
BUSINESS

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, 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

BUSINESS

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 conclusion of such arrangement, we will continue to manage the artists on an exclusive basis.

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-

BUSINESS

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 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 to RMB752.6 million in the nine months ended September 30, 2022 from RMB895.1 million in the same period of 2021. Our profit 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.

OUR COMPETITIVE STRENGTHS

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

An established artist management company in China

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. Dedicated to identifying, training and promoting talented trainees to become established artists since our inception in 2009, we have built an extensive roster of established and popular artists. Our rich industry experience accumulated over a decade and our solid track record of promoting popular artists have enabled us to achieve and maintain a strong position in the artist management market.

We have meticulously designed our artist training and management system. Through years of efforts and cumulative experience, we have established a system integrating trainee development and artist operation that works well in China’s entertainment market. Through providing systematic training classes to our trainees, we have successfully cultivated and promoted a continuous stream of talented new artists, which expanded and diversified our artist roster over the years. As of the Latest Practicable Date, we had 69 managed artists and had built a talent pipeline comprising 62 enrolled trainees. Thanks to their professional performing skills and strong artistic appeal, our managed artists have gained much popularity. As of the Latest Practicable Date, among our managed artists, two had more than 30 million followers each and 19 had more than two million followers each on Weibo, a leading social media platform in China, the number of followers on which serves as an indicator of an artist’s popularity in China. Alongside individual artists, we also have launched artist groups, such as UNIQ, NEXT, EVERGLOW, NAME, TEMPEST, NEVERLAND and BOYHOOD, with much success.

According to Frost & Sullivan, we are one of the first artist management companies based in China to implement a “go global” strategy and have expanded our business overseas. We established Yuehua Korea, a subsidiary in Korea, in 2014. In addition to Korea, we are committed to bringing Chinese pop culture to and promoting our brand influence in other parts of the world.

BUSINESS

According to Frost & Sullivan, we are one of the first artist management companies to have entered the virtual artist market in China. We collaborated with a business partner to develop A-SOUL, a five-member, female virtual artist group debuted in 2020, which became an instant hit after its debut. We have also invested in a company which launched Quantum Youth (量子少年), a four-member, male virtual artist group and EOE, a five-member, female virtual artist group. We will continue to invest in the virtual artist industry and diversify our offerings.

We have also expanded our music IP production and operation by leveraging our extensive roster of managed artists, and have enlarged our music IP library. As of September 30, 2022, we had produced approximately 1,200 music recordings and videos for our managed artists, which we usually have the exclusive right to license to our customers. We believe that our multifront approach to business development, underpinned by our artist management business, is crucial for us to integrate upstream and downstream resources, and grow into a comprehensive culture and entertainment platform.

Yuehua model underpinned by systematic trainee cultivation and professional artist operation

According to Frost & Sullivan, we are one of a few companies in China that can provide systematic and professional artist training and operation services. We have established our Yuehua model, which covers the whole lifecycle of artist management, including trainee audition, artist training, artist operation and artist promotion. By providing comprehensive and high-quality training classes to our trainees, we help them grow into quality artists with strong artistic skills and sound moral character. After our trainees debut as well-rounded professional artists, we help them enhance their commercial value and bring positive social impact through our professional artist operation, which in turn further increases our brand influence.

We select trainee candidates with artistic potential through various offline and online channels. As of September 30, 2022, we were in close contact with more than 30 art schools and institutions, which recommend outstanding candidates to us. In addition, we diligently scout for trainee candidates through major singing and dancing competitions, global audition networks and social media platforms. During the Track Record Period, we received over 70,000 applications to our trainee program from China, Korea and the United States. We keep high standards in our auditions to identify the candidates that are suitable for a performing art career. In 2019, 2020, 2021 and the nine months ended September 30, 2022, we entered into a trainee contract with 19, 28, 50 and nine trainee candidates, respectively, with a highly selective overall acceptance rate of lower than 0.3% each year.

We are one of the first few artist management companies in China to have adopted an artist training system that had originated overseas, according to Frost and Sullivan. We have built a whole-process, integrated trainee system underpinned by our sophisticated and international trainee program and our deep understanding of China’s entertainment market. We provide our trainees with a strong faculty, which is composed of members with multiple years of experience in various fields, such as singing, dancing and acting. Our artist training team designs systematic curriculums for our trainees and matches the trainees with faculty members that best suit their needs.

Under our trainee system, before making their debut as our managed artists, trainees generally need to go through a period of three years of professional training in fields such as vocal skills, dancing skills, acting skills, physique and foreign languages. We also have a code of conduct for our trainees and artists, assisting them to develop a sound moral character. As of the Latest Practicable Date, we had 69 managed artists on our roster, 57 of which were graduates of our trainee program, and 62 trainees who were currently enrolled in our trainee program.

BUSINESS

We help our managed artists grow their career through our insights into general public’s demand for entertainment and understanding of the artists’ characters and talents. Our artist operation team skillfully matches different business projects, including participation in endorsement deals, business promotion activities and other commercial events, and performance of musical works, variety programs, drama series and movies, for our managed artists, to enhance their commercial value. Our artist promotion team, which has years of experience in carrying out targeted publicity and promotional activities for artists, also assist our artists in enhancing their popularity. To prepare for their debut, we help our managed artists maximize their public exposure through multiple marketing channels. After their debut, we will assess their performance and help them adjust their career plan based on audience feedback and market demand, and provide them with follow-up training to expand their audience reach.

Our Yuehua model enables us to effectively train fresh talent into established artists. By continuously cultivating popular artists, we have increased our brand influence. Our strong brand awareness in turn enables us to acquire new customers and attract top talent in the market, integrate industry resources and provide support for the debut of our trainees in the future.

Extensive, diversified and longstanding cooperation with business partners

Building on our core artist management business, we continuously enhance the influence of our Yuehua brand and our managed artists. Through forming close cooperative relationships with various industry players, including leading media platforms and music service providers, we have established multiple channels to arrange our managed artists to perform in quality entertainment content, effectively promoting our managed artists to wider audiences.

We arrange our managed artists to perform in a broad array of variety programs broadcast on leading online video platforms in China, such as iQIYI, Youku, Tencent Video and Mango TV. During the Track Record Period, Mr. Wang Yibo starred in “Street Dance of China 2020 (這！就是街舞第三季)”, “Street Dance of China 2021 (這！就是街舞第四季)” and “Street Dance of China 2022 (這！就是街舞第五季),” three variety programs broadcast on Youku; Ms. Cheng Xiao starred in “One More Try (極限青春),” a variety program broadcast on Tencent Video; Ms. Wu Xuanyi starred in “The Romance (戀戀劇中人),” a variety programs broadcast on iQIYI; Mr. Huang Minghao participated in “Who is the Murderer (明星大偵探),” a variety program broadcast on Mango TV. In addition to variety programs, drama series starring our managed artists, such as “Luoyang (風起洛陽),” “Lie to Love (良言寫意)” and “Sweet Teeth (世界微塵裏),” have also gained enormous popularity and were broadcast on such platforms. During the Track Record Period, several drama series starring our managed artists each achieved a total view count of over a billion, according to Frost & Sullivan.

We have also established multiple channels to reach our target audience and distribute entertainment content we created through burgeoning short video platforms, such as Douyin and Kuaishou. Our managed artists often publish their short videos and attend live streaming events on such platforms to promote the products or brands they endorse, or the movies, variety programs or drama series in which they played a role. Through building a strong presence on these video-sharing social media platforms, we have effectively enhanced the popularity of our managed artists and boosted their organic social media reach.

In addition, drama series and variety programs starring our managed artists have been broadcast on various leading satellite TV networks in China during the Track Record Period, such as Hunan Satellite TV, Zhejiang Satellite TV, Dragon Satellite TV, Jiangsu Satellite TV and Beijing Satellite

BUSINESS

TV. Many of the drama series and variety programs in which our managed artists participated achieved high viewership ratings and several of them obtained a viewership rating higher than one percent during the Track Record Period, according to Frost & Sullivan. We believe our cooperation with satellite TV networks is an important channel to enable our managed artists to reach a nationwide audience.

Musical works we produced for our managed artists have been widely popular on major music streaming platforms in China, such as NetEase Cloud Music and Tencent Music, and have been distributed on various international music streaming platforms. To develop our music IP production and operation business, we have built and maintained longstanding cooperation with major music service providers in China. We tailor musical works for our managed artists to meet market demand and match the artists’ market positioning. We also obtain license of musical works from copyright holders to expand and diversify our music IP library. We license the musical works in our music IP library to major music service providers for licensing fees and royalties. We also cooperate with music service providers in promoting the musical works we produced for our managed artists both online and offline, to market our musical works and reach a broader audience.

Together, our cooperation with the diverse media platforms has created an effective network for us to generate publicity for our managed artists and enhance our brand value.

Established Yuehua brand image underpinned by corporate social responsibility

Since our establishment, fulfilling corporate social responsibility has been our core value and a cornerstone of our long-term growth. Creating positive social impact has become part of our corporate culture and has helped us created a positive brand image. For example, we and our managed artists participated in the relief efforts during the torrential rain floods in Henan Province in 2021. We also worked with our business partners and charities to donate personal protective equipment to frontline workers during the COVID-19 pandemic. Inspired by our corporate culture, our managed artists also have a strong sense of social responsibility and endeavor to make contributions to society through their performing art careers.

We actively secure performing opportunities that allow our managed artists to make positive social impact through music, movies, drama series, variety programs and other entertainment products and services. For example, during the Track Record Period, Mr. Wang Yibo starred in the drama series “Faith Makes Great: Choice (理想照耀中國之抉擇);” Mr. Zhu Zhengting starred in the drama series “Floating Youth (冰球少年);” and Mr. Wang Xi performed the song “A Long Separation (漫長的告別).”

We have also cooperated with many charitable organizations so that our managed artists can use their influence to increase public awareness of important issues such as environmental protection. For example, Mr. Wang Yibo served as an ambassador for a wildlife preservation organization; Mr. Han Geng, Mr. Li Wenhan and Mr. Hu Chunyang served as volunteers for environmental protection organizations.

In addition, we encourage our managed artists to promote the sport spirit to the public. For example, Mr. Wang Yibo served as an ambassador for a sports organization to promote skateboarding and performed songs, such as “Flying Winter (冬夢飛揚),” as tributes to sports events; Mr. Huang Minghao cooperated with sports organizations to promote winter sports; Mr. Zhu Zhengting

BUSINESS

participated in the “Postcard of Love (愛的明信片)” event to show support and welcome for athletes who came to China to attend sports events.

We will continue to encourage our managed artists to actively participate in charitable events, using their public influence to bring positive energy to society. We believe our positive corporate culture with its strong emphasis on social contribution is a key to aligning the commercial value of our managed artists with the need of the society, helping us achieve long-term and sustainable growth.

Visionary and experienced management team and resourceful investors

Our success is largely attributable to our visionary founder, Ms. Du Hua, our professional and experienced management team, and our resourceful investors.

Ms. Du, our founder and chief executive officer, founded our Company in 2009. In 13 years, we have grown into a well-known artist management company under her leadership. Ms. Du, with her insights into the artist management market and her extensive knowledge of the trainee systems, established our artist management system that fits well with China’s entertainment market. We are a pioneer of operating professional trainee programs in China, according to Frost & Sullivan, and we soon become a market leader. By continuously building our Yuehua brand and integrating various industry resources, Ms. Du is committed to turning our Company into the cradle of quality artists. In August 2014, Ms. Du officially founded Yuehua Korea, marking the start of our overseas expansion. With extensive experience in artist management, Ms. Du was invited to participate as a judge in the first two seasons of the phenomenal variety program, “Sisters Who Make Waves (乘風破浪的姐姐),” further enhancing our brand recognition in front of nationwide audiences.

Our professional and experienced management and business team is critical to our success. We attach great importance to the stability of our key management team and the recruitment of new talent. With a high degree of professionalism and rich industry insights, a majority of the members of our senior management has on average approximately 11 years of experience working in the entertainment industry and had on average worked for our Company for more than eight years as of September 30, 2022.

In addition, we introduced CMC, Quantum Jump and Dongyang Alibaba Pictures, respectively, in 2014, 2018 and 2020, as our investors. Leveraging their market-leading position in their respective fields, the investors can provide us with premium industry resources and strong support for our future development.

OUR STRATEGIES

Our business objectives are to maintain and reinforce our leading position in China’s artist management market, further diversify our business model and expand the customer reach. 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

We plan to enhance our core capabilities of artist training by establishing our own artist training center. The new artist training center is designed to provide quality training facilities and a pleasant training environment for our trainees and managed artists. By operating our own training center and tailoring it for the needs of our trainees and artists, we could increase the scale and efficiency of our training programs.

BUSINESS

We plan to spend approximately [REDACTED]% of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] million, for the purchase and renovation of the artist training center. For details, see “Future Plans and [REDACTED].”

Leveraging our professional and systematic Yuehua trainee program, we will continue to expand our roster of trainees with artistic potential. We plan to deepen our cooperation with art schools and institutions, set up new trainee audition channels, and increase the scale and frequency of trainee auditions, in order to improve our ability to identify and select talented candidates. We also plan to further expand our trainee audition network overseas and discover candidates from various cultural backgrounds. To provide quality training for an increasing number of trainees, we will continue to recruit experienced professionals to ensure the quality and enhance the efficiency of our trainee program.

We plan to continue to enhance our artist operation capabilities to help boost the popularity and commercial value of our managed artists. We will continue to provide our managed artists with follow-up training based on market feedback and our understanding of their artistic skills and talents, to help them grow further. For example, for artists who have demonstrated talent or strong interest in music, we will help them produce digital singles or albums to develop a music career. For artists who have already had an established career in variety programs, we will also provide them with opportunities to perform in movies or drama series to expand their career. In addition to the artist groups we have launched so far, which all feature dancer-singers, we also successfully launched a band as a fresh alternative. By assisting the artists to strengthen their artistic skills and realize their full potential, we can effectively support their career development. We also place importance on helping our managed artists develop sound moral character, in order to help them build a positive public image.

We also plan to increase our efforts in marketing and promoting our managed artists as well as recent debutants. As public exposure is critical for maintaining and enhancing the commercial value of an artist, we will make tailored promotion strategies for our managed artists and utilize various online and offline marketing channels to enhance their public exposure.

Further expand our music IP library

We will continue to develop our music IP production and operation business and reinforce our market-leading position in the entertainment industry. China’s digital music market is growing rapidly and users’ willingness to pay for quality musical content continues to increase, according to Frost & Sullivan. We plan to increase our investment in building our library of music IPs, boost our production and distribution of digital music, and continue to acquire music copyrights.

In particular, we will continue to produce digital singles and albums for our managed artists who have developed a music career. We will deepen our understanding of the music taste of our target audiences by conducting more market research and analysis, and ensure that our musical works are in high quality and able to showcase our managed artists’ artistic talent and appeal, further promoting and strengthening their performing art career. We will also continue to produce physical copies of our musical works, such as physical albums for our managed artists, to meet market demand.

In addition to producing our own musical works, we intend to obtain the copyrights of quality musical works from copyright holders. We have formed cooperative relationships with international music copyrights companies and have acquired the right to sublicense their musical works to our

BUSINESS

customers. We believe acquiring licenses of such musical works with commercial potential can help us enrich our music IP library to cater to a wider group of listeners.

Together, our self-produced and licensed musical works will help us expand our music IP library with quality songs and albums in a variety of different genres and styles, allowing us to cater to our targeted audiences’ different music tastes.

We intend to spend approximately [REDACTED]% of our [REDACTED] from the [REDACTED], or HK\$[REDACTED] million, to expand our music IP library. For details, see “Future Plans and [REDACTED].”

Continue to diversify our business model and build a comprehensive culture and entertainment platform

To provide audience with onsite entertainment experience and diversify our service offerings, we plan to build a Yuehua-themed, multi-functional entertainment center, where visitors can take lessons in performing art, participate in offline entertainment events, and interact with our managed artists or virtual artists in metaverse spaces through the use of augmented reality and virtual reality. In addition, visitors can enjoy meals and purchase artist-related merchandise in themed restaurants and cafés to have a fun and memorable leisure experience. We intend to spend approximately [REDACTED]% of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] million, for establishing our Yuehua-themed entertainment center. For details, see “Future Plans and [REDACTED].”

The increasingly influential animation, comics and games, or ACG culture, and its related markets have drawn our attention to the commercial value of virtual artists. We plan to increase our investment in the operation and commercial development of virtual artists, and generate more profit-realization opportunities through live stream events, virtual concerts, endorsement deals and artist-related merchandise.

Explore the overseas market and expand our global footprint

We will continue to explore the overseas market and promote our managed artists globally. We plan to market and promote our managed artists, work with local media platforms and content producers, and explore new business opportunities overseas. In an increasingly global entertainment market, our “go global” strategy will help enhance our competitiveness, reach a larger audience overseas and bring Chinese pop culture to the world.

We will continue to build our team in Korea and enhance the artist operation capacities of Yuehua Korea through recruiting more professional instructors, establishing business cooperation with leading content producers and media platforms in Korea. Yuehua Korea can provide strong support for our managed artists in their debut and perform in quality entertainment content overseas. Also, we are training fresh talent locally in Korea, which can expand our managed artist roster and make it more international. By turning Yuehua Korea into our overseas base for overseas development, we expect to enhance the influence of our managed artists as well as our Yuehua brand.

In addition to Korea, we plan to pursue business opportunities in other parts of the global market, such as Southeast Asia, Japan and the United States, mainly through cooperating with overseas media channels and entertainment event companies. We plan to reach target audiences in these markets through ways such as (i) promoting our managed artists and the works in which they performed

BUSINESS

through popular overseas media channels, such as TikTok and YouTube; (ii) working with overseas entertainment event companies to organize concerts and other entertainment events to enable our managed artists to interact with overseas audience in person; (iii) publish musical works that are tailored for the overseas audience; and (iv) recruit talent from an international background to become our trainees and managed artists. We will follow the laws and regulations, as well as common practices, in these market.

