilities to equity as a result of automatic conversion into ordinary shares upon our [REDACTED]. As a result, we expect that, immediately after such conversion, we will be no longer in a net liabilities position.

For more details, see “Financial Information—Discussion of Selected Items from the Consolidated Statements of Financial Position.”

SUMMARY

Summary of Consolidated Statements of Cash Flows

The table below sets forth a summary of our cash flows for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
	(Unaudited)				
Operating cash flows before changes in working capital	260,914	434,957	531,572	386,179	280,389
Changes in working capital	46,793	48,106	66,958	197,970	(146,592)
Income taxes paid	(53,736)	(57,518)	(90,630)	(69,618)	(91,565)
Net cash generated from operating activities	253,971	425,545	507,900	514,531	42,232
Net cash generated from/(used in) investing activities	23,535	(161,184)	(258,702)	(751,897)	132,856
Net cash generated from/(used in) financing activities	36,934	(230,356)	(353,254)	(6,483)	(77,753)
Net increase/(decrease) in cash and cash equivalents	314,440	34,005	(104,056)	(243,849)	97,335
Cash and cash equivalents at the beginning of the year/period	303,076	616,662	651,924	651,924	546,559
Effect of exchange rate changes on cash and cash equivalents	(854)	1,257	(1,309)	(457)	19,582
Cash and cash equivalents at the end of the year/period	616,662	651,924	546,559	407,618	663,476

We recorded net operating cash inflows of RMB254.0 million, RMB425.5 million, RMB507.9 million and RMB42.2 million in 2019, 2020 and 2021 and the nine months ended September 30, 2022, respectively. For more details, see “Financial Information—Liquidity and Capital Resources—Cash Flows—Operating Activities.”

Investing Activities

Our net cash generated from investing activities was approximately RMB132.9 million in the nine months ended September 30, 2022. We had such net cash inflow primarily because we disposed certain wealth management products and received repayments of loans from the two private media companies and Nice Future.

Our net cash used in investing activities was approximately RMB258.7 million in 2021. We had such net cash outflow primarily because the purchase amount of wealth management products was more than the amount of proceeds from disposals of wealth management products in 2021.

Our net cash used in investing activities was approximately RMB161.2 million in 2020. We had such net cash outflow primarily because the purchase amount of wealth management products was more than the amount of proceeds from disposals of wealth management products in 2020.

Our net cash generated from investing activities was approximately RMB23.5 million in 2019. We had such net cash inflow primarily because the amount of proceeds from disposals of wealth management products was more than the purchase amount of wealth management products in 2019.

SUMMARY

Financing Activities

Our net cash used in financing activities was approximately RMB77.8 million in the nine months ended September 30, 2022. This net cash outflow was primarily due to the effect of reorganization in respect of the acquisition of a company comprising our Group and the dividends paid by our Company to our shareholders in March 2022.

Our net cash used in financing activities was approximately RMB353.3 million in 2021. This net cash outflow was primarily due to the effect of reorganization in respect of the acquisition of a company comprising our Group.

Our net cash used in financing activities was approximately RMB230.4 million in 2020. This net cash outflow was primarily due to the dividend paid by Yuehua Limited to its then shareholders in 2020.

Our net cash generated from financing activities was approximately RMB36.9 million in 2019. This net cash inflow was primarily due to proceeds from and repayment of borrowings.

For more details, see “Financial Information—Liquidity and Capital Resources—Cash Flows.”

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 or as of December 31,			For the nine months ended or as of September 30,	
	2019	2020	2021	2021	2022
Gross profit margin	44.3%	53.5%	46.6%	47.8%	40.0%
Net profit margin	18.9%	31.7%	26.0%	26.4%	178.7%
Adjusted net profit margin (non-IFRS measure)	18.9%	32.1%	30.6%	30.5%	30.5%
Return on equity ⁽¹⁾	30.2%	N/A ⁽²⁾	N/A ⁽²⁾	N/A	N/A ⁽⁷⁾
Return on assets ⁽⁴⁾	14.0%	27.3%	23.5%	N/A	N/A ⁽⁷⁾
Current ratio ⁽⁵⁾	1.9	2.0	1.8	N/A	1.7
Gearing ratio ⁽⁶⁾	22.8%	N/A ⁽²⁾	214.7%	N/A	N/A ⁽³⁾

Notes:

- (1) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity of the same period and multiplied by 100%.
- (2) Return on equity and gearing ratio are not applicable because we recorded a total deficit as of December 31, 2020, primarily due to the redemption liabilities we recorded for shareholders’ preferential rights pursuant to a shareholders’ agreement dated November 16, 2020.
- (3) Gearing ratio is not applicable as of September 30, 2022 because we recorded a total deficit as of September 30, 2022, primarily due to the recognition of convertible preferred shares we issued on January 28, 2022 as financial liabilities at fair value through profit or loss.
- (4) Return on assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets of the same period, multiplied by 100%.
- (5) Current ratio is calculated based on total current assets divided by total current liabilities as of the dates indicated.
- (6) Gearing ratio is calculated based on total debt divided by total equity as of the dates indicated and multiplied by 100%.
- (7) Ratios are not calculated for the nine months ended September 30, 2022 because the numbers for the period are not comparable to the numbers for the year.