Southeast Asian countries are also an important market for our “go global” strategy. We will continue to expand our business outreach in Southeast Asia by arranging more offline activities to help our managed artists reach a wider audience after travel restrictions are eased.

We intend to spend approximately [REDACTED] of our [REDACTED] from the [REDACTED], or HK\$[REDACTED] million, on our overseas expansion. For details, see “Future Plans and [REDACTED].”

Continue to recruit and retain talented professionals for our business and management teams

We plan to expand our business team and recruit talented professionals for our major business lines. As talent is key to our long-term growth, we plan to upgrade our talent recruitment, development, incentive and promotion system to attract top talent in the market and provide a clear career path for employees. We also plan to enhance our operational efficiency through improving our management system.

OUR BUSINESS

We primarily engage in artist management in China and our business covers the whole lifecycle of artist management, including artist training, artist operation and artist promotion. Building on our extensive roster of high-quality artists, we further expand our business in related fields, including music IP production and operation, and pan-entertainment business.

We generate revenue from the following business lines:

- *Artist management.* We primarily generate revenue from providing services to customers by arranging our managed artists to (i) participate in commercial activities, such as endorsement deals, business promotion events and commercial performances; and (ii) provide entertainment content services, such as performing in movies, drama series and variety programs.
- *Music IP production and operation.* We generate revenue from licensing our music IPs to music streaming platforms and other music service providers, and selling digital and physical copies of our music IPs.
- *Pan-entertainment business.* We generate a small portion of our revenue from other businesses in the pan-entertainment business, such as commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise.

BUSINESS

The table below sets forth a breakdown of our revenue by business line both in absolute terms and as a percentage of our total revenues for the periods indicated.

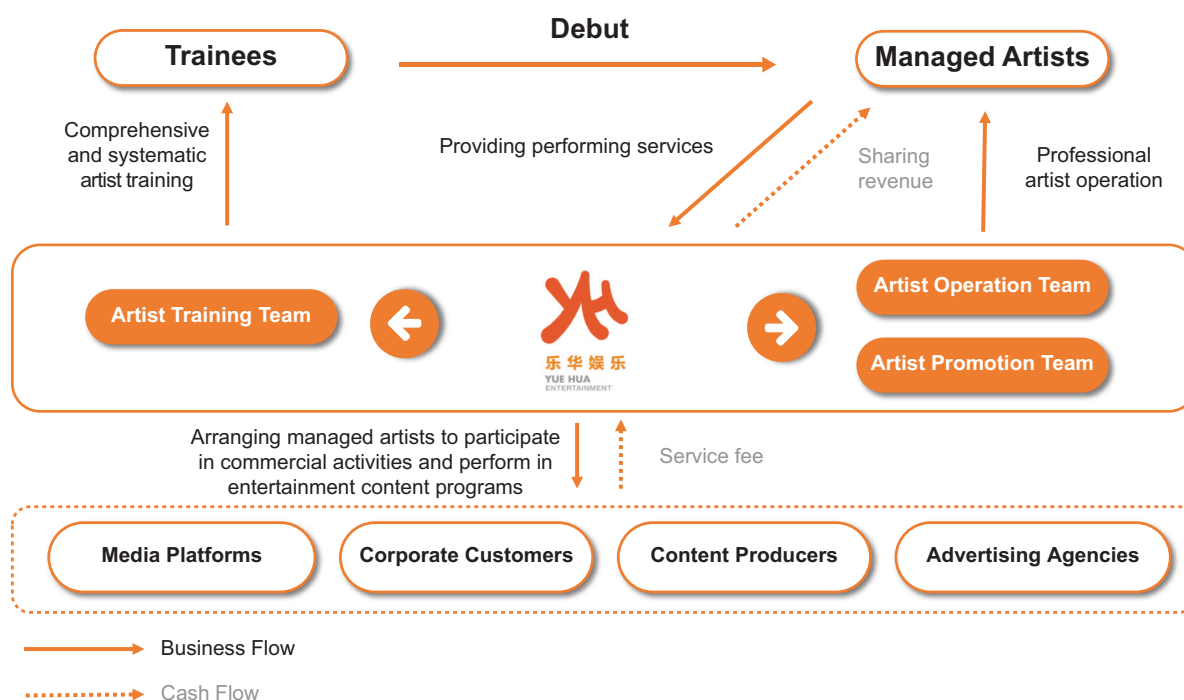
	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
	(RMB in thousands, except for percentages)									
	(Unaudited)									
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 Revenue . . .	631,436	100.0%	922,042	100.0%	1,290,449	100.0%	895,127	100.0%	752,629	100.0%

Artist Management

We provide services to our customers, including corporate customers, media platforms, content producers and advertising agencies by arranging our managed artists, to carry out endorsement and promotion activities for brands, and perform in various types of entertainment content programs. We have built a business model that covers the entire artist management value chain on a large and fast-growing customer base. We select and train talented trainees to become our managed artists and provide them with management and promotion services. After they make their first public appearance as artists, or debut, we make arrangements for them to provide services to a wide array of customers, including media platforms, content producers, corporate customers and advertising agencies. Corporate customers and advertising agencies, many of whom are well-known international and domestic brands, engage our managed artists for endorsement deals and business promotion events. Media platforms and content producers engage our managed artists to perform in movies, drama series and variety programs.

BUSINESS

The following chart sets out the relationship and roles of the respective players in our artist management business.



We have professional teams to carry out business development, artist training and artist promotion for our managed artists to generate commercial opportunities. Our artist operation team is responsible for business development, assigns the projects they secured to our managed artists and assist the artists in a wide range of tasks. Our artist training team runs our Yuehua trainee program, which serves as our talent pipeline. Our artist promotion team manages the public image of our managed artists and help raise their public recognition.

Our Artists

We have built a professional and diverse team of managed artists in China and Korea. As of the Latest Practicable Date, among our managed artists, two had more than 30 million followers each and 19 had more than two million followers each on Weibo, a leading social media platform in China, the number of followers on which serves as an indicator of an artist’s popularity in China. We also had 62 trainees who were enrolled in our trainee program as of the Latest Practicable Date, who are under professional training for a performing art career. 57 of our 69 managed artists are graduates of our trainee program. The diverse group of artists and the constant replenishment of new talent enable us to meet market demand at all levels and achieve sustainable growth.

With our managed artists, we normally enter into exclusive artist management contracts with terms ranging from five to 15 years, typically with an automatic renewal term. As of the Latest Practicable Date, all of our artist management contracts with our 69 managed artists remained effective. With our trainees, we typically enter into exclusive trainee contracts with a term of generally three years.

BUSINESS

The table below sets forth certain of our managed artists, each with over two million followers on Weibo as of the Latest Practicable Date (in the order of the number of followers).

Artist



Mr. Han Geng (韩庚)

Weibo followers: Approximately 53,200,000

Graduate of Yuehua trainee program: No

Years of relationship: 12 years

Initial term of artist management contract: May 2010 - May 2013, which has been renewed four times for three, four, two and two years respectively, until June 2024



Mr. Wang Yibo (王一博)

Weibo followers: Approximately 39,900,000

Graduate of Yuehua trainee program: Yes

Years of relationship: 11 years

Initial term of artist management contract: October 2014 - October 2022, which has been renewed once for four years until October 2026



Ms. Meng Meiqi (孟美岐)

Weibo followers: Approximately 27,100,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Nine years

Term of artist management contract: February 2016 - February 2026, with an automatic renewal term of one year



Mr. Fan Chengcheng (范丞丞)

Weibo followers: Approximately 25,900,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Six years

Term of artist management contract: April 2018 - April 2023

BUSINESS

Artist



Mr. Huang Minghao (黄明昊)

Weibo followers: Approximately 25,100,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Seven years

Term of artist management contract: April 2018 - April 2028, with an automatic renewal term of two years



Ms. Wu Xuanyi (吴宣仪)

Weibo followers: Approximately 24,500,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Nine years

Term of artist management contract: February 2016 - February 2026, with an automatic renewal term of one year



Mr. Zhu Zhengting (朱正廷)

Weibo followers: Approximately 23,800,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Seven years

Term of artist management contract: October 2016 - April 2028, with an automatic renewal term of two years



Mr. Li Wenhan (李汶翰)

Weibo followers: Approximately 14,000,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Ten years

Term of artist management contract: October 2014 - October 2024, with an automatic renewal term of one year

BUSINESS

Artist



Ms. Cheng Xiao (程瀟)

Weibo followers: Approximately 12,200,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Nine years

Term of artist management contract: February 2016 - February 2024, with an automatic renewal term of one year



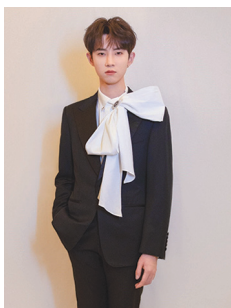
Mr. Bi Wenjun (畢雯珺)

Weibo followers: Approximately 11,100,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Five years

Term of artist management contract: April 2018 - April 2028, with an automatic renewal term of two years



Mr. Huang Xinchun (黃新淳)

Weibo followers: Approximately 6,400,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Five years

Term of artist management contract: April 2018 - April 2028, with an automatic renewal term of two years



Mr. Hu Chunyang (胡春楊)

Weibo followers: Approximately 6,400,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Four years

Term of artist management contract: April 2019 - April 2029, with an automatic renewal term of two years

BUSINESS

Artist



Mr. Zhou Yixuan (周藝軒)

Weibo followers: Approximately 5,000,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Ten years

Term of artist management contract: October 2014 - October 2024, with an automatic renewal term of one year



Mr. Wang Xi (王晰)

Weibo followers: Approximately 5,000,000

Graduate of Yuehua trainee program: No

Years of relationship: Three years

Term of artist management contract: April 2019 - April 2024



Mr. Tang Jiuzhou (唐九洲)

Weibo followers: Approximately 3,400,000

Graduate of Yuehua trainee program: No

Years of relationship: Three years

Term of artist management contract: May 2019 - May 2029, with an automatic renewal term of two years



Ms. Xu Yating (許雅婷)

Weibo followers: Approximately 2,700,000

Graduate of Yuehua trainee program: No

Years of relationship: Three years

Term of artist management contract: March 2019 - February 2026, with an automatic renewal term of two years

BUSINESS

Artist



Ms. Jin Zihan (金子涵)

Weibo followers: Approximately 2,600,000

Graduate of Yuehua trainee program: Yes

Years of relationship: Three years

Term of artist management contract: May 2020 - May 2030, with an automatic renewal term of two years

Notes:

- (1) Years of relationship with a managed artist refers to the number of years starting from the earlier date of: (i) when the artist entered into a trainee contract with us, if such artist was a graduate of our Yuehua trainee program, or (ii) when the artist first entered into an exclusive artist management contract with us, if such artist was not a graduate of our Yuehua trainee program, and ending on the Latest Practicable Date.
- (2) For artist management contracts with upcoming expiration dates, we plan to initiate a review and renewal process on a case-by-case basis.

Our Artist Groups

We typically arrange our trainees to make their debut in small or midsize artist groups, which generally comprise five to seven members. Promoting artist groups enables us to present artists with different styles, talents and personalities, which we believe helps us attract audiences with different preferences and build a larger follower base. After artist groups debut, artists can carry out activities along with other group members or individually. As of the Latest Practicable Date, we had launched seven artist groups.

The table below sets forth our artist groups as of the Latest Practicable Date.

Artist Group



UNIQ

Time of debut: October 2014

Mr. Wang Yibo (王一博)

Mr. Li Wenhan (李汶翰)

Mr. Zhou Yixuan (周藝軒)

Mr. Kim Sung-joo (金聖柱)

BUSINESS

Artist Group



NEXT

Time of debut: June 2018

Mr. Zhu Zhengting (朱正廷)
Mr. Fan Chengcheng (范丞丞)
Mr. Huang Minghao (黄明昊)
Mr. Bi Wenjun (畢雯珺)
Mr. Huang Xinchun (黄新淳)



EVERGLOW

Time of debut: March 2019

Ms. Park Ji Won (E:U) (朴智媛 (E:U))
Ms. Kim Si-hyeon (金施賢 (SIHYEON))
Ms. Han Eunji (Mia) (韓恩智 (MIA))
Ms. Jo Se-rim (Onda) (曹世林 (ONDA))
Ms. Xu Yulin (Aisha) (許庾琳 (AISHA))
Ms. Wang Yiren (王怡人 (YIREN))



NAME

Time of debut: December 2021

Ms. Feng Ruohang (馮若航)
Ms. Jin Zihan (金子涵)
Ms. Li Jiajia (李佳佳)
Ms. Li Siyang (李思陽)
Ms. Liu Jiaxin (劉嘉欣)
Ms. Long Yunzhu (龍韻竹)
Ms. Ouyang Chengxi (歐陽澄汐)



TEMPEST

Time of debut: March 2022

Mr. Lee Euwoong (LEW) (李義雄 (LEW))
Mr. Ngo Ngoc Hung (HANBIN) (韓彬 (韓彬))
Mr. Ahn Hyeong Seop (HYUNGSEOP) (安炯燮 (炯燮))
Mr. Koo Bonhyeok (HYUK) (具本奕 (本奕))
Mr. Choi Byeongseob (EUNCHAN) (崔炳燮 (恩燮))
Mr. Song Jaewon (HWARANG) (宋在原 (火朗))
Mr. Kim Taerae (TAERAE) (金太徠 (太徠))

BUSINESS

Artist Group



NEVERLAND

Time of debut: April 2022

Mr. Fan Yaohui (Dafan) (凡耀輝(大凡))
Mr. He Mu'en (Mu'en) (赫沐恩(沐恩))
Mr. Li Yi (李逸)
Mr. Sun Shoudi (Didi) (孫首地(地地))
Mr. Wang Dongchen (Dongchen) (王東晨(東晨))
Mr. Zhang Yuze (A'ze) (張宇澤(阿澤))



BOYHOOD

Time of debut: September 2022

Mr. Chen Xinhao (陳鑫昊)
Mr. Guo Dianjia (郭殿甲)
Mr. Jiang Xinxin (江信熹)
Mr. Liang Shiyu (梁詩煜)
Mr. Wang Muqing (汪穆清)
Mr. Yin Junlan (尹俊嵐)

Artist Operation

Our artist operation team is dedicated to coordinating our managed artists to provide quality services to our customers. They can be divided into business managers and operation managers. As of September 30, 2022, our artist operation team consisted of 52 members. In China, we had 20 business managers and 15 operation managers, each of whom has extensive experiences working with customers from various industries and artists as of September 30, 2022. The senior members of our artist operation team had on average around ten years of industry experience as of September 30, 2022. Our business managers and operation managers typically each works with one to three artists at the same time.

Business managers are responsible for sales, marketing and business negotiations. Our business managers keep in close and regular contact with our existing customers, primarily including domestic and international brands, advertising agencies, content producers and media platforms, to better understand and meet their evolving business needs. They also grow our customer base by reaching out to potential customers and explore new business opportunities through referrals. In addition, they work with our artist promotion team to identify the most suitable managed artists and artist groups for upcoming projects.

Operation managers assist business managers and our managed artists with a wide range of tasks, such as schedule coordination and general project assistance.

BUSINESS

Our artist operation covers four key processes in business activities: commercial debut, business negotiation, contract performance and feedback evaluation. The chart below illustrates the four key processes of our artist operation.



- *Commercial debut.* We contract with young talent to enroll in our trainee programs, during which we usually provide them with multiple years of training and assess their progress in performing skills regularly. Trainees who have successfully finished their training and passed the assessments will enter into an exclusive artist management contract with us and debut in the market as our managed artists. They usually make their debut by releasing musical works or performing in variety programs, movies and drama series. In addition to graduates of our trainee program, we also from time to time contract with artists who are not graduates of our trainee program.
- *Business negotiation.* Our business managers keep in close and regular contact with customers to source projects such as endorsement deals and opportunities to participate in content production. Once they find a project that appears to be a good match for a managed artist or artist group, they will recommend the artist or the artist group to the customer, negotiate key terms of cooperation and coordinate the process. Because of the strong reputation of our managed artists, customers also actively approach us to engage our managed artists for their projects.
- *Contract performance.* Our operation managers coordinate with customers and facilitate our managed artist to perform his or her obligations and coordinate the artist's schedules. They also keep track of the performance of each contracting party, and take proper measures when the contracting party breaches the contract. We arrange our staff to accompany the managed artist onsite and provide the artist with personal assistance, and our artist promotion team will arrange for media coverage and follow the publicity for the project.
- *Feedback evaluation.* Our business managers contact customers on a regular basis, actively soliciting feedback to assess project effect and customer satisfaction. They work closely with our artist promotion team to evaluate whether a project has a positive impact on the artist's public image and has enhanced the artist's popularity. They take into account whether the performances given by the artist or the products endorsed by the artist meet market demand and audience preference in their evaluation. The result of the evaluation will be used to adjust and improve our artist management services.

BUSINESS

Cooperation with Certain Media Platforms

During the Track Record Period, we had entered into cooperation agreements with certain leading Chinese media platforms such as iQIYI, Youku and Tencent, which allow them to carry out artist management for some of our managed artists who participated in idol development variety programs produced by these platforms within a specified term, typically ranging from 18 to 24 months. We decided to cooperate with such platforms as the variety programs they produced provided a debut platform for some of our trainees and we could further benefit from their media resources to enhance the popularity and commercial value of our managed artists. Under such arrangement, the platforms, or their appointed entities, will either (i) have the exclusive right to manage the artists; or (ii) jointly manage the artists with us, during the cooperation period. We will discuss with the platforms on whether to manage the artists on an exclusive basis or joint basis. The platforms, as the producer of such variety programs, will have the final decision. We share the revenue generated from the artists’ business activities with these platforms based on an agreed ratio during the term of the contracts. After the conclusion of such arrangement, we will again manage the artists on an exclusive basis pursuant to our artist management contracts with them.

Exclusive Management by Platform

During the Track Record Period, we had entered into cooperation arrangements with three media platforms, under which the media platforms have the exclusive right to manage the artists during the term of the relevant cooperation agreements. The respective term of the agreements is (i) from May 2018 to June 2020, (ii) from December 2018 to October 2020, and (iii) from December 2020 to November 2022. Below are the salient terms of the cooperation agreements:

- *Exclusive management.* The platform, or its appointed entities, has the exclusive right to manage the artist’s business activities during a fixed term. The artist will join an artist group managed by the platform during this period.
- *Performance requirement.* The platform shall: (i) produce a certain number of musical works, (ii) obtain a certain number of endorsement deals, and (iii) arrange a certain number of concerts for the managed artist, either for the artist as an individual or as a member of an artist group managed by the platform.
- *Artist promotion services.* The platform is responsible for providing artist promotion services and follow-up training to promote the artist’s career.
- *Revenue sharing.* The platform will collect all revenue generated from its operation of the artist and, after deducting relevant expenses, tax and surcharges, share the revenue with us according to percentages set out in the agreement. The revenue we receive from the platform is included as part of our revenue from artist management business. We will then allocate the revenue we receive from the platform to our managed artist pursuant to the percentages also set out in the agreement.

The table below sets forth the aggregate amount of revenue we received from the media platforms pursuant to our cooperation arrangements during the Track Record Period.

	<u>For the year ended December 31,</u>			<u>For the nine months ended September 30,</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
	(RMB in thousands)			
Revenue received from platforms	<u>46,957</u>	<u>27,616</u>	<u>1,759</u>	<u>5,621</u>

BUSINESS

Joint Management with Platform

During the Track Record Period, we entered into cooperation arrangements with two media platforms, under which the media platforms and we have the joint right to manage the artists during the term of the cooperation agreements. The respective term of the agreements is (i) from April 2018 to October 2019 and (ii) from August 2020 to August 2022. Below are the salient terms of the cooperation agreements:

- *Joint management.* The platform, or its appointed entities, manage the artist’s business activities with us on a joint basis during a fixed term. The artist will join an artist group managed by the platform during this period. For arrangement (i), the relevant artists acted as a member of two artist groups, one managed by us and one managed by the platform. During our cooperation with the platform, the artist mostly attends business projects as a member of our artist group.
- *Revenue sharing.* Each party will collect the revenue generated from its operation of the artist, and share the revenue with the other party according to percentages set out in the contract, after deducting the relevant expenses, tax and surcharges. We will then allocate (i) the revenue we receive from the platform; and (ii) the remaining portion of our revenue received from customers after we pay to the platform, to our managed artist in accordance with the percentages set out in our artist management contract with the artist. The revenue we allocate to the platform when the artist acts as a member of the artist group or a solo artist managed by us is recorded as our cost of revenue. The revenue we receive from the platform when the artist acts as a member of the artist group managed by it is recorded as our revenue from artist management business.
- *Pricing.* The contract sometimes also sets out the minimum prices that apply to endorsement deals and concerts deals parties negotiated for the artist.

The table below sets forth the aggregate amount of revenue we received from the media platforms, as well as the revenue we allocated to the platform, pursuant to our cooperation arrangements during the Track Record Period.

	For the year ended December 31,			For the nine months ended September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Revenue allocated to platforms	42,775	—	—	—
Revenue received from platforms	1,756	345	587	113

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》) (the “Notice”), which came into effect on September 2, 2021 and prohibited the broadcast of variety programs in the idol development genre. To comply with this notice, Chinese media platforms shall cease broadcasting variety programs in such genre and thus we will not enter into any similar cooperation arrangement with them. Since the Notice came into effect, our managed artists have not participated in any idol development programs. Although the Notice prohibits the broadcast of idol development programs, it does not prohibit artists who had participated in such programs from commercial activities. Two cooperation agreements that we entered into with media platforms before the issuance of the Notice continued to be in effect before they expired in August and November 2022, respectively. Pursuant to these two cooperation agreements, certain of our managed artists continued to

BUSINESS

provide services for entertainment content, endorsement deals, business promotion activities and other commercial activities as members of artist groups managed by the platforms.

Business Activities

The members of our artist operation team have extensive experience working with corporate customers, advertising agencies, content producers and media platforms who need performing services. Because of their extensive experience and industry expertise, we are frequently engaged by customers for the performing services of our managed artists. Typically, our managed artists participate in two types of business activities: commercial activities and entertainment content services.

Commercial Activities

We arrange our managed artists to participate in various commercial activities at the request of our customers, including endorsement deals, business promotion activities and other commercial activities.

- *Endorsement deals.* We negotiate and enter into endorsement deals with a wide array of well-known international and domestic brands. We carefully identify the managed artists who are good fits for the customers’ products or services, taking into consideration factors such as the artists’ market position, image, interests, and past and current endorsements. We then arrange our managed artists or artist groups to serve as brand ambassadors and help promote the brands, including licensing their names, images and likenesses to create marketing and promotional materials, and arranging them to attend relevant promotional activities and appear in commercials. During the Track Record Period, we entered into endorsement deals with companies in a broad array of industries, such as personal care, sporting goods, consumer electronics, automobile, home appliances, fashion brands and telecommunications.
- *Business promotion activities.* We arrange our managed artists to participate in various business promotion activities of our corporate customers, such as social media marketing, livestream ecommerce and offline business promotion events. Because of our managed artists’ popularity, their attendance in such events can attract much attention, thus creating value for the customers.
- *Other commercial activities.* In addition, we are engaged by customers in various industries and arrange our managed artists to render performing services in entertainment events, such as galas, festivals and ceremonies, organized and produced by the customers. During the Track Record Period, our managed artists attended various high-profile commercial performances, such as the “Tmall 11.11 Countdown Gala Celebration (天貓雙11狂歡夜).” We also organize, co-produce and co-invest in tours and concerts for our managed artists, typically in collaboration with third parties. Alternatively, we license the right to third parties to produce such performances. During the Track Record Period, we organized a series of highly popular tours and concerts, such as the “2021 Yuehua Family 12th Anniversary Concert (2021樂華十二周年家族演唱會),” the “2019 Yuehua Family 10th Anniversary Concert (2019樂華娛樂十周年紀念演唱會)” and the “2019 ‘NEXT TO YOU’ World Tour Concert (2019樂華七子NEXT世界巡迴演唱會).”

BUSINESS

Entertainment Content Services

Our artist management team has established close cooperative relationships with various content producers and media platforms, and actively identify opportunities where our managed artists can perform in quality entertainment content. Our managed artists have starred in a wide selection of movies, drama series, variety programs and public performances, and have gained national fame.

The table below sets forth the number of contracts we entered into during the Track Record Period to arrange our managed artist to perform in various types of entertainment content.

	For the year ended December 31,			For the nine months ended September 30, 2022
	2019	2020	2021	
Movies	9	5	9	9
Drama series	23	26	30	17
Variety programs	70	122	99	87

We recognize revenue from artist management business when the relevant services are provided to customers either over a fixed contract period of an endorsement deal or over a scheduled production period of movies, drama series or variety programs, or at the point in time when the artists attend business promotion activities and other commercial activities. We recognize our share of revenue and cost on a gross basis.

Exclusive Artist Management Contract

We normally enter into exclusive artist management contracts with trainees who successfully graduate from our training program before they make their debut. Once they become our managed artists, we are entitled to engage them in various projects where the artists will provide their performing services to customers. We also provide our managed artists with career planning service to help them grow their performing art careers, and with daily administration services such as travel arrangement, scheduling and personal assistance.

The key terms of our exclusive artist management contracts are as follows:

- *Term.* The term of our artist management contracts typically varies from five to 15 years.
- *Renewal.* The artist management contracts will generally be automatically renewed for a term ranging between one and five years, unless agreed otherwise by both parties.
- *Our rights and obligations.* We have the exclusive right to manage the artists’ business activities and represent them in legal issues relating to their performing art careers. We have the obligation to assist them in developing and promoting their performing careers.
- *Artists’ rights and obligations.* Our managed artists will complete the projects we assigned to them, including providing performing services to our customers through participating in commercial activities and providing entertainment content services. In return, they are entitled to receive part of the income generated from their performing activities during the term of the contracts.
- *Revenue allocation.* Typically, all of the revenue generated during the term of the contracts (after deducting expenses we have incurred in training and managing the artists) will be shared between the artists and us according to percentages set out in the artists’ contracts, which typically vary according to the type of service the artists rendered and the

BUSINESS

length of time the contracts have been executed. Generally, the artists’ portions will increase as the time passes, according to time schedules as agreed on in the contracts. During the Track Record Period, the percentage of revenue allocated to our managed artists ranged between 30% to 90%.

- *Expenses sharing.* We typically share with our managed artists certain operation expenses we incurred in managing their activities, including tax and expenses of costume, styling, traveling, accommodation, insurance, security, legal service and promotion service. We share such expenses with our managed artists pursuant to the percentages of revenue allocation set out in the artists’ respective contract. Managed artists in China who are graduates of our trainee program also share the expenses we incurred during the artist’s training period. See “—Our Business—Artists Management—Artists Training—Trainee Contract—Expenses Sharing.” In determining the revenue to be allocated to an artist, we typically deduct (i) the operation expenses to be shared by the artist and us, and (ii) the training expenses to be shared by the artist and us, if such artist is a graduate of our trainee program, from our revenue attributable to such artist. We will then share the remaining revenue with the artist pursuant to the allocation percentage in the relevant contract, which is recognized as our cost of revenue. According to Frost & Sullivan, our expenses sharing arrangement with our managed artists are in line with the industry norm.
- *Exclusivity.* We serve as the artists’ sole personal representative with respect to their performing art career for the term of the agreements.
- *IP rights.* We typically own, or otherwise have a perpetual and exclusive license of, all intellectual property rights in the works our managed artists created, such as musical, dramatic and artistic works, created during the term of the artist management contracts, unless otherwise provided in our contracts with our customers.
- *Morals clause.* We have the right to terminate the contract and claim for damages if an artist commits misconduct that might negatively affect our reputation.
- *Confidentiality and non-compete.* The parties agree that they shall keep confidential the terms of the contract. In addition, the artists agree that they shall keep confidential our trade secrets, including but not limited to information in relation to our business operation and financial performance. There is no non-compete obligations on the artist.
- *Termination.* The artist management contract can be terminated early if mutually agreed by both parties, or unilaterally by us upon breach by the managed artist.

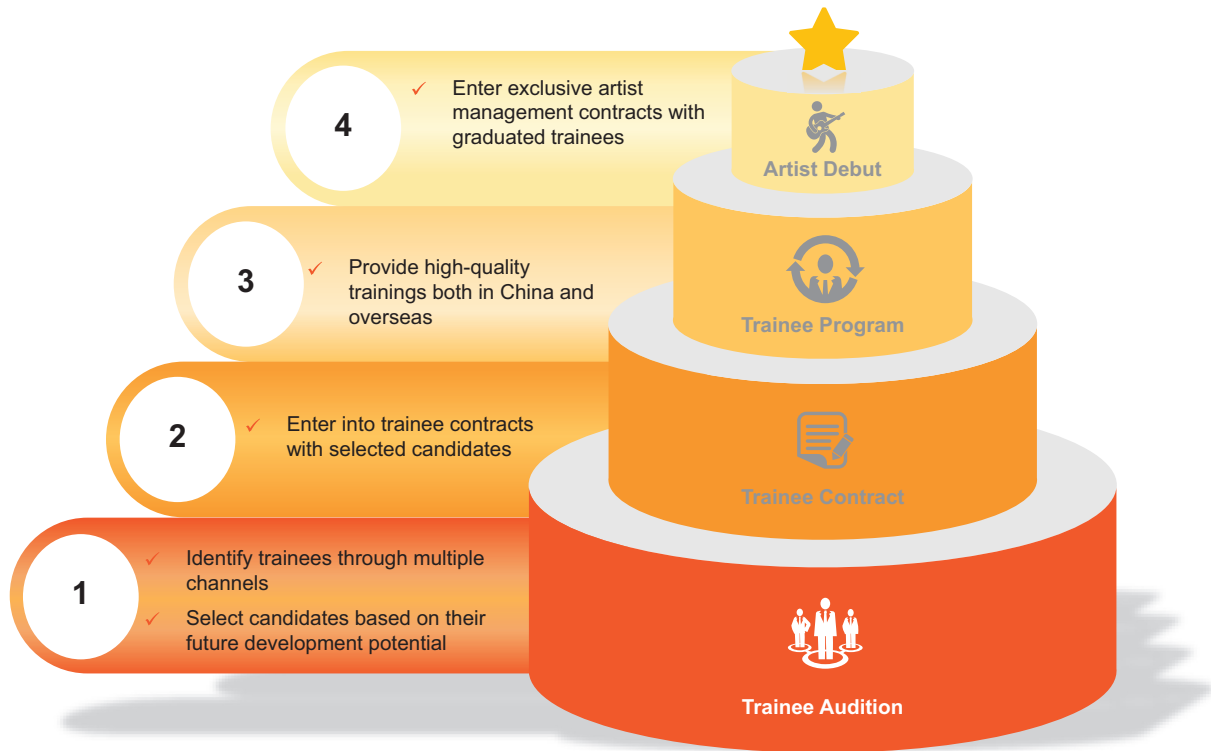
According to Frost & Sullivan, it is an industry norm for artist management companies to enter into artist management contracts, rather than employment contracts, with the artists they manage. The relationship between an artist management company and an artist is normally a business cooperation relationship, not an employment relationship, because the artist does not work for the management company in return for salaries or wages. Instead, the management company represents, promotes and sell works of the artist through a business cooperation relationship with the artist. In line with the industry norm, we had entered into artist management contracts with all of our managed artists as of September 30, 2022.

Artists Training

Our artist training team consisted of 35 professionals with expertise in talent scouting and arranging arts training as of September 30, 2022. They are responsible for discovering and selecting

BUSINESS

talented candidates for our trainee program, which is key to our growing pool of fresh talent. They arrange comprehensive training in vocal, dance and acting skills, as well as etiquette and media interaction skills for our trainees. They also collaborate closely with our artist management team to provide assistance to our trainees during their business activities, such as scheduling and arranging business trips and styling services for the trainees. Below is a chart of the key steps of our artist training process.



Trainee Scouting

We select our trainees through auditions. As of September 30, 2022, we cooperated with more than 30 art schools and institutions to hold trainee auditions on and off campus. To find suitable trainee candidates, we have established various online and offline channels to scout talent for our trainee auditions:

Online Channels

- *Online application.* Applicants can send us their applications online and we will select the applicants to participate in our auditions.
- *Online talent competitions.* We are in regular connection with the organizers of online talent competitions, who recommend competitors to participate in our auditions.
- *Social media scouting.* We actively look for new talent on various social media platforms, including but not limited to Weibo, Douyin and Xiaohongshu, and send invitations to participate in our auditions.

Offline Channels

- *Offline talent competitions.* We hold offline talent competitions both inside and outside China and select participants for auditions.

BUSINESS

- *College entrance exams for art majors.* We routinely scout for trainee candidates among those who participate in the college entrance exams for art majors.
- *Cooperation with art institutions.* We are in regular contact with a selection of art institutions and select audition candidates from the students enrolled or recent graduates.
- *Employee referrals.* We also accept referrals from our employees to further diversify our sourcing channels.

Trainee Audition

During the audition process, we will ask candidates to perform their acts in a small group setting. We will carefully assess the artistic talent and skills, personality, appearance, aptitude and interest in performing art career of each candidate through multiple rounds of audition. We will also record the candidates’ performance for further review and evaluation. Those who pass the audition will be offered a chance to join our trainee program.

Our trainee program has a large candidate pool and rigorous admission standards. We received over 70,000 applications to our trainee program around the globe during the Track Record Period. In 2019, 2020, 2021 and the nine months ended September 30, 2022, we entered into a trainee contract with 19, 28, 50 and nine trainee candidates, respectively, with a highly selective overall acceptance rate of lower than 0.3% each year. The majority of our trainees at the time of enrollment ranged between 16 to 18 during the Track Record Period. We may also accept trainees who aged less than 16 from time to time, provided that we have obtained the consent of the trainee’s guardians, who will also sign the trainee contracts as a party. As of the Latest Practicable Date, we maintained a pool of 62 trainees with artistic potential and strong interest in performing art career.

Trainee Program

The training process typically lasts for three years and involves training in areas including vocal, dancing and acting. Our trainees usually attend school for academic studies at the same time. We provide accommodation for all of our trainees when they are enrolled in the program, and our artist training team provides guidance and assistance to the trainees on a daily basis.

Program Structure

Our trainee program can be divided into three phases: basic training, advanced training and debut training. Trainees are evaluated on an on-going basis and can only progress to the next phase of training after they pass the evaluation for the current phase.

- *Basic training.* Basic training focuses on singing, dancing and physique training. Trainees are evaluated on a weekly basis during this phase. Only trainees who have fulfilled the requirements of basic training can enter the advanced training phase.
- *Advanced training.* During the advanced training phase, trainees will also take foreign language classes and music appreciation classes. During this phase, trainees are evaluated on a monthly basis. Typically, our artist training team will propose the idea of forming a new artist group, choose potential candidates who may join the group, and let them enter the debut training stage.
- *Debut training.* Trainees who are considered for joining a new artist group will receive debut training. Debut training covers posture training, musical instrument, music

BUSINESS

composition and acting in addition to the courses provided in the advanced training phase. In particular, trainees are required to master the performance of the musical works to be released at their debut, both the singing and the dancing parts. In addition, trainees will also learn how to skillfully communicate with and present themselves in front of the public. Debut training usually lasts about one year.