For details, see “Financial Information—Period to Period Comparison of Results of Operations” and “Financial Information—Key Financial Ratios.”

SUMMARY

IMPACT OF COVID-19

Since December 2019, the outbreak of a novel strain of coronavirus, or COVID-19, has materially and adversely affected global economy. In response to the outbreak of COVID-19 in the PRC and other regions we operate in, the governments have imposed mandatory quarantine, closure of workplaces and facilities, travel restriction and other related measures. The lockdown 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, and have caused a decline in the business activities in China in general, which in turn had a negative impact on the entertainment industry, particularly during the lockdown in the first half of 2020.

We took a series of measures in response to the outbreak to protect our employees, including remote working arrangements and suspension of business trips. We did not suspend our operations during the COVID-19 pandemic, but arranged our employees to work from home for approximately two weeks in February 2020. These measures temporarily reduced our capacity and efficiency of operations. We also provided our employees with 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 or managed artists is suspected of contracting the COVID-19 or any other epidemic disease, since our employees or managed artists could be quarantined and/or our offices may have to be shut down for disinfection.

While the COVID-19 pandemic did not materially and adversely affect our financial results and business operations in 2020 and 2021, it did adversely impact our managed artists' engagement in offline activities in 2020 and 2021. The offline shooting and filming of certain movies, drama series and variety programs in which our managed artists participated were delayed. Some of our customers postponed or canceled their offline promotion events, leading to decreased demand for our managed artists' in-person performance. Despite the above, our revenue increased from RMB631.4 million in 2019 to RMB922.0 million in 2020, and further increased to RMB1,290.4 million in 2021. Our profit for the year increased from RMB119.3 million in 2019 to RMB291.9 million in 2020, and further increased to RMB335.3 million in 2021.

Since January 2022, the regional outbreaks of COVID-19 in China has led to the imposition of more restrictive measures in major cities in China. We arranged our employees to work from home for approximately five weeks from early May 2022 to early June 2022. In October 2022, some of our employees were unable to work on-site due to the travel restrictions and work-from-home policies in the cities of our offices. Accordingly, our negotiation and liaison with customers to secure new contracts for our managed artists have been affected. In addition, our managed artists' engagement in offline activities has also been adversely affected. For example, from January 1, 2022 to the Latest Practicable Date, six secured projects (four for commercial activities and two for entertainment content services) with a total contract value of approximately RMB5.6 million were canceled. During the same period, 36 secured projects (24 for commercial activities and 12 for entertainment content services) were postponed, which resulted in delays in receiving payments. We had also fully refunded approximately RMB3.0 million to customers due to the cancellation of three projects for commercial activities and one project for entertainment content services from January 1, 2022 to the Latest Practicable Date. Other than the above, we had not received any refund request from any customer due to the cancelation or postponement of these projects as of the Latest Practicable Date. Due to the impact of the COVID-19 pandemic, our revenue decreased from RMB895.1 million in the nine months ended September 30, 2021 to RMB752.6 million in the nine months ended September 30, 2022.

SUMMARY

The recent regional outbreaks of COVID-19 in China have affected social and economic activities in China in general, resulting in reductions in our customers’ spending and budget in marketing and promotion. This led to relatively lower demand for the services provided by our managed artists, which has adversely impacted our ability to pursue new business opportunities for our managed artists. Due to the impact of the COVID-19 pandemic, 31 projects under negotiation (27 for commercial activities and four for entertainment content services) with an estimated total contract value of approximately RMB138.3 million were aborted from January 1, 2022 to the Latest Practicable Date, which caused a decrease in the number of contracts we newly secured in 2022.

Having considered the above, our Directors believe that the COVID-19 pandemic will have a temporary impact on our business, results of operations and financial condition, particularly if the pandemic continues for an extended period or worsens in China. Due to the uncertainties associated with the recurrence of COVID-19 variants, we may continue to experience delay in receipt of payments from customer, and have difficulty in securing more new contracts for our managed artists to generate revenue.