Selection Criteria

In assessing whether to accept a trainee as our managed artist, we consider a combination of factors, including: (i) whether the trainee has sound character and whether the trainee has committed any act which might be considered to be illegal or immoral; (ii) whether the trainee has successfully completed the training program and has the necessary skills to debut; (iii) the evaluation of our artist management team of the degree of potential the trainee has shown; and (iv) whether the trainee has a social personality and get along with the fellow trainees during the training process.

Typically, if a trainee is not accepted to be our managed artist because the trainee (i) has committed an act which might be considered to be illegal or immoral, or (ii) violated our rules and had an adverse impact on our operation of the trainee program, the trainee would be liable to us for the training expenses we have incurred and other damages. If a trainee is not selected to be our managed artist for reasons other than the above, we would terminate the trainee contract and the trainee will not be liable to us, provided that the trainee has not committed other breach under the trainee contract. In such situation, the expenses we have incurred in training the trainee will be borne by us. The trainee will still be bound by the confidentiality clause in his or her trainee contract after the termination. Yuehua Korea has contracted with its managed artists based on a standard form contract published by the Korean Ministry of Culture, Sports and Tourism. Under the standard form contract, a popular culture business, such as an artist management company, must in principle bear all expenses for a trainee’s training activities. For details, see “Regulations—Laws and regulations in relation to our business in Korea.” Therefore, typically, for trainees who signed their trainee contract with Yuehua Korea, the training expenses we incurred would be solely borne by us, whether the trainee is admitted to be our managed artist or not. If a trainee breached and unilaterally terminated the contract, the trainee would be liable to us for the training expenses incurred and other damages. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, there was no applicable law or regulation that mandates how the training costs should be allocated between artist management companies and their trainees or managed artists in the PRC.

The irrecoverable amount of training expenses incurred by us was approximately RMB2.7 million, RMB2.4 million, RMB2.8 million and RMB0.8 million in 2019, 2020, 2021 and the nine months ended September 30, 2022, respectively, accounting for 0.8%, 0.6%, 0.4% and 0.2% of our total cost of revenue in the corresponding periods.

Overseas Training Opportunities

We set up Yuehua Korea, a subsidiary in Korea, in 2014, making us one of the first Chinese artist management companies to enter the overseas artist management market, according to Frost & Sullivan. Benefiting from the mature artist management and training system overseas, Yuehua Korea has accumulated extensive experience in selecting, training and promoting high-quality artists. It has also built a faculty with experienced members, capable of designing and implementing comprehensive training plans for trainees.

BUSINESS

We have leveraged the rich industry resources in Korea to provide support for our trainee program, and have sent some of our trainees to Yuehua Korea to receive further training or to practice as an artist group, such as UNIQ, NEXT and EVERGLOW.

Advantages of Our Trainee Program

Our distinctive trainee program helps foster a sense of belonging among our trainees and managed artists, as they have spent several precious years of youth training, living and growing up together. The close ties among the artists and trainees serve as the foundation for us to build our Yuehua family. Our trainees and managed artists also share a distinct style as they have accompanied each other during their professional and personal growth, which is helpful for us to promote our managed artists under our Yuehua brand.

In addition, the trainee program allows us to have a positive impact on trainees’ personal development through day-to-day interactions. We also have a code of conduct for our trainees and artists to help them build good habits and encourage positive behavior. These positive personality traits we help foster are critical for the trainees to grow into a mature and responsible artist and positively impact the society.

Trainee Contract

We enter into trainee contract with our trainee candidates when they enroll in our trainee program. Under the contract, the trainee grants us an exclusive right to train and prepare them for the career of an artist.

The key terms of our trainee contracts are as follows:

- *Term.* The term of our trainee contracts is typically three years, which may be extended upon mutual agreement. If the trainee is a minor, his or her guardian will enter the trainee contract on behalf of the trainee.
- *Our rights and obligations.* We shall provide the trainees with trainings in various fields, including singing, dancing and acting, and assist the trainees in their artistic development. We have the right to arrange trainings for the trainees and monitor their progress, as well as the right to arrange the trainees’ business activities relating to their performing art career, if any. In general, we will not arrange for the trainees to perform in concerts or other commercial activities, unless such participation is beneficial for the trainees’ development.
- *Trainee’s rights and obligations.* Trainees shall complete their trainings with diligence and perform any performance projects we assign them.
- *Expenses sharing.*

During the trainee’s training period, we cover all expenses incurred in relation to providing the training, including the expenses of training classes, housing, facilities, travel and arranging debuts. Such expenses are charged as our cost of revenue when they are incurred. If the trainee becomes a managed artist in China, the expenses we incurred during the artist’s training period will be shared between the artist and us, typically pursuant to the revenue allocation percentages set out in the relevant artist management contract. The portion of the expenses borne by the artist will be deducted before any

BUSINESS

revenue is allocated to him or her. Therefore, when these training expenses are reimbursed by the artist pursuant to the aforementioned expenses sharing arrangement, less revenue will be allocated to the artist. Because the revenue allocated to the artist is recognized as our cost of revenue, these reimbursements are treated as a deduction from our cost of revenue. See “—Exclusive Artist Management Contract—Expenses Sharing.”

The exact amount of expenses we incurred for the artist’s training and the amount borne by the artist will be agreed on by the artist before any deduction takes place. We keep a record of all expenses incurred in relation to our trainee program during our business course, which we use to determine the amount of training expenses to be deducted from each trainee graduate who becomes our managed artist. Such amount typically includes expenses that are incurred solely for the trainee, such as arranging travel for the trainee, and expenses that are shared between trainees, such as providing training classes and producing the debut musical work for trainees in the same artist group. If a trainee is not accepted as our managed artist, such expenses will be borne by us, unless the trainee breached the trainee contract, in which case the trainee will be liable to us for the training expenses and other contractual damages. See “—Exclusive Artist Management Contract.”

- *Exclusive artist management contract.* We have the option to enter into an exclusive artist management contract with the trainees who successfully complete our trainee program. If a trainee decides not to enter into the artist management contract with us without justifiable reasons, we are entitled to liquidated damages under the trainee contract.
- *Morals clause.* We have the right to terminate the contract and sue for damages if a trainee commits any act which might be considered to be illegal or immoral.
- *Confidentiality and non-compete.* The trainees agreed that they shall keep confidential our trade secrets, confidential information in relation to our business operation and information in relation to our managed artists. There is no non-compete obligations on the trainee.
- *Termination.* We have the right to terminate the trainee contract unilaterally if we reasonably believe that the trainee is not qualified or violates our rules. In practice, a trainee can terminate the trainee contract if, despite reasonable efforts of the trainee and after consulting with us, the trainee cannot perform under the contract due to illness or accident of the trainee or the trainee’s family members.

Artist Debut

We assess our trainees to select talented and promising ones to become our managed artists. We will enter into an exclusive artist management contract with trainees who have passed all the assessments and graduated successfully from our trainee program, and help them make their debut. During the Track Record Period and up to the Latest Practicable Date, we had 152 trainees enrolled in our trainee program. Among them, 48 had made their debut as our managed artists. As of the Latest Practicable Date, 62 of them were enrolled in our trainee program and they are currently preparing for debut.

To help our managed artists make a successful debut in the market, we will carefully consider their characters, aptitudes and strengths, as well as market demand. We typically arrange our managed artists to debut as artist groups, such as UNIQ, NEXT, EVERGLOW, NAME, TEMPEST, NEVERLAND and BOYHOOD. With each member playing a distinctive role in the group, artist

BUSINESS

groups usually can attract more attention from the audience. We usually launch our managed artists or artist groups by helping them release singles or albums, or participate in variety programs, to gain high media exposure and market influence.

After debut, we help our managed artists with career planning and find their area of focus, such as singing, acting or participating in variety programs, based on audience feedback and market demand. We also encourage them to expand their reach to related fields by arranging additional professional training to help them explore new development possibilities. When we assign a project to an artist, we may consider multiple factors, such as influence on the artist’s public image and the artist’s career plan, to help the artist gain enduring popularity with our best effort.

Because of our professional and systematic training, many of our managed artists have had remarkable success in debuting. For example, our artist group, UNIQ, debuted in 2014 and received several high-profile awards shortly afterwards, such as “2015 iQIYI Scream Night—The Most Anticipated Artist Group of the Year (尖叫2015愛奇藝之夜—最具期待組合)” and “2016 iQIYI Scream Night—Music Award of the Year (尖叫2016愛奇藝之夜—年度音樂大獎).” NAME, our artist group debuted in 2021, attracted much attention and won the “2021 Rayli Beauty Awards—New Artist Group of the Year (2021瑞麗美容大賞年度新銳組合)” and “2021 iFeng Fashion Choice Awards—Most Anticipated Group of the Year (2021鳳凰網時尚盛典年度潛力組合)” shortly after its debut.

In addition to debuting in China, our trainees also have the opportunity to debut in Korea via Yuehua Korea. Yuehua Korea has built a highly experienced music production team to produce music recordings and music videos for managed artists and trainees, and has produced various highly popular songs and music videos. In 2021, Yuehua Korea arranged for our managed artist, Ms. Choi Ye-na (崔叡娜), an actress and singer, to debut in Korea. “SMILEY,” a song we produced for her won first place in a popular Korean music variety program and had a view count of over 26 million on YouTube as of the Latest Practicable Date.

In addition to music production, Yuehua Korea has also established close cooperative relationships with various international content producers, allowing it to effectively promote the acting careers of our managed artists. In 2021, our managed artist, Mr. Lee Do-hyun (李到晧), won the best new actor award of Baeksang Arts Awards (百想藝術大賞的最佳新人男演員獎), a prestigious entertainment award in Korea, for his performance in the drama series “18 Again.”

To capture the growth of the overseas entertainment market and provide our trainees with more debut options, we send some of our trainees who were enrolled in China to Yuehua Korea for training and for debuting.

Artist Promotion

We have built a dedicated artist promotion team specialized in providing promotion services to our managed artists, consisting of 27 members as of September 30, 2022. As an artist’s public image is critically important for his or her career success, we have established strict guidance on how the artists would appropriately behave in public and on social media. By helping artists build a positive public image and stay in the positive light, our artist promotion team helps our managed artists with their career progression.

Our artist promotion team is critical in creating a contact point between the artists and the audience. They help the artists increase their exposure by reviewing and publishing publicity materials, such as photographs and press releases, and keep the audience updated of the latest news about the

BUSINESS

artists on various social media platforms. They also secure opportunities for the managed artists to participate in award ceremonies and other public events. On the occasions where our managed artists face potential negative publicity, our artist promotion team will react promptly to formulate an appropriate response.

The artist promotion team also works with customers to get favorable publicity for our managed artists. After the artist management team has matched a new project to a managed artist, such as the production of a drama series or variety program, our artist promotion team will keep in close contact with the customers to understand the artist’s role in the project, identify ways to improve how the artist is presented and make sure that the final product will have a positive impact on the artist’s public image and career plan.

Multichannel Publicity Strategy

Our artist promotion team has established a multichannel publicity strategy to reach a wide audience and build connections between our managed artists and the target audience. In addition to traditional media platforms such as satellite TV networks, we utilize online video platforms, short video platforms, social media platforms and high fashion brands to get wide media coverage for our managed artists.

- *Satellite TV networks and online video platforms.* Our artist promotion team collaborates with satellite TV networks and online video platforms to increase public exposure of our managed artists. Our managed artists routinely appear on TV or online video programs to promote the movies or variety programs they starred in. These media platforms have a broad audience and our artist promotion team usually formulates promotion strategies that match the characters of our managed artists and communicate them with such platforms.
- *Short video platforms.* Our artist promotion team works with the leading short video platforms in China to promote the influence of our Yuehua brand and our managed artists. Short video platforms, such as Douyin and Kuaishou, have experienced exponential growth in recent years and people spend considerable time on them. Our managed artists publish short videos and attend live streaming events on short video platforms in connection with their assigned projects, such as promoting a product they endorsed or marketing a movie, variety program or drama series starring the artists.
- *Social media platforms.* Social media platforms, such as Weibo and Xiaohongshu, are important marketing platforms for our managed artists. Our artist promotion team assists our managed artists to interact with users on major social media platforms, sharing their activities and information about upcoming projects to keep people informed. By creating interactive social media content, our managed artists can increase their public exposure.
- *Fashion events.* Our artist promotion team also secures opportunities for our managed artists to attend various fashion weeks and cover shoots for fashion magazines, to help the artists define their personal style and increase their public visibility.

Yuehua Brand

Our managed artists, who have gained much popularity during their performing art careers, and our established artist training and operation system have effectively enhanced the influence of our Yuehua brand, making us a well-known entertainment brand in China, according to Frost & Sullivan.

BUSINESS

Our founder and Chief Executive Officer, Ms. Du, attended the popular variety program, “Sisters Who Make Waves,” in 2020 and 2021. Ms. Du served as a judge in the program, further enhancing the visibility of our Yuehua brand and our managed artists in general. For more details about Ms. Du, see “—Our Competitive Strengths” and “Directors and Senior Management.”

We have also carried out a series of public events, such as the Yuehua Family Concert (樂華家族演唱會), an event featuring our managed artists, to present our Yuehua brand to the public.

Global Outreach

Building on our market leading position in China, we actively promote and market our managed artists and our Yuehua brand in Asian markets. When our managed artists publish a musical work, we simultaneously publish it on multiple music streaming platforms overseas. During the Track Record Period, our musical works had been published on various overseas music streaming platforms, including Apple Music, Spotify, YouTube and KKBox, leading Chinese pop culture trend worldwide.

Yuehua Korea is another important part of our global strategy. With its strong music production capabilities, Yuehua Korea has produced many musical works that are widely popular. For example, as of September 30, 2022, “DUN DUN,” “Adios,” “LA DI DA” and “Bon Bon Chocolat,” four music videos that Yuehua Korea produced for EVERGLOW, accumulated more than 266 million, 163 million, 119 million and 116 million views on YouTube, respectively. Yuehua Korea was also engaged to produce the songs performed in several hit variety programs in China, such as “Ei Ei” and “Yes! OK!” In addition, we have cooperated with well-known Korean entertainment companies through Yuehua Korea to organize concerts and tours for our managed artists overseas, further expanding our target audience base. We have also established strong cooperative relationships with overseas entertainment companies through our overseas subsidiary Yuehua Korea, and help bring quality entertainment content to Chinese audience.

In addition to Korea, we are also actively expanding our business in other parts of Asia. Drama series starring Mr. Wang Yibo, Ms. Cheng Xiao and Mr. Bi Wenjun, such as “Legend of Fei” (有翡), “The Road of Awakening (天醒之路)” and “In a Class of Her Own (漂亮書生),” have been distributed in countries including Japan, Korea, Thailand, Malaysia and Philippines and have been widely popular. We also organized concerts and tours for our artist group, NEXT, in Thailand and Malaysia.

Relationship with Our Managed Artists

We aim to foster and maintain long-term and stable relationships with our managed artists. As of the Latest Practicable Date, 57 of our 69 managed artists graduated from our Yuehua trainee program. They enrolled in the program in order to receive systematic training and become established artists. After they successfully completed the training, they entered into exclusive artist management contracts with us and became our managed artists. Our managed artists are our suppliers as we engaged them to provide performing services to our customers through participating in commercial activities, entertainment content services, and music production. Under the contracts, the revenue we receive from our customers will be allocated between our managed artists and us based on percentages as set out in the artist management contracts. For more details of our artist management contracts, see “—Artist Management—Artist Operation—Exclusive Artist Management Contract.”

BUSINESS

Our managed artists play an important role in our business development and our cooperation with them is an integral part of our business operation. We are of the view that the relationship between our managed artists and us is mutually beneficial and complementary for the following reasons.

Mutually Beneficial and Complementary Relationship

The roles of our Company and of our managed artists are mutually beneficial and complementary to each other. According to Frost & Sullivan, artist management companies can create significant commercial value for their managed artists by providing professional artist operation, integrated market resources and systematic follow-up art training. Artist management companies deal with various aspects of artist operation, such as sales, marketing, business negotiation and general project assistance, to enable the artists to focus on their performances. In addition, many crucial resources are only available to reputable artist management companies in the market. As a result, the relationship between artist management companies and their artists is typically mutually beneficial and complementary, according to Frost & Sullivan.

Our market-leading position, and strong artist training and operation capabilities have made us one of the top choices in China for established artists as well as for talented young people who want a performing art career. 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, and are one of the few companies that can provide systematic and professional artist training and operation services in China. During the Track Record Period, we received more than 70,000 applications, both in China and overseas.

Rich Industry Resources

During the Track Record Period, the number of business activities generating revenue increased from approximately 380 in 2019 to approximately 500 in 2020, and further to approximately 640 in 2021. For the nine months ended September 30, 2022, the number of business activities generating revenue was 487. We have cooperated with a wide selection of brands, which enable us to arrange for our managed artists to feature in various commercial activities, enhancing their commercial value and public awareness. During the Track Record Period, we entered into 407 endorsement deals and our customers included 12 international brands listed on “World’s Most Valuable Brands—Top 100” published by Forbes in 2020 and eight domestic brands listed on “China’s Most Valuable Brands—Top 100” published by China Brand Value Research Institutes in 2020.

We also arrange our managed artists to feature in popular variety programs, movies and drama series produced by and broadcast on leading online video platforms and major satellite TV networks in China. As of the Latest Practicable Date, we had established business cooperation with the top five satellite TV networks in China in terms of annual average viewership rating and the top three online video platforms in China in terms of total revenues, according to Frost & Sullivan, for an average of seven years. During the Track Record Period, we entered into 506 entertainment content service contracts for our managed artists to perform in variety programs, movies and drama series. In addition, we arrange our managed artists to participate in related events on popular social media platforms, further enhancing their popularity.