In response to the recent resurgences of the COVID-19 pandemic, our Directors have adopted business contingency plans to reduce the negative impact on our business, results of operations and financial condition. We maintain close communications and negotiations with our customers to arrange online performance or to switch planned offline activities to online, such as social media marketing activities and livestream ecommerce, as alternative plans to certain existing contracts. Our dedicated artist operation team proactively explore new opportunities to cooperate with corporate customers, media platforms, content producers and advertising agencies and make efforts to secure more contracts for our managed artists. From January 1, 2022 to the Latest Practicable Date, we had successfully switched offline activities planned in eight secured projects for commercial activities with a total contract value of approximately RMB83 million to online activities for our managed artists after negotiation with relevant customers. During the same period, we cooperated with certain major music stream platforms and leading satellite TV networks in China and successfully arranged more than two online concerts for certain managed artists. We also plan to invest more in production of musical works for our managed artists to further develop our music IP production and operation business. From January 1, 2022 to the Latest Practicable Date, we had released 13 digital singles and 12 digital albums, comprising 76 songs in total, that we produced for our managed artists and a virtual artist group. In the rest of 2022, we plan to continue to produce and release seven digital albums, comprising approximately 34 songs in total, for our managed artists and virtual artists.

We closely monitor the development of the COVID-19 pandemic and continuously evaluate any potential impact on our business, results of operations and financial condition. However, we cannot reasonably estimate the ultimate impact and duration of the COVID-19 pandemic, and the extent of its impact on our business, results of operations and financial condition as these depend on factors beyond our control. Such factors primarily include the continued spread or recurrence of infection, the implementation of effective preventative and containment measures, the development of effective medical solutions, and the extent to which governmental restrictions on travel, public gatherings and other activities remain in place or are augmented.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business operation had remained stable. However, we expect our profit for the year to decrease in the year

SUMMARY

ending December 31, 2022 compared to the year ended December 31, 2021, as we expect (i) a decrease in the revenue primarily due to the impact of the COVID-19 pandemic in China; (ii) an increase in share-based payment expenses based on the vesting terms and schedules of the relevant RSUs granted under our Share Incentive Plan; and (iii) an increase in [REDACTED] in connection with the [REDACTED]. For details about the impact of the COVID-19 pandemic, see “—Impact of COVID-19.”

Our Directors confirm that, as of the date of this document, there has been no material adverse change in financial and trading positions or prospects of our Group since September 30, 2022, being the date on which our latest audited consolidated financial statements were prepared, and there has been no event since September 30, 2022 which would materially affect the information in the Accountant’s Report set out in Appendix I to this document.

[REDACTED]

This document is published in connection with the [REDACTED] as part of the [REDACTED]. The [REDACTED] comprises:

- (a) the [REDACTED] of initially [REDACTED] (subject to [REDACTED]) in Hong Kong as described below in “Structure of the [REDACTED]—The [REDACTED]” in this document; and
- (b) the [REDACTED] of initially [REDACTED] (subject to [REDACTED]) and the [REDACTED] outside the United States in offshore transactions in reliance on Regulation S.

[REDACTED] may apply for the [REDACTED] under the [REDACTED], or, if qualified to do so, apply for or indicate an interest in [REDACTED] under the [REDACTED], but may not do both.

[REDACTED]

The statistics below are based on the assumption that [REDACTED] are issued under the [REDACTED]:

	Based on the [REDACTED] of HK\$[REDACTED] per [REDACTED], after [REDACTED] of 10%	Based on the minimum [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on the maximum [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalization of our Shares ⁽¹⁾	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited [REDACTED] adjusted consolidated net tangible assets per Share ⁽²⁾⁽³⁾	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) The calculation of market capitalization is based on [REDACTED] Shares will be in issue immediately following the completion of the [REDACTED] assuming the [REDACTED] is not exercised.
- (2) The unaudited [REDACTED] net tangible assets per Share is arrived at after the adjustments referred to in the section headed “Financial Information—Unaudited [REDACTED] Adjusted Net Tangible Assets” and on the basis that [REDACTED] Shares were in issue, assuming that the [REDACTED] and [REDACTED] have been completed on September 30, 2022 but takes no account of (i) the [REDACTED] Shares (after taking into account of the effect of the [REDACTED]) issued pursuant to the Share Incentive Plan that are subject to vesting conditions; and (ii) any Shares which may be issued or repurchased by our Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed “Share Capital” in this document.
- (3) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to September 30, 2022, the unaudited [REDACTED] adjusted consolidated net tangible assets attributable to owners of the Company does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or any Shares which may be issued or repurchased by

SUMMARY

the Company pursuant to the general mandates granted to the Directors for issue or allotment of Shares as described in “Share Capital.” For details, see “Appendix II—A. Unaudited [REDACTED] Statement of Adjusted Net Tangible Assets.”