Benefiting from our well-established relationships with these media channels, we provide our managed artists with the opportunities to perform in various hit drama series and variety programs, such

BUSINESS

as “Luoyang (風起洛陽)” broadcast on iQIYI and featuring Mr. Wang Yibo, “Floating Youth (冰球少年)” broadcast on Mango TV and featuring Mr. Zhu Zhengting, “Go Fighting (極限挑戰)” broadcast on Dragon Satellite TV and featuring Mr. Huang Minghao, and “The Stories of Lion Rock Spirit (獅子山下的故事)” broadcast on CCTV1 and Tencent Video and featuring Ms. Xu Yating. Ms. Du was also invited as a judge in the popular variety program, “Sisters Who Make Waves,” in 2020 and 2021, for her long-standing career in the media world. Ms. Du’s appearance in the program bolstered our cooperation with media channels and increased the visibility of our Yuehua brand. With our rich media resources, we are able to secure valuable opportunities to perform in prestigious media events for our newly debuted artists and artist groups. For example, we arranged NAME to perform in galas produced by several leading satellite TV networks and online video platforms in China shortly after their debut.

In addition, we have an experience in-house team and have established long-term cooperation relationship with leading music service providers in China. We produce digital singles and albums for our managed artists, further promoting their performing career. During the Track Record Period, we produced 34, 22, 29 and 22 digital singles and albums in 2019, 2020, 2021 and the nine months ended September 30, 2022, respectively, for our managed artists. Among them, 12 digital singles and albums sold more than a million copies each in China as of September 30, 2022. According to Frost & Sullivan, artist management companies’ capability to produce and operate premium musical works for their managed artists, whose career fields include singing and dancing, plays a critical role in helping the artists rapidly attract audience’s attention and enhance the artists’ market recognition. Meanwhile, high-quality musical works performed by the managed artists in turn can support the sustainable development of their respective artist management companies.

Professional Artist Management Teams

Among our managed artists who had more than two million followers each on Weibo as of the Latest Practicable Date, 15 were graduates of our Yuehua trainee program, demonstrating our capability to cultivate fresh talent and promote them to be established artists on an on-going basis. According to Frost & Sullivan, we are one of a few artist management companies in China that operates a professional and systematic trainee system.

Senior members of our artist training team have an average of six years of experience in arranging comprehensive trainings for young talents as of September 30, 2022. They are responsible for selecting a team of instructors with extensive expertise in teaching vocal, dance, acting and media interaction skills. We provide trainees with systematic and professional training for an average duration of three years, laying a solid foundation for their career. We also provide follow-up training to our managed artists after debut, helping them grow into well-rounded and accomplished artists. The professionalism of our managed artists in turn help us establish our Yuehua brand.

We have also established a professional artist operation team, the senior members of which have an average of ten years of experience working in the artist management industry as of September 30, 2022. Members of our artist operation team specializes in negotiating business deals and coordinating between customers and artists. They have experience working with various types of customers, including brands, media platforms and content production companies, enabling them to promote the career of our artists in multiple fields.

Furthermore, we have an experienced artist promotion team, who help our managed artists increase their exposure by reviewing and publishing publicity materials through various marketing

BUSINESS

channels. The senior members of our artist promotion team have an average of six years of experience working in the media world as of September 30, 2022, and they provide guidance to our artists on the content and public image they conveyed to the public. In light of the changing regulatory environment, they also liaise with our legal team to circulate updated laws, regulations and policies in relation to the entertainment industry to our artists.

Benefiting from their positive public image and our professional artist management, our managed artists have been engaged to perform in various movies, drama series and variety programs that allow them to make a positive social impact, such as “Faith Makes Great: Choice (理想照耀中國之抉擇),” “Being a Hero (冰雨火),” “Floating Youth (冰球少年),” “Upstream (泳往直前)” and “Everlasting Classics (經典詠流傳).”

Our rich industry resources, professional artist management teams and our 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.

Long-term and Stable Cooperation with Managed 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.

Pursuant to the contracts, we have an exclusive right to manage the artists’ performing activities and are entitled to all the intellectual property rights in the works produced by the artists during the contract term. If our managed artists unilaterally terminate the artist management contracts, they would be liable to us for damages for breach of contract. In addition, as of the Latest Practicable Date, 45 out of 69 managed artists had a contract with an automatic renewal mechanism. Such contracts will be automatically renewed when the initial terms expire and the renewal terms typically range from one to five years. In addition, when an artist renews his or her contract with us, we may agree to give the artist a right to terminate the contract with us after a specific number of years.

The relatively long terms of the artist management contracts and the automatic renewal mechanism help us maintain stable operation of our artist management business. During the Track Record Period, we experienced (i) only five instances of early termination of artist management contracts and each was upon mutual agreement, and (ii) only one instance where we chose not to renew an artist management contract with an automatic renewal option. The early terminations and the non-renewal resulted from a mismatch between the artists’ career interests and goals and our career development plan for them. During the Track Record Period, we did not have any dispute regarding the artist management contracts with our managed artists.

Among 69 managed artists as of the Latest Practicable Date, 57 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 our stable cooperation with our managed artists, we are able to build a continuously expanding artist roster.

BUSINESS

Characteristics of the Artist Management Market

According to Frost & Sullivan, the early stage of artists’ lifecycle requires significant initial investments in professional training, building up profile and gaining reputation. After the artists gradually establish their images to the public, their commercial value will increase, so will their contribution to the revenue of their management companies. 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, according to Frost & Sullivan. As artists with high popularity change from time to time as a result of the changing audience preferences, artist management companies must have outstanding abilities to continuously identify, train and contract with artists with high popularity in order to keep their competitive advantages.

According to Frost & Sullivan, the career cycle and commercial value of a debuted artist typically includes three stages: growth, mature and decline. In the growth stage, the artist needs tailored artist operation and promotion resources in order to attract market attention. As the artist’s professional qualities become recognized by the market, the artist’s career will enter into the mature stage. The commercial value of the artist will reach its peak during this period. After the mature stage, the artist may enter the decline stage. According to Frost & Sullivan, although the durations of the three stages cannot be forecasted and may vary from person to person, they are largely affected by factors including: (i) the amount and quality of the artist operation, promotion and training resources invested in the artist, (ii) the operation experience of the artist’s management company, and (iii) the capabilities of the artist’s management company to compete for limited industry resources. Therefore, artists managed by top artist management companies are more likely to shorten the duration of their growth stage and prolong the length of their mature stage, according to Frost & Sullivan.

To achieve sustainable growth, artist management companies routinely select and cultivate talent to become their managed artists so that at any given time there will be one or more high-quality artists in their talent pool who are major contributors to their revenue. According to Frost & Sullivan, we are one of very few artist management companies in China that have a proven track record of continuously training and promoting popular artists.

A majority of the top ten artists for each year during the Track Record Period debuted between 2014 and 2018. As they 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. During the Track Record Period, the aggregate amount of 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. For our managed artists who debuted after 2018, their popularity and commercial value are expected to continue to increase as they gradually establish themselves in the market.

With our stable talent pipeline, we are able to effectively promote popular artists from our pool of trainees on a continuous basis. During the Track Record Period, all of our top ten artists were Yuehua trainee graduates, except Mr. Han Geng. Our revenue attributable to such trainee graduates amounted to 93.0%, 95.8%, 96.3% and 96.7% of revenue attributable to our top ten artists in 2019, 2020, 2021 and the nine months ended September 30, 2022, respectively. The ranking of each of the top ten artists during the Track Record Period varies from year to year as a result of the career cycle of

BUSINESS

individual artists. Nevertheless, revenue generated from our artist management increased quickly from RMB530.2 million in 2019 to RMB1,174.8 million in 2021, at a CAGR of 48.9% between 2019 and 2021. The continued increase demonstrate that we have trained and promoted a team of artists from our trainees, which collectively has a strong ability to adapt to changing market preferences.

As of the Latest Practicable Date, our artist management contracts with all the top ten artists during the Track Record Period remained effective. During Track Record Period and up to the Latest Practical Date, we had not encountered any termination of artist management contracts with these artists. In general, our contracts with these artists can only be terminated early upon mutual agreement. The managed artists would be liable to us for compensatory damages if they fail to perform the artist management contracts. In addition, the portion of the training expenses we incurred and to be borne by the top ten artists, if any, is deducted before any revenue is allocated to the relevant artists. Therefore, we tend to recover the training expenses borne by the relevant top ten artists in the early stage of their career. As of the Latest Practicable Date, all of the training costs that should be borne by the relevant top ten artists in 2019, 2020 and 2021 pursuant to the relevant artist management contracts had been recovered.

Our Directors are of the view that, it is expected that the aggregate revenue amount attributable to our top ten artists for 2021 would continue to grow after the [REDACTED], as they are still at the prime stage of their careers, and their commercial value and popularity are still increasing among audience. However, our Directors are of the view that such aggregate revenue attributable to the top ten artists each year will decrease as a percentage of our total revenue, as top artists with high popularity change from time to time due to the changing audience preferences, according to Frost & Sullivan. To keep our competitive advantage and increase revenue contribution from other managed artists and other business segments, we will (i) continue to promote our managed artists who debuted in recent years, who have gradually established themselves in the market; (ii) continue to expand our artist roster by training and arranging debut for our trainees, so that we can keep identifying, training and promoting top artists with high popularity and commercial value; and (iii) keep investing in our music IP production and operation business and pan-entertainment business, which will further diversify our revenue sources.

Continuously Cultivating Talent and Expanding Talent Pool

To avoid potential reliance on certain artists, we make efforts to continue to (i) expand our trainee program and enlarge our talent pool, (ii) arrange our trainees to debut in artist groups, (iii) enter into long-term, exclusive artist management contracts with graduates of our Yuehua trainee program, (iv) enhance our artist operation capabilities and increase the influence of our Yuehua brand, grow our business network and strengthen our market-leading position, and (v) increase our investment in virtual artists in response to audience demand.

Expanding Artist Roster

We will continue to identify and cultivate young talent and use our rich industry resources to market and promote them. Building on our systematic trainee system and our insights into the trends of Chinese pop culture, we have successfully cultivated and promoted a group of well-rounded artists, and have built a diverse and rapidly growing team of managed artists. We had 46, 48, 54 and 71 high-quality managed artists as of December 31, 2019, 2020 and 2021 and September 30, 2022, respectively. As of the Latest Practicable Date, we had 69 high-quality managed artists, including seven popular artist groups.

BUSINESS

Growing Talent Pool

After years of improving our Yuehua trainee program, we have built a stable talent pipeline and a large pool of well-rounded trainees who are under professional training to become our managed artists. Benefiting from our well-recognized Yuehua brand and our long-term cooperation with various art institutes, we collected more than 70,000 applications during the Track Record Period, both in China and overseas. Because of the large size of our candidate pool, we are able to follow strict selection criteria to identify the candidates who are most suited and in the meantime quickly expand our talent pool to keep pace with the rapid growth of our business. During the Track Record Period, the number of our trainees increased from 48 in 2019 to 80 in 2021, at a CAGR of 29.1% between 2019 and 2021, and decreased to 62 as of September 30, 2022, as some of our trainees had made their debut.

Arranging Debut of Artist Groups

In recent years, we increasingly arrange for our trainees to make their debut in small or midsize artist groups. Promoting artist groups enables us to present managed artists with different styles, performance talents and personalities, and helps us attract audiences with different preferences and build a large follower base. More importantly, even if an artist leaves an artist group, the rest of the group can continue to perform and entertain audiences, helping us to reduce our reliance on a particular artist. Among our managed artists who had more than two million followers each on Weibo as of the Latest Practicable Date, 11 debuted as a member of our artist groups, demonstrating the success of such strategy.

We believe that the roles of our Company and those of our managed artists are complementary and mutually beneficial, and our relationships with artists are in line with the industry norm. Our Directors are of the view that the likelihood that our relationship with artists may materially adversely change is low, and we will be able to effectively manage our exposure to any material adverse changes.

Music IP Production and Operation

We established our music IP production and operation business in 2009. We maintain an extensive library of original and licensed music IPs, which is continuously expanding. Our experienced in-house music production and operation team produces musical works tailored for our managed artist, mostly in the form of digital singles and albums, which ensures that the songs we produce match the artists’ market positioning. To enrich our collection of music IPs, we also license quality musical works from third-party copyright holders and music creators through licensing.

We grant license on the music IPs in our music IP library to a wide selection of music service providers, including major music streaming platforms and telecommunication companies, for licensing fees and royalties.

Introduction to Our Music Library

We had built an extensive music IP library comprising approximately 1,200 musical works we produced for our managed artist and more than 56,000 musical works we obtained from copyright holders as of September 30, 2022. The songs in our music IP library represent a variety of themes and cover a broad range of genres, such as pop, ballad, electronic dance, hip-hop and rock.

During the Track Record Period, we produced a total of 72 digital singles and 35 digital albums, many of which became instant hits after their release. For example, “No Feelings (無感)” and

BUSINESS

“My Rules (我的世界守则),” two digital singles we produced for Mr. Wang Yibo, recorded sales of more than 17 million and 15 million copies, respectively, as of September 30, 2022. “Chapter Z,” a digital album we produced for Mr. Zhu Zhengting, recorded sales of approximately two million copies as of the same date.

Digital Singles and Albums

Below is a selective list of the major digital singles and albums we produced for our managed artists.

Digital Singles

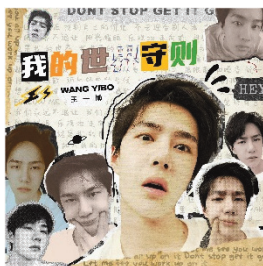


No Feelings (無感)

Mr. Wang Yibo

Date of release: December 2019

Copies sold as of September 30, 2022: Approximately 17,600,000

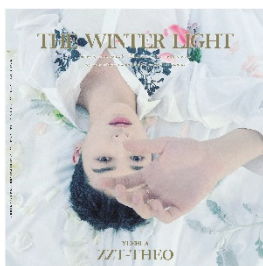


My Rules (我的世界守则)

Mr. Wang Yibo

Date of release: December 2020

Copies sold as of September 30, 2022: Approximately 15,400,000



The Winter Light (冬日告白)

Mr. Zhu Zhengting

Date of release: December 2018

Copies sold as of September 30, 2022: Approximately 3,100,000



I'm Here

Mr. Fan Chengcheng

Date of release: November 2018

Copies sold as of September 30, 2022: Approximately 2,800,000

BUSINESS

Digital Singles

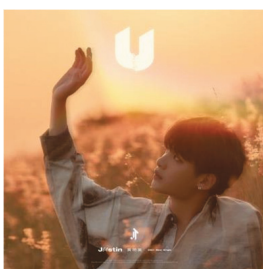


Hard Road

Mr. Huang Minghao

Date of release: November 2018

Copies sold as of as of September 30, 2022: Approximately 2,800,000



U

Mr. Huang Minghao

Date of release: July 2021

Copies sold as of September 30, 2022: Approximately 1,700,000



Fire

Mr. Wang Yibo

Date of release: January 2019

Copies sold as of September 30, 2022: Approximately 1,300,000



Liar

Mr. Huang Minghao

Date of release: April 2019

Copies sold as of September 30, 2022: Approximately 1,200,000



Empty Space

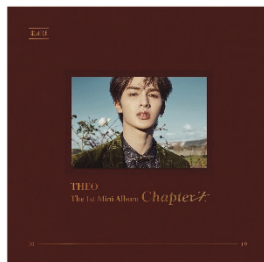
Mr. Zhu Zhengting

Date of release: May 2020

Copies sold as of September 30, 2022: Approximately 900,000

BUSINESS

Digital Albums

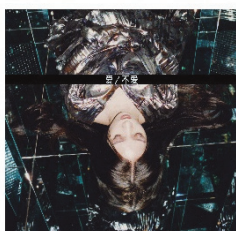


Chapter Z

Mr. Zhu Zhengting

Date of release: September 2019

Copies sold as of September 30, 2022: Approximately 2,000,000



Love Or Not (愛・不愛)

Ms. Meng Meiqi

Date of release: October 2020

Copies sold as of September 30, 2022: Approximately 1,800,000



Wen (汶)

Mr. Li Wenhan

Date of release: July 2021

Copies sold as of September 30, 2022: Approximately 1,600,000



Like A Fan

Mr. Fan Chengcheng

Date of release: June 2019

Copies sold as of September 30, 2022: Approximately 1,000,000



18

Mr. Huang Minghao

Date of release: August 2020

Copies sold as of September 30, 2022: Approximately 800,000

We plan to release 12 digital singles and 19 digital albums, comprising approximately 110 songs in total, on major music streaming platforms in 2022.

BUSINESS

Copyright Ownership

The musical works we produced for our managed artists are in the form of music recordings or music videos, comprising lyrics, music compositions and performance by our managed artists. As producer, we first obtain licenses from the relevant parties, such as lyricists and music composers, who are usually represented by music publishing companies, and the managed artists who will perform the songs, before we commence the recording of a musical work. We then arrange, edit and combine (i) the lyrics and music compositions we have licensed from the copyright holders; and (ii) the audio and video recordings of the performances of the artists, from whom we have obtained a one-off consent in the artist management contract we entered with them, in order to complete the production of the musical works. As the producer of completed music recordings and music videos, we have the right of producer of audio and video recordings, which allows us to grant our customers the right to replicate, publicize, or transmit the completed music recordings and music videos to the public through information networks and receive remuneration.

In addition to musical works we produced for our managed artists, our music IP library also contains musical works, such as music recordings, music videos, lyrics and music compositions that we licensed from the music creators or third-party copyright holders in Korea and the United Kingdom. We typically hold an exclusive license within China and has the right to sublicense the musical works to our customers. Benefiting from our global outreach and professional in-house music production team, we introduce quality music works abroad to meet the demand of domestic customers who wish to diversify their music IP library. In addition, we usually license the entire music catalog from the music creators or third-party copyright holders, which gives us more bargaining power. Our customers can then choose to sub-license all or part of the music catalogs depending on their need. As a result, we may offer lower licensing fees and greater flexibility when they sub-license from us. According to Frost and Sullivan, it is an industry norm for music streaming platforms to sub-license musical works from domestic copyright holders. During the Track Record Period, our revenue generated from major music streaming platforms, such as NetEase Cloud Music and Tencent Music, was mainly attributable to the musical works we produced for our managed artists.