[REDACTED]

Our [REDACTED] mainly include [REDACTED], professional fees paid to legal advisors and the Reporting Accountant for their services rendered in relation to the [REDACTED] and the [REDACTED]. The estimated total [REDACTED] (based on the mid-point of our indicative [REDACTED] for the [REDACTED] and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] million, representing [REDACTED]% of the gross [REDACTED] from the [REDACTED], comprising (i) [REDACTED]-related expenses of RMB[REDACTED] million, including commissions and fees; and (ii) non-[REDACTED]-related expenses of RMB[REDACTED] million, including (a) fees and expenses of legal advisors and the Reporting Accountant of RMB[REDACTED] million; and (b) other fees and expenses of RMB[REDACTED] million. During the Track Record Period, we incurred [REDACTED] of RMB[REDACTED] million, among which RMB[REDACTED] million was charged to the consolidated statements of profit or loss in 2021 and the nine months ended September 30, 2022 as administrative expenses and approximately RMB[REDACTED] million ([REDACTED] directly attributable to the issue of Shares) will be deducted from equity upon successful [REDACTED]. We expect to incur additional [REDACTED] of approximately RMB[REDACTED] million, of which approximately RMB[REDACTED] million is expected to be recognized as administrative expenses and approximately RMB[REDACTED] million ([REDACTED] directly attributable to the issue of Shares) is expected to be recognized as a deduction in equity directly upon the [REDACTED].

DIVIDENDS

Prior to the Track Record Period, our subsidiary, Yuehua Limited, declared dividends to its then shareholders, among which approximately RMB1.9 million were paid in 2020 and the others were fully paid before the Track Record Period. In October 2020, Yuehua Limited declared dividends in an aggregate amount of RMB200.0 million to its then shareholders pursuant to the laws of PRC, which were fully paid by bank transfer in 2020. In March 2022, our Company declared dividends to both holders of ordinary shares and holders of convertible preferred shares in an aggregate amount of approximately US\$63.0 million (equivalent to approximately RMB399.3 million), which were fully settled and paid in March 2022. Such dividends were approved by our Board and Shareholders. As advised by our legal advisor on Cayman Islands law, under the Companies Act and subject to our Articles of Association, a position of net liabilities does not necessarily restrict us to pay dividends to our Shareholders as dividends may be paid out of our share premium account, provided that immediately following the date on which the dividend is paid, our company shall be able to pay its debts as they fall due in the ordinary course of business. We believe that we would be able to pay the debts as they fall due in the ordinary course of business immediately after the payment of dividends declared in March 2022, considering: (i) the declaration of dividends, among others, was approved by our Board of Directors who had reviewed the management accounts and obtained sufficient information about our Company to make informed decisions; (ii) the convertible preferred shares issued in January 2022 will be re-designated from financial liabilities to equity as a result of the automatic conversion into ordinary shares upon our [REDACTED] and we expect to be no longer in a net liabilities position immediately after such conversion; and (iii) we would have sufficient cash and cash equivalents to repay or settle our debts other than the financial liabilities at fair value through profit or loss consisting of the convertible preferred shares when they become due in the ordinary course of business. We believe that the distribution of these dividends will not have a material impact on the sufficiency of our working capital after the [REDACTED] and we will be able to maintain sufficient funds to

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meet our working capital requirements and debt obligations. Our historical declarations of dividends may not reflect our future declarations of dividends.

APPLICATION FOR THE [REDACTED]

The application period for the [REDACTED] will last from [REDACTED] through [REDACTED], being longer than normal market practice of three and a half days. The application monies (including the brokerage fees, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fees) will be held by the [REDACTED] on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on [REDACTED]. [REDACTED] should be aware that the [REDACTED] in the Shares on the Stock Exchange are expected to commence on [REDACTED].

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 primarily upon the financial results, cash flow, 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 more details, see “Financial Information—Dividends.”

USE OF [REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, 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 [REDACTED] 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] million, will be invested in our artist operation. We intend to improve our artist training and management capabilities by procuring better training facilities and strengthening our faculty for our trainees and managed artists. We also intend to expand the scale of our artist promotion;
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for expanding our music IP library;
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for expanding our pan-entertainment business;
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for our overseas expansion; and
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for working capital and general corporate purposes to support our business operation and growth.

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