Production of Music IPs

Our music IP production process can be divided into four key steps:



BUSINESS

- *Internal planning and project approval.* Our music production team works with our managed artists and/or other internal teams to determine the number of songs to be produced and released, and draws up a release plan according to the artists’ market positioning and schedule. The team will then apply for budget approval for the release plan.
- *Copyright licensing.* The music production team will select songs that match the release plan from demos provided by copyright holders, who have the right to license us the lyrics and music compositions that formed the demos. Once confirmed, our music production team will negotiate with the copyright holders for a license. After we have reached an agreement on the key terms with the copyright holders, such as the scope of the license, we will finalize the contract with the copyright holders.
- *Music production.* During the production process, our music production team will discuss with the artists and/or other internal teams to determine the music style and the marketing strategy. The team will produce songs in studios and complete a series of steps such as recording, tuning, arranging and mixing. Our music production team will also conduct post-production editing on the music recordings, and produce and archive the master tapes. For music videos, we will work with the artists to produce the video content and combine it with the music recordings. In addition to our in-house team, we also engage qualified third parties to facilitate the music production process from time to time. We have established standard operating procedures which cover the entire music production process and conduct stringent quality review of our musical works before delivering our musical works to customers. We are solely responsible for negotiating with customers and determining which platforms the musical works will be distributed and the marketing strategy to be adopted.
- *Music release and distribution.* In the music distribution stage, we will confirm with the distribution platforms on the distribution date and time. After discussing the pricing strategy with the distribution platforms, we will decide whether to make the musical works (i) available to all users,; (ii) as VIP content which is only available to users who have monthly or annual subscriptions at the distributing platform,; or (iii) as digital singles or albums, which are only available to users who are willing to pay extra for each digital copy. The price charged for each musical work under each pricing strategy will be agreed upon by the distribution platforms and us. We will also deliver the digital copy of the song, backing track, lyrics, introduction to the song and cover image to the licensing partners. The distribution platforms usually provide us with various online and offline resources to promote our newly released musical works, such as daily recommendations, social media posts and offline promotion events.

Music IP Licensing Contracts

We license our music IPs to a variety of music service providers, including major music streaming platforms and telecommunication companies. We usually enter into a licensing contract with our licensing partners, which typically include the following key terms:

- *Scope of license.* We typically grant a non-exclusive license to our licensing partners on our selected music catalogs as specified in the contracts, as well as some or all of the songs that will be produced by us for our managed artists during the term of the contract. We grant licensing partners certain neighboring rights, such as the right to communicate

BUSINESS

the licensed musical works to the public over information networks. Such license typically allows our licensing partners to use our songs for streaming, downloads and other interactive features.

- *Term.* The majority of our music licensing contracts with music service providers in China has a term ranging from one to five years, which may be extended upon the agreement of both parties.
- *Licensing fees.* We typically receive (i) minimum guaranteed licensing fees and (ii) performance-based licensing fees, if any. The minimum guaranteed licensing fees are usually paid at agreed intervals.
- *Royalties.* In addition to licensing fees, we typically receive royalties for musical works which are distributed as digital singles or albums. Royalties are typically paid to us by the licensing partner after semi-annually or quarterly accounting.
- *Expense sharing.* The licensing partner typically deducts relevant expenses incurred in distributing the musical works from the licensing fees and royalties we receive. During the Track Record Period, we did not pay any platform fees or other fees in relation to distribution of our musical works.
- *Revenue sharing with copyright holders.* We typically share the licensing fees and royalties we received from the licensing partners with copyright holders, including managed artists, lyricists and music composers, pursuant to the contracts we entered with them.
- *Intellectual property.* As the producer of the completed music recordings and music videos, we have the right of producer of audio and video recordings, which allows us to grant our customers the right to replicate, publicize, or transmit the completed musical works to the public through information networks and receive remuneration.
- *Termination.* Typically, the licensing agreement can be terminated upon the mutual agreement between both parties.

Pan-entertainment Business

In addition to artist management and music IP production and operation, we also conduct other businesses in the pan-entertainment industry, such as commercial development of virtual artists, licensing of variety program format, sales of artist-related merchandise, and production of and investment in variety programs, drama series and movies.

Virtual Artists

We proposed the idea to develop an all-female virtual artist group in 2019 and collaborated with a business partner, a China-based technology company located in Beijing, to develop A-SOUL since June 2020. A-SOUL debuted in 2020, consisting of five digitally created virtual artists: “Bella (貝拉),” “Diana (嘉然),” “Eileen (乃琳),” “Carol (珈樂)”⁽¹⁾ and “Ava (向晚).” Each of them has a distinctive and a specialized role in the group: “Bella” is the team leader and main dancer; “Diana” is known as the foodie in the group; “Eileen” is the knowledgeable one among the five; “Ava” is the gamer of the group; and “Carol” is the vocal of the group. There are human actors behind these virtual members, whose movements, sounds and expressions are reflected on the virtual artists by using motion capture technology or software. There is no direct association between the image and identity of the virtual artists and those of the human actors.

BUSINESS

During the Track Record Period and up to the end of 2021, the business partner and its affiliate, a company with expertise in developing virtual artists and located in Hangzhou, have been responsible for the operation and management of A-SOUL, including designing and developing the image and character of each virtual member, and selecting, engaging and managing the human actors behind the virtual artists. In addition, the business partner and its affiliate are responsible for deciding the marketing and promotional strategy for A-SOUL as well as licensing the right to develop tie-in merchandise based on the image of A-SOUL. During this period, we negotiated business deals for A-SOUL and produced a series of music recordings for A-SOUL which gained wide popularity. We produced “Quiet,” A-SOUL’s first single in December 2020 which accumulated wide popularity on Douyin as of September 30, 2022. We also produced “Super Sensitive (超級敏感),” the first music video of A-SOUL, which had more than 5.7 million cumulative views on Bilibili as of September 30, 2022. In addition, we provided marketing resources for A-SOUL leveraging our Yuehua brand and arranged for A-SOUL to live stream during our Yuehua Family Concert to further enhance its public exposure.

When we arranged business activities for A-SOUL with clients, we needed to frequently circle back to our business partner and its affiliate for the technical feasibility of the client’s demands, such as whether the desired facial expressions and body movements of the virtual artists can be technically captured and reenacted, as well as the projected implementation cost. Such communication process typically incurred substantive communication cost, hence leading to longer negotiation and result delivery time. In order to improve efficiency of A-SOUL’s commercial development, we have reached agreements with our business partner, under which we no longer engage in the commercial development for A-SOUL starting from 2022, and the business partner and its affiliate would since have the exclusive right to operate, manage and carry out commercial development for A-SOUL. We are entitled to receive a portion of the revenue generated from A-SOUL based on an agreed-upon ratio as (i) we proposed the idea to create A-SOUL; (ii) our marketing and promotional resources as well as the musical works we produced for A-SOUL contributed to its popularity; and (iii) though we are no longer responsible for A-SOUL’s development, we will keep recommending business opportunities for A-SOUL when a suitable opportunity arises during our operation in the entertainment industry. We have not entered into any contracts with human actors behind A-SOUL. According to Frost & Sullivan, our business arrangements with the business partner regarding A-SOUL’s operation, under which parties agreed that the responsibility of selecting, engaging and managing of the human actors behind the virtual artists lies solely with one party, is in line with the industry norm.



In addition to A-SOUL, we also invested in Nice Future, a virtual artist company which launched Quantum Youth (量子少年). Quantum Youth is a virtual artist group consisting of four male virtual artist members: “Chu Feng (楚枫),” “Mu Yu (慕宇),” “Ze Yi (澤一),” and “Xiang Tai (祥太).” After debuted in December 2021, Quantum Youth owns and operates its own channels on multiple

BUSINESS

media platforms, including Weibo, Douyin, Bilibili and Kuaishou. We have also entered into a music license and cooperation agreement with Nice Future and will produce musical works for Quantum Youth (量子少年) to be used in its live stream activities. For details, please see “Connected Transactions—Fully-exempt continuing connected transactions.” In 2022, Nice Future launched another virtual artist group, EOE, consisting of five female virtual artist members. During the Track Record Period and up to the Latest Practicable Date, we did not participate in the operation or commercial development of Quantum Youth or EOE, including but not limited to the selection, engagement and management of the human actors of the virtual members.

Furthermore, in the second quarter of 2022, we jointly established two companies with business partners who have experience in developing technologies empowering virtual artists, to further expand our virtual artist business.⁽¹⁾ We are a financial investor in each of these two companies and we do not have any current plan to be involved in their daily operation. Going forward, when we enter into contracts regarding virtual artists, we will try our best efforts to negotiate for rights that would allow us to reasonably monitor the operation of the virtual artists.

Variety Program Format Licensing

We seek to obtain license on variety program format from reputable overseas entertainment companies that has a successful track record of producing variety programs with high viewership rating, and sublicense it to leading online video platforms in China. We typically consider factors such as viewership rating of the program during its initial broadcast overseas, potential market demand and potential synergy to be generated with our other business segments. During the Track Record Period, Yuehua Korea sublicensed the program format of a variety program to a leading online video platform in China and received licensing fees in return.

Sales of Artist-related Merchandise

During the Track Record Period, we engaged third parties to design, produce and sell artist-related merchandise. Our artist-related merchandise includes toys, stationeries and fashion items such as bags, clothes, and accessories. The items usually bear the name, likeness or other graphics or characters in association with our managed artists. Our artist-related merchandise is typically distributed through leading e-commerce platforms in China, such as Tmall.

We collaborate with our business partners in the design and sales of the products and the production is usually carried out by reputable suppliers agreed by both parties. We also cooperate with our business partners in the promotion of the products. We are the sole owner of the intellectual property rights in the merchandise. We typically co-own the artist-related merchandise produced with our business partners, and share the revenue generated from the sales of the products with our business partners pursuant to fixed percentages set out in the contracts.

Variety Program, Drama Series and Movie

During the Track Record Period, through Horgos Yuehua, we engaged in the production of, as well as most of our investments in variety program, drama series and movie. On March 4, 2022, we dismantled the contractual arrangements in respect of Horgos Yuehua as part of the Reorganization, and we do not intend to continue in variety program, drama series and movie investment and production, in order to focus on our major business, artist management. For details, see “History, Reorganization and Corporate Structure.”

BUSINESS

During the Track Record Period, we jointly invested in a music variety program broadcast in 2020 with a leading online video platform in China, which featured our managed artists Mr. Li Wenhan, Mr. Huang Minghao, Mr. Hu Chunyang and Ms. Chen Xinwei (陳昕葳). We also invested in drama series and movies, usually as a minority investor, during the Track Record Period.

SALES AND MARKETING

With respect to our artist management business, we establish cooperative relationships with our customers primarily through the efforts of our artist management team. Our business managers keep in close and regular contact with our existing customers, primarily including domestic and international brands, advertising agencies, content producers and media platforms, to secure business opportunities for our managed artists. They also closely monitor the trends of Chinese pop culture to explore new business opportunities and identify potential customers. We also market our managed artists through our multichannel publicity strategy which enables the artists to have more exposure to the general public and potential customers.

Regarding our music IP production and operation business, our sales and marketing strategies focus on fostering and maintaining close relationships with major music streaming platforms while exploring new distribution channels. Our music production and pan-entertainment team maintains relationships with our customers by keeping regular communications with them. Our music production and pan-entertainment team also keeps abreast of the latest market trends of the music entertainment industry to capture new business opportunities. Our artist management team and artist promotion team are also efficient promotion channels of the musical works we produced for our managed artists. We keep track of the development in the virtual artist, artist-related merchandise and variety program format licensing industries to identify potential customers and pursue new business opportunities. Our artist management team is also an efficient channel to market and promote our pan-entertainment services to potential customers.

PRICING

We usually have different pricing strategies for our different business segments.

Our artist management business focuses on providing services to customers, mostly through arranging our managed artists to participate in commercial activities such as endorsement deals, business promotion activities and other entertainment events, and entertainment content services, and receive service fees in return.

With respect to endorsement deals, we usually consider factors such as the reputation of the brands, the industry the customers are in, the nature of the endorsement and the length of the endorsement contracts, as well as the prevailing market standard.

With respect to business promotion activities, we typically consider factors such as the prevailing market standard and the public exposure of our managed artists expected to be brought by the projects.

With respect to other entertainment events, we usually consider factors such as the performance requirements, the length of the event and the public exposure of our managed artists expected to be brought by the projects.

BUSINESS

With respect to entertainment content services, we usually consider factors such as the expected popularity of the projects, the target audience base, the time and efforts needed for completing the projects, any previous commercial arrangements with and the reputation of the content production companies, the prevailing market standard and the public exposure of our managed artists expected to be brought by the projects.

Our music IP production and operation business focuses on licensing music IPs that we produced and have rights to license to our customers for fixed licensing fees and royalty.

With respect to digital singles and albums we produced for our managed artists, we usually determine the licensing fees and the royalties based on factors such as the popularity of the artists, the scale and number of times that the musical works have been streamed or downloaded in the past, the expected number of musical works we will license to the licensing partner during the term of the licensing agreement and any previous commercial engagements we had with the licensing partner.

With respect to our music IPs other than digital singles and albums, we usually determine the licensing fees based on factors such as such as the expected number of musical works we will license to the licensing partner during the term of the licensing agreement, the scale and number of times that the musical works have been streamed or downloaded in the past, the time the musical works have been published, and the user bases of the music streaming platforms.

With respect to physical copies of our musical works, such as physical albums, we typically consider factors such as the popularity of the artists and the prevailing market standard.

With respect to our pan-entertainment business, our pricing strategy is determined on a case-by-case basis depending on the type of products or services we provide. During June 2020 to December 2021, when we collaborated with our business partner in the commercial development of A-SOUL, we typically considered factors such as the cost structure, the target audience base, the expected public exposure of virtual artists and the length of the projects in determining the price for A-SOUL’s business projects.

OUR CUSTOMERS

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. The payment term with the five largest customers ranges from nil to 30 days after they receive our invoice, depending on the specific payment terms in each contract, and we generally settle with them by bank transfers.

To the best of our knowledge, except for subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) and its fellow subsidiaries under common control of the same ultimate holding company as a group, during the Track Record Period and up to the Latest Practicable Date, our top five customers were all Independent Third Parties.

BUSINESS

Except subsidiaries of Alibaba Pictures Group Limited and its fellow subsidiaries as disclosed above, as of the Latest Practicable Date, none of our Directors, their close associates or any shareholders who owned more than 5% of the issued share capital of our Company, had any interest in our five largest customers during the Track Record Period.

The following table sets forth details of our five largest customers during the Track Record Period.

Year ended December 31, 2019

<u>Customer</u>	<u>Revenue amount (RMB in thousands)</u>	<u>% of total revenue</u>	<u>Years of business relationship*</u>	<u>Nature of revenue</u>	<u>Customer background</u>
Customer A	53,186	8.4%	5	Services of artist management, music IP production and operation, and pan-entertainment	A China-based group located in Hangzhou, Zhejiang province, mainly focusing on providing music streaming services, whose major subsidiaries are listed on both the Nasdaq Stock Market and the Stock Exchange, founded in 1997.
Customer B	35,136	5.6%	9	Services of artist management, music IP production and operation, and pan-entertainment	A China-based technology and social media group, located in Beijing, mainly focusing on content production and video streaming, whose major subsidiary is listed on the Nasdaq Stock Market, founded in 2010.
Customer C	33,016	5.2%	5	Services of artist management	A China-based entertainment company, located in Tianjin, mainly focusing on artist management, music production, and investment in movie and drama series, founded in 2017.
Customer D	31,803	5.0%	8	Services of artist management, music IP production and operation, and pan-entertainment	A China-based media platform located in Changsha, Hunan Province, controlled by a state-owned radio and television media group, founded in 2006.

BUSINESS

<u>Customer</u>	<u>Revenue amount (RMB in thousands)</u>	<u>% of total revenue</u>	<u>Years of business relationship*</u>	<u>Nature of revenue</u>	<u>Customer background</u>
Subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) and its fellow subsidiaries	20,203	3.2%	9	Services of artist management, music IP production and operation, and pan-entertainment	A group of subsidiaries and fellow subsidiaries under common control of the same ultimate holding company of Alibaba Pictures Group Limited, a China-based film and TV drama group with core business in three major segments of content, technology, and IP merchandising and commercialization and listed on the Stock Exchange.
Total	<u>173,344</u>	<u>27.4%</u>			

* As of September 30, 2022

Year ended December 31, 2020

<u>Customer</u>	<u>Revenue amount (RMB in thousands)</u>	<u>% of total revenue</u>	<u>Years of business relationship*</u>	<u>Nature of revenue</u>	<u>Customer background</u>
Customer A	66,732	7.2%	5	Services of artist management, music IP production and operation, and pan-entertainment	A China-based group located in Hangzhou, Zhejiang province, mainly focusing on providing music streaming services, whose major subsidiaries are listed on both the Nasdaq Stock Market and the Stock Exchange, founded in 1997.
Subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) and its fellow subsidiaries	62,827	6.8%	9	Services of artist management, and music IP production and operation	A group of subsidiaries and fellow subsidiaries under common control of the same ultimate holding company of Alibaba Pictures Group Limited, a China-based film and TV drama group with core business in three major segments of content, technology, and IP merchandising and commercialization and listed on the Stock Exchange.
Customer B	49,900	5.4%	9	Services of artist management and pan-entertainment	A China-based technology and social media group, located in Beijing, mainly focusing on content production and video streaming, whose major subsidiary is listed on the Nasdaq Stock Market, founded in 2010.

BUSINESS

<u>Customer</u>	<u>Revenue amount (RMB in thousands)</u>	<u>% of total revenue</u>	<u>Years of business relationship*</u>	<u>Nature of revenue</u>	<u>Customer background</u>
Customer D	41,529	4.5%	8	Services of artist management, and music IP production and operation	A China-based media platform located in Changsha, Hunan Province, controlled by a state-owned radio and television media group, founded in 2006.
Guangzhou Economic & Technical Development District Construction Import & Export Co., Ltd. (廣州經濟技術開發區建設進出口貿易有限公司)	24,195	2.6%	5	Services of artist management	A China-based company located in Guangzhou, Guangdong Province, with an operating scope primarily covering import and export, public relations and entertainment agency services, which is engaged by a multinational consumer goods corporation to arrange endorsement activities for its consumer products.
Total	<u>245,183</u>	<u>26.5%</u>			

* As of September 30, 2022

Year ended December 31, 2021

<u>Customer</u>	<u>Revenue amount (RMB in thousands)</u>	<u>% of total revenue</u>	<u>Years of business relationship*</u>	<u>Nature of revenue</u>	<u>Customer background</u>
Subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) and its fellow subsidiaries	95,004	7.4%	9	Services of artist management, music IP production and operation, and pan-entertainment	A group of subsidiaries and fellow subsidiaries under common control of the same ultimate holding company of Alibaba Pictures Group Limited, a China-based film and TV drama group with core business in three major segments of content, technology, and IP merchandising and commercialization and listed on the Stock Exchange.
Fellow subsidiaries of Quantum Jump (北京量子躍動科技有限公司)	63,737	4.9%	4	Services of artist management, music IP production and operation, and pan-entertainment	Quantum Jump, a China-based company located in Beijing; and its fellow subsidiaries under common control of the same controlling shareholder, which together comprise an internet technology group mainly focusing on the development of videosharing services, social networking services, and news and information services, founded in 2012.

BUSINESS

Customer	Revenue amount (RMB in thousands)	% of total revenue	Years of business relationship*	Nature of revenue	Customer background
Customer B	60,093	4.7%	9	Services of artist management and pan-entertainment	A China-based technology and social media group located in Beijing, mainly focusing on content production and video streaming, whose major subsidiary is listed on the Nasdaq Stock Market, founded in 2010.
Customer E	49,329	3.8%	9	Services of artist management and music IP production and operation	A China-based internet and technology company located in Shenzhen, Guangdong Province, mainly focusing on communication and social platform services, video and music publication and digital content services, whose major subsidiary is listed on the Stock Exchange, founded in 1998.
Customer A	33,043	2.6%	5	Services of artist management and music IP production, and operation	A China-based group located in Hangzhou, Zhejiang province, mainly focusing on providing music streaming services, whose major subsidiaries are listed on both the Nasdaq Stock Market and the Stock Exchange, founded in 1997.
Total	301,206	23.4%			

* As of September 30, 2022

Nine months ended September 30, 2022

Customer	Revenue amount (RMB in thousands)	% of total revenue	Years of business relationship*	Nature of revenue	Customer background
Subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影业集团有限公司) and its fellow subsidiaries	38,963	5.2%	9	Services of artist management	A group of subsidiaries and fellow subsidiaries under common control of the same ultimate holding company of Alibaba Pictures Group Limited, a China-based film and TV drama group with core business in three major segments of content, technology, and IP merchandising and commercialization and listed on the Stock Exchange.

BUSINESS

<u>Customer</u>	<u>Revenue amount (RMB in thousands)</u>	<u>% of total revenue</u>	<u>Years of business relationship*</u>	<u>Nature of revenue</u>	<u>Customer background</u>
Customer F	37,894	5.0%	4	Services of artist management, music IP production and operation, and pan-entertainment	A South Korean entertainment and mass media company established in 2011.
Customer B	25,900	3.4%	9	Services of artist management and pan-entertainment	A China-based technology and social media group, located in Beijing, mainly focusing on content production and video streaming, whose major subsidiary is listed on the Nasdaq Stock Market, founded in 2010.
Fellow subsidiaries of Quantum Jump (北京量子躍動科技有限公司)	23,998	3.2%	4	Services of artist management, music IP production and operation, and pan-entertainment	Quantum Jump, a China-based company located in Beijing; and its fellow subsidiaries under common control of the same controlling shareholder, which together comprise an internet technology group mainly focusing on the development of videosharing services, social networking services, and news and information services, founded in 2012.
Customer G	21,340	2.8%	6	Services of artist management	A customer-centric fashion brand retail company established in 2001 and its subsidiaries, mainly focusing on selling trendy clothing, listed on the Shanghai Stock Exchange and headquartered in Ningbo, Zhejiang.
Total	<u>148,095</u>	<u>19.6%</u>			

* As of September 30, 2022

Contracts with Customers for Artist Management Business

We enter into service contracts with our artist management customers. We typically provide services to our customers by arranging our managed artists to participate in commercial activities and perform in variety programs, drama series and movies, and we receive services fees in return. Our contracts with customers would set out the details of the performing services to be provided by our managed artists. The majority of our contracts with customers have a term ranging between several days to two years depending on the types of the business activities: (i) a contract for business promotion activities or other commercial activities typically last for a few days; (ii) a contract for entertainment content services typically last for a few days to a few months; and (iii) a contract for endorsement deals typically lasts for a few months to two years. Our services fees are usually paid in installments and settled before the term of the contracts expires. Customers usually own the IP rights in the works our managed artists produced in rendering their services, such as dramatic, artistic and musical works. Customers are typically required to ensure that the performance of our managed artists in such commercial events or entertainment content would not have a negative impact on the public image or reputation of such artists, the breach of which would entitle us to terminate the contracts and receive damages.

BUSINESS

OUR SUPPLIERS

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. The type of suppliers we engage and their scopes of work depend on our needs for the particular business line and may vary from project to project, which may result in our engagement of different major suppliers from year to year.

Our purchases 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. The credit period with our five largest suppliers depends on the specific terms in each contract and we generally settle with them through bank transfers.

As of the Latest Practicable Date, none of our Directors, their close associates or any shareholders who owned more than 5% of the issued share capital of our Company, had any interest in our five largest suppliers during the Track Record Period.

The following table sets forth details of our five largest suppliers during the Track Record Period.

Year ended December 31, 2019

<u>Supplier</u>	<u>Purchase amount (RMB in thousands)</u>	<u>% of cost of revenue</u>	<u>Years of business relationship*</u>	<u>Nature of purchase</u>	<u>Supplier background</u>
Supplier A	42,915	12.2%	5	Artist management service for certain artists within a specified term	A China-based technology and social media group, located in Beijing, mainly focusing on content production and video streaming, whose major subsidiary is listed on the Nasdaq Stock Market, founded in 2010.
Supplier B	32,274	9.2%	7	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier C	30,367	8.6%	7	Movie production service	A culture and media sole proprietorship enterprise located in Shanghai, founded in 2016.
Supplier D	24,140	6.9%	12	Service provided by artist	Entities controlled by a male managed artist.
Supplier E	22,410	6.4%	4	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Total	<u>152,106</u>	<u>43.3%</u>			

* As of September 30, 2022

BUSINESS

Year ended December 31, 2020

<u>Supplier</u>	<u>Purchase amount (RMB in thousands)</u>	<u>% of cost of revenue</u>	<u>Years of business relationship*</u>	<u>Nature of purchase</u>	<u>Supplier background</u>
Supplier B	133,301	31.1%	7	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier F	27,814	6.5%	5	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier E	25,143	5.9%	4	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier D	24,143	5.6%	12	Service provided by artist	Entities controlled by a male managed artist.
Supplier G	19,094	4.5%	6	Service provided by artist	Entities controlled by a female managed artist, who is a graduate of our Yuehua trainee program.
Total	<u>229,495</u>	<u>53.6%</u>			

* As of September 30, 2022

Year ended December 31, 2021

<u>Supplier</u>	<u>Purchase amount (RMB in thousands)</u>	<u>% of cost of revenue</u>	<u>Years of business relationship*</u>	<u>Nature of purchase</u>	<u>Supplier background</u>
Supplier B	302,465	43.9%	7	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier E	37,443	5.4%	4	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier D	31,242	4.5%	12	Service provided by artist	Entities controlled by a male managed artist.
Supplier H	30,719	4.5%	6	Service provided by artist	Entities controlled by a female managed artist, who is a graduate of our Yuehua trainee program.
Supplier I	22,744	3.3%	6	Service provided by artist	Entities controlled by a female managed artist, who is a graduate of our Yuehua trainee program.
Total	<u>424,613</u>	<u>61.6%</u>			

* As of September 30, 2022

BUSINESS

Nine months ended September 30, 2022

<u>Supplier</u>	<u>Purchase amount (RMB in thousands)</u>	<u>% of cost of revenue</u>	<u>Years of business relationship*</u>	<u>Nature of purchase</u>	<u>Supplier background</u>
Supplier B	210,961	46.7%	7	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier E	20,061	4.4%	4	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier D	14,320	3.2%	12	Service provided by artist	Entities controlled by a male managed artist.
Supplier F	12,955	2.9%	5	Service provided by artist	Entities controlled by a male managed artist, who is a graduate of our Yuehua trainee program.
Supplier H	11,749	2.6%	6	Service provided by artist	Entities controlled by a female managed artist, who is a graduate of our Yuehua trainee program.
Total	<u>270,046</u>	<u>59.8%</u>			

* As of September 30, 2022

Relationship with Supplier B

During the Track Record Period, our amount of purchase from Supplier B, enterprises controlled by one of our managed artists, accounted for 9.2%, 31.1%, 43.9% and 46.7% of our cost of revenue in 2019, 2020, 2021 and the nine months ended September 30, 2022, respectively. During the Track Record Period, the artist controlling Supplier B had successfully become an established artist in China and maintained his popularity. 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 a limited number of artists contribute to a significant portion of revenue of their respective artist management companies, according to Frost & Sullivan.

Our Directors are of the view that the relationship between our Group and Supplier B is unlikely to materially adversely change or terminate, because (i) we have renewed our artist management contract with the artist who is in control of Supplier B, which would be effective until 2026, (ii) we have maintained a long-term and stable cooperation relationship with the artist, who is a graduate of our Yuehua trainee program, for over ten years, including his time as a trainee; (iii) the artist has indicated his satisfaction with our efforts in managing and promoting his career and expressed his willingness to maintain a smooth working relationship with us; and (iv) as a major artist management company, our access to crucial resources and our professional artist operation capabilities enables us to effectively promote the career of the artist.

Although we have a thriving business relationship with Supplier B, we have been focusing on (i) increasing our investment in all of our managed artists, the majority of whom have entered into long-term artist management contracts with us with terms ranging from five to 15 years, and enhance

BUSINESS

their popularity and commercial value; (ii) building our talent pipeline and arranging trainees to debut as our managed artists to further expand our artist roster; and (iii) increasing our investment in our music IP production and operation business and pan-entertainment business to further diversify our revenue sources. In the event Supplier B no longer works with us, we believe the above measures will enable us to maintain stable business operations.

Overlapping Customer and Supplier

During the Track Record Period, to the best knowledge of our Directors, five of our artist management and pan-entertainment business customers were also our suppliers who cooperated with us in operating some of our managed artists during the Track Record Period and shared in the artist management revenue we generated from managing such artists. The following table sets forth the details.

Customer/Supplier	Period	Revenue amount (RMB in thousands)	% of total revenue	Nature of revenue	Purchase amount (RMB in thousands)	% of cost of revenue	Nature of purchase
Customer B / Supplier A (Among five largest customers in 2019, 2020, 2021 and the nine months ended September 30, 2022, and five largest suppliers in 2019)	FY 2019	35,136	5.6%	Services of artist management, music IP production and operation, and pan-entertainment	42,915	12.2%	Artist management service for certain artists within a specified term
	FY 2020	49,900	5.4%	Services of artist management and pan-entertainment	24	0.0%	Artist management service for certain artists within a specified term
	FY 2021	60,093	4.7%	Services of artist management and pan-entertainment	4,493	0.7%	Artist management service for certain artists within a specified term
	9M 2022	25,900	3.4%	Services of artist management and pan-entertainment	–	–	N.A.
Subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影业集团有限公司) and its fellow subsidiaries (Among five largest customers in 2019, 2020, 2021 and the nine months ended September 30, 2022)	FY 2019	20,203	3.2%	Services of artist management, music IP production and operation, and pan-entertainment	73	0.0%	Artist management service for certain artists within a specified term
	FY 2020	62,827	6.8%	Services of artist management and music IP production and operation	24	0.0%	Online store operating services
	FY 2021	95,004	7.4%	Services of artist management, music IP production and operation, and pan-entertainment	1,486	0.2%	Artist promotion services
	9M 2022	38,963	5.2%	Services of artist management	–	–	N.A.

BUSINESS

Customer/Supplier	Period	Revenue amount (RMB in thousands)	% of total revenue	Nature of revenue	Purchase amount (RMB in thousands)	% of cost of revenue	Nature of purchase
Fellow subsidiaries of Quantum Jump(北京量子躍動科技有限公司) (Among five largest customers in 2021 and the nine months ended September 30, 2022)	FY 2019	10,314	1.6%	Services of artist management and music IP production and operation	–	–	N.A.
	FY 2020	12,350	1.3%	Services of artist management	–	–	N.A.
	FY 2021	63,737	4.9%	Services of artist management, music IP production, and operation and pan-entertainment	452	0.1%	Pan-entertainment services
	9M 2022	23,998	3.2%	Service of artist management, music IP production and operation, and pan-entertainment	627	0.1%	Pan-entertainment services
Customer E / Supplier J (Among five largest customers in 2021)	FY 2019	12,972	2.1%	Services of artist management and pan-entertainment	–	–	N.A.
	FY 2020	5,191	0.6%	Services of artist management	–	–	N.A.
	FY 2021	49,329	3.8%	Services of artist management and music IP production and operation	90	0.0%	Artist promotion services
	9M 2022	13,589	1.8%	Services of artist management, music IP production and operation	–	–	N.A.
Customer F / Supplier K (Among five largest customers in the nine months ended September 30, 2022)	FY2019	4,076	0.6%	Services of artist management, music IP production and operation, and pan-entertainment	1,992	0.6%	Music IP operation and production services
	FY2020	23,902	2.6%	Services of artist management, music IP production and operation, and pan-entertainment	1,195	0.3%	Music IP operation and production services
	FY2021	20,776	1.6%	Services of artist management, music IP production and operation, and pan-entertainment	1,256	0.2%	Music IP operation and production services
	9M2022	37,894	5.0%	Services of artist management, music IP production and operation, and pan-entertainment	1,516	0.3%	Music IP operation and production services

BUSINESS

Negotiations of the terms of our sales to and purchases from the overlapping customer and supplier were conducted on a project-by-project basis. In light of our premium industry resources and market leading position, we have established solid business relationships with our overlapping customer and supplier. Our sales to and purchases from our overlapping customers and suppliers were not related to or inter-conditional upon each other. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant times, conducted in the ordinary course of business under normal commercial terms and on arm’s length basis. As of the Latest Practicable Date, none of our Directors, their close associates or any shareholders who owned more than 5% of the issued share capital of our Company, had any interest in any of our overlapping customers and suppliers during the Track Record Period.

Quality Control

We are dedicated to providing high-quality services and products to our customers. To that end, we have established quality control measures.

With respect to our artist management business, we select the managed artists that are best suited to fulfill customers’ demand after thorough evaluation of the public image, talent and skills of the artists. We maintain close contact with our customers and managed artists during the project and serve as their first point of contact. By closely keeping track of the customers’ needs and accommodating their requests on a timely manner, we ensure that the services we provided meet the customers’ requirements.

For our music IP production and operation, our music production team closely monitors the quality and progress of our own music production. We have established standard operating procedures which cover the entire music production process, from project initiation to delivery, and conduct stringent quality review of our musical works before delivering to customers. Our music production team also monitors the production services provided by our suppliers, such as lyricists, music composers and manufacturers/distributors of music production equipment. We select our suppliers based on a number of factors, including the quality of their products or services, their track records and reputation in the industry, and review the quality of their services or products on a regular basis.

BUSINESS

AWARDS AND RECOGNITIONS

As a result of the success of our artist management and music IP production and operation businesses, our managed artists have won multiple awards. In particular, our managed artists and artist groups received the following major awards during the Track Record Period.

Year	Awards	Receiving Artist or Artist Group	Issuing Organization
2022	Rookie Solo Artist and Idol Entertainer at the 2022 Brand Customer Loyalty Awards	Ms. Choi Ye-na	The Korean Consumer Forum and Brand Keys
2022	The First Place in “M Countdown”	Ms. Choi Ye-na	Mnet
2021	Figaro Style Festival (費加羅風尚盛典) – Singer of the Year (年度風尚魅力歌手)	Mr. Wang Xi	Madame Figaro China (《Madame Figaro 中文版》雜誌)
2021	2020 Weibo Night (2020微博之夜) – The Most Popular Person of the Year (微博年度熱度人物)	Mr. Wang Yibo	Sina (新浪)
2021	2020 Weibo Night (2020微博之夜) – Rising Star of the Year (微博年度進取藝人)	Ms. Wu Xuanyi	Sina
2021	2020 Douyin Star Night (2020抖音星動之夜) – Most Popular Group of the Year (年度人氣團體)	NEXT	Douyin (抖音)
2021	Lifestyle Cloud Gala Awards (精品風格雲盛典) – Most Promising Actor (最具潛力演員)	Mr. Bi Wenjun	Lifestyle (《精品購物指南》雜誌)
2020	Sina Fashion Style Awards (新浪時尚風格大賞) – Promising Actor (年度突破藝人)	Mr. Hu Chunyang	Sina Fashion (新浪時尚)
2020	The 17th Esquire Man at His Best Awards (第17屆時尚先生盛典) – Variety Show Star of the Year (年度綜藝人物)	Mr. Huang Minghao	Esquire (《時尚先生》雜誌)
2020	iQIYI Scream Night (愛奇藝尖叫之夜) – The Most Anticipated New Actor and Variety Program Star of the Year (年度最受期待新人演員和年度綜藝之星)	Mr. Fan Chengcheng	iQIYI (愛奇藝)
2020	The 30th China TV Golden Eagle Awards (第30屆中國電視金鷹獎) – Audience Choice for Actor (觀眾喜愛的男演員)	Mr. Wang Yibo	China Federation of Literary (中國文學藝術界聯合會) and Art Circles and China TV Artists Association (中國電視藝術家協會)
2019	COSMO Glam Night (COSMO 時尚美麗盛典) – Heritage · Beauty of the Year Award (「傳承·美」年度人物)	Mr. Zhu Zhengting	Cosmopolitan (《時尚COSMO》雜誌)
2019	The 31st Anniversary Music Pioneer Gala Awards (音樂先鋒榜三十一載榮耀盛典) – Best Singer (傑出歌手) and Best Stage Performance Awards (最佳現場演繹獎)	Mr. Wang Xi	Music FM Radio Guangdong, Guangdong Satellite TV, Pearl River Channel and 29 provincial music radios
2019	The 26th Chinese Top Ten Music Awards (第26屆東方風雲榜音樂盛典) – Best Male Group (Asia) (亞洲人氣男團) and Male Group of the Year (最受歡迎偶像男團獎)	NEXT	Shanghai Media Group (上海廣播電視臺)

BUSINESS

INTELLECTUAL PROPERTY

We rely on a combination of copyrights, trademarks, domain names as well as confidentiality or licensing agreements with our employees, customers, suppliers and other third parties to protect our intellectual property. As of the Latest Practicable Date, we obtained in the PRC (i) 31 copyrights registration certificates in relation to artwork; (ii) 401 registered trademarks; and (iii) one registered domain name.

In relation to the registration of our copyrights for our musical works, the registration of the copyrights of musical works is not necessary or required as the copyright of the musical works is deemed to belong to and owned by the producer of the musical works under the PRC laws. Therefore, as we produce our own musical works, in regardless of whether the copyrights of the musical works have been registered or not, we own the copyrights. Notwithstanding this, we have stringent internal measures to protect our intellectual property rights and our legal department is responsible for enforcing our intellectual property rights against any infringement.

COMPETITION

We compete with various players in each sector of China’s entertainment industry in which we operate our businesses.

According to Frost & Sullivan, the artist management market in China is highly competitive and fragmented with more than 1,200 market players as of December 31, 2021, primarily including professional artist management companies, platform-based artist management companies, content-based artist management companies and artist management studios. According to Frost & Sullivan, the top five artist management companies generated an aggregate revenue of RMB3.4 billion in 2021, representing approximately 5.5% of the total market share for the same year. In terms of revenue generated from the artist management business in 2021, among all the artist management companies in China, we ranked first with a market share of approximately 1.9%. We believe the competition in the artist management market is based on the quality of managed artists and the ability to identify, train and promote fresh talents. We believe our competitive edge lies in our unique Yuehua model, our well-rounded managed artists and our business presence both in China and Korea.

We have built a systematic Yuehua model which involves artist training, artist operation and artist promotion, which covers the whole lifecycle of artist management. According to Frost & Sullivan, we are one of the few artist management companies in China that provides a professional and systematic trainee program. We have meticulously designed our trainee program with balanced curriculum, professional instructors from both China and overseas, and an evaluation system to

BUSINESS

monitor and assess the progress of each trainees. As it takes years of efforts as well as deep understanding of the Chinese artist management market to design and operate such a system, it cannot be easily replicated.

Graduates of our trainees have typically received at least three years of professional training in singing, dancing and acting. Once they become our managed artists, they are well-equipped to advance their career in multiple fields, especially in singing and dancing. With our rich industry resources and experienced artist operations team, the newly debuted artists can soon grow into well-rounded, established artists.

Furthermore, with our industry experience in China’s artist management market and our presence in Korea, we have gained deep knowledge of both Chinese and Korean entertainment culture. Our business presence in Korea enables us to monitor the latest trends in both markets, promote our artists both in China and Korea, and constantly improve our Yuehua model leveraging our domestic and overseas resources.

With respect to our music IP production and operation business, we believe that we face competition from other record labels who have a larger pool of music IPs.

For more details about the sectors of China’s entertainment industry and our competitive landscape, see “Industry Overview.”

LICENSES AND PERMITS

As advised by our PRC Legal Advisor, we had obtained all material licenses, permits and approvals required for our operation, which were valid and remained in effect as of the Latest Practicable Date. Set forth below are the key PRC permits we held as of the Latest Practicable Date for our operation.

<u>License</u>	<u>Issuing authority</u>	<u>Holder</u>	<u>Date of issuance</u>	<u>Date of expiration</u>
Commercial Performance License (營業性演出許可證)	Beijing Municipal Bureau of Culture (北京市文化和旅游局)	Yuehua Limited	October 20, 2021	October 19, 2023
Commercial Performance License (營業性演出許可證)	Tianjin Municipal Bureau of Culture (天津市文化和旅游局)	Tianjin Yuehua	May 24, 2021	May 31, 2023
Commercial Performance License (營業性演出許可證)	Department of Culture of Tibet Autonomous Region (西藏自治區文化廳)	Tibet Yuehua	December 31, 2021	January 9, 2024

We monitor the validity status of our licenses and permits on a regular basis, and make timely applications for the renewal of the relevant licenses and permits prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses and permits for our business operation during the Track Record Period and up to the Latest Practicable Date.

In addition, individuals who engage in artist management activities, such as managers, shall obtain the Performance Brokerage Qualification Certificate (演出經紀資格). For details, see “Regulations—Laws

BUSINESS

and regulations in relation to our business in the PRC—Regulations relating to performance brokerage agency.” As advised by our PRC Legal Advisor, we maintained sufficient number of employees who had obtained the Performance Brokerage Qualification Certificate for managing our managed artists and trainees as required by relevant laws and regulations as of the Latest Practicable Date.

WORKPLACE SAFETY

We place emphasis on occupational health and work safety in the operation of our business. We have adopted a preventive approach with an emphasis on hazard management and risk assessment. To aid this approach, we have established safety plans and in-house rules to provide our employees with a safe and healthy working environment by specifying various safety measures in the employee handbook that was distributed to all employees.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material accidents during our operation, nor had we been subject to any material claims for personal or property damages or for health or safety related compensation.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We steadfastly believe that corporate social responsibility and sustainable growth are instrumental to the continuing prosperity of our industry and business. We are dedicated to integrating the principles for environmental, social and corporate governance (“ESG”) with all aspects of our day-to-day business. We have adopted an ESG policy which sets forth the constitution and obligations of our ESG committee, ESG governance structure, ESG strategy formation procedures, and ESG risk management and monitoring. Pursuant to our ESG policy, our Board assumes the overall responsibility of overseeing the implementation of our ESG policy, identifying, assessing and managing the influence of important ESG matters, such as climate-related risks and opportunities, and setting goals in respect of ESG-related matters. The ESG committee, which is a sub-committee of the Board, shall be composed of five or more directors of the Board, including a majority of non-executive Directors. ESG Committee is led by Mr. SUN Yiding (孫一丁) and members include Mr. SUN Le (孫樂), Mr. FAN Hui (范輝), Mr. LU Tao (呂濤), Mr. HUANG Jiuling (黃九嶺) and Mr. ZHANG Wensheng (張文勝). The ESG committee is tasked with determining and reviewing our ESG target, strategy and internal policy, identifying ESG-related risks and opportunities, and reviewing and monitoring ESG practices. The ESG Committee is also responsible for compiling ESG reports to be reviewed by the Board.

In addition, we have engaged an ESG consultant to provide professional advice for determining, reviewing, and carrying out our ESG policies. We intend to discuss with the ESG consultant from time to time to find out whether all material ESG issues have been identified and reported to the management. We will also review and assess the ESG reports of similar companies so that relevant ESG related risks are identified on a timely basis.

Environmental Sustainability

Risk and Opportunities

As a result of global warming, extreme weather and climate conditions such as blizzards, typhoons, and rainstorms are becoming more frequent. Associated physical damage, transition risks and shift in market perception and preference of the public towards more environmentally friendly

BUSINESS

products and services have all made climate change a prominent issue for businesses. We have identified the following risks that climate change poses.

Physical Risks

We may suffer economic losses if tours and concerts we organize, co-produce or co-invest in are delayed or canceled due to extreme weather. The sudden cancelation or postponement of such events will incur extra costs and may affect our revenue. In addition, properties and equipment owned by us in preparation for the scheduled events may be damaged due to extreme weather condition. Besides, when our managed artists provide services to customers, such as participating in offline business promotion activities, other commercial activities, or performing in movies, drama series and variety programs, the timely completion of such services may be hindered by extreme weather events, which may cause a disruption to our artist management activities.

To mitigate the risks, we will closely monitor the daily observatory prediction during the organization of offline tours and concerts, and will notify our employees and other personnel promptly with any related measures in case of extreme weather conditions. Furthermore, we will factor in extreme weather risks when negotiating and entering into contracts with potential customers to minimize our economic losses under extreme circumstances.

Transition Risks

Transition risk refers to the financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate regulation and policy, market sentiment and customer preference.

The products or services our managed artists endorsed may be exposed to unexpected criticism, such as potential negative impact on environment which may be caused by certain ingredients or the production process of the products. The movies, drama series and variety programs in which our managed artists perform may also face unexpected criticism if the filming process has raised environmental issues. The potential reputation risk for our Group and our managed artists can have a negative effect on our operation.

In light of the public awareness of environment protection and climate change, we have attached increasing importance to environmental impact in our artist management activities. We will carefully evaluate risks of each endorsement deal and entertainment content production project to minimize the risk of any misinterpretation or criticism. We will also regularly reflect on the market perception of environmental issues, and climate-related regulatory and policy changes from time to time in order to mitigate transition risks.

Concurrent with the environmental, social, and climate-related risks are opportunities. Underpinned by corporate social responsibility, we are committed to bringing positive social impact through entertainment products and services.

Movies, drama series, and variety programs can play an influential role in helping raise awareness of the need to tackle global problems, including climate changes. High-quality entertainment content that explores environmental and climate-related themes is likely to become ever more popular as it meets the changing market sentiment and public awareness. Endorsement deals for environmental-friendly products and services can also enhance the popularity and commercial value of

BUSINESS

our artists, given the growing environmental awareness. In addition, benefiting from our cooperation with many charitable organizations, our managed artists can use their influence to increase public awareness of important environmental issues, which also help build up their reputation and enable them to make a positive impact.

While our business operation does not produce pollutants that have direct impacts on our environment, we have taken combined measures to facilitate the fulfillment of our commitment to the environment and reduce our carbon footprint. Specifically, along with other measures, we (i) actively encourage our procurement team to purchase recyclable materials for office, (ii) facilitate the use of electronic documents to reduce the use of paper, (iii) instruct employees to turn off indoor lights, electronic equipment and air conditioning in time after leaving the meeting room and before getting off work, (iv) impose temperature controls for air conditioning, (v) promote the use of online video conference system to avoid unnecessary travels, (vi) set up waste sorting bins in the office, (vii) formulate internal policy addressing foregoing requirements for electricity and paper saving for our employees, and (viii) put in place a battery recycling container for used batteries to prevent pollution. Moreover, our managed artists also enthusiastically participate in a variety of environmental campaigns to raise people’s awareness on this topic. For example, Mr. Wang Yibo and Mr. Hu Chunyang in various campaigns to raise people’s awareness of environmental protection and advocate for low-carbon lifestyles to reduce greenhouse gasses and save resources. During the Track Record Period, we did not experience any material occupational, health and safety, or environmental incidents and were in compliance with relevant laws and regulations in all material respects.

ESG and Climate-related Risk Indicators and Targets

We believe in the importance of protecting the environment and balancing our role as a for profit company with the betterment of the planet. We will continuously improve employees’ awareness of environmental protection and resource conservation. We have also established a monitoring system to regularly carry out supervision and inspections.

Under our ESG policy, we have established a set of key performance indicators to evaluate our environmental impact and guide our business operations, which mainly include greenhouse gas emissions and resource consumption. Greenhouse gas emissions include Scope 1 and Scope 2 emissions: (i) Scope 1 direct emissions include greenhouse gas emissions from vehicles; and (ii) Scope 2 energy indirect emissions include greenhouse gas emissions from the purchased electricity.

The total resources used by our head office in Beijing in 2021 in our usual and ordinary course of business operations are as follows:

Emissions	2021
Greenhouse gas emissions (tons CO ₂ equivalent)	130.15
Scope 1 (direct emissions) (tons CO ₂ equivalent)	15.88
Scope 2 (indirect emissions) (tons CO ₂ equivalent)	114.27
Intensity (tons CO ₂ equivalent/ m ²)	0.04
Resource Consumption	2021
Total energy consumption (kWh)	241,312.04
Total energy consumption intensity (kWh/ m ²)	65.22
Direct consumption (kWh)	54,016.66
Indirect consumption (kWh)	187,295.38
Water consumption (tons)	1,321.00
Total water consumption intensity (tons/ m ²)	0.36

BUSINESS

Our managed artists utilize energy, material, and other resources in providing services to customers. As a large portion of resources are provided by customers and third parties, we do not have a comprehensive record system in place.

To better protect the environment, we have decided to establish the following targets with respect to our greenhouse gas emissions and resources consumption:

Targets

Strategy Themes	Approaches	Target for 2022
Strengthen internal control	The ESG committee will work with an external expert to understand the ESG international trend and advise on the implementation and update of our ESG policy	Establishing specific performance targets regarding resource consumption and energy efficiency
Record keeping	The ESG committee will work with other internal teams to keep a record of our general energy utilization and resources consumption	Setting up a record-keeping system for internal teams to keep certain environmental metrics for future improvement and reporting

Social Responsibility

We consider corporate social responsibility as a fundamental part of our corporate culture. We are committed to promoting corporate social responsibility through charitable endeavors and guiding our managed artists to become the role models for the future generation.

We actively showed our support in fighting the COVID-19 pandemic. Together with our business partners and our managed artists, we donated protective clothing and other necessary supplies to affected cities. Our managed artists also performed a number of musical works as a tribute to front liners of the COVID-19 pandemic and to convey love and hope during those challenging times. During the torrential rain floods in Henan Province, we and our managed artists worked with charitable organizations to contribute to flood relief efforts.

As we believe in the power of performing arts in encouraging people to make positive societal impacts, we encourage our managed artists to participate in the performance of high-quality musical works, movies and drama series that are inspiring for the young generation. For example, Mr. Wang Yibo starred in the drama series “Faith Makes Great: Choice (理想照耀中國之抉擇),” Ms. Meng Meiqi performed the song “Thousands of Miles Together (千里同好),” Mr. Zhu Zhengting starred in the drama series “Floating Youth (冰球少年),” Ms. Meng Meiqi and Ms. Wu Xuanyi together performed the song “Little Light (一點點光),” Mr. Hu Chunyang performed the song “Beijing 2022 (2022去北京),” and Mr. Wang Xi performed the song “Long Separation (漫長的告別).”

Recognizing the importance of a sustainable environment, we are committed to increasing public understanding and soliciting public support for environmental protection. We encouraged our managed artists to participate in environmental campaigns. For example, Mr. Li Wenhan, Mr. Han Geng and Mr. Hu Chunyang cooperated with an environmental organization to advocate the preservation of wildlives, the sustainable use of natural resources, the reduction of pollution, and the importance of combating climate change.

BUSINESS

We also highly value the importance of public welfare for the disadvantaged groups, and are committed to leveraging our influence to assist and gather support for them. For example, Mr. Wang Xi participated in a campaign to provide free lunch to children in remote villages. Mr. Fan Chengcheng also participated in a charity campaign to raise fund for disadvantaged groups.

In addition, we encourage our managed artists to promote sports and sports events to the wider population. For example, Mr. Wang Yibo cooperated with various sports organization to promote sports activities, such as skateboarding, winter sports and dancing; Mr. Huang Minghao served as the torchbearer of an international sports event in 2022, and ice and snow sports promotion ambassador of a social media platform; and Mr. Zhu Zhengting participated in the sports-themed variety program “Snow Day (飄雪的日子來看你)” and participated in the “Postcards of Love (愛的明信片)” event.

To better implement our ESG policy, we will carefully review our contracts with customers to spot and avoid arrangements that may be contradictory to our ESG policy, such as commercial activities that may result in obsessive waste of food or severe pollution of the environment, or entertainment content that objectify women. If we notice such arrangements in our contract negotiation or performance, we will take active measures to mitigate the risks, such as not entering into the contracts, communicating with the customer to change or cancel the arrangements, terminating the contracts and adopting public relations strategies to undertake proper publicity and minimize any potential impact.

Employee Care

We will continue to build up our Company upon overarching values, including but not limited to, honesty, dedication and passion. We offer equal opportunities to our employees regardless of their gender, age, race, religion or any other social or personal characteristics. We celebrate diversity and desire to provide an inclusive workspace for all our employees, so they can feel valued and appreciated for their work. We value the contribution of each employee in different roles and strive to provide a fair and balanced compensation scheme as well as a clear career path. We also support the health and well-being of our employees by providing various benefits, such as annual health checkups and meal allowances.

EMPLOYEES

As of September 30, 2022, we had 202 full-time employees, 151 of whom were based in China. More than 130 of our employees hold a bachelor’s degree or above. The following table sets forth the number of our employees by function as of September 30, 2022.

	<u>Number of employees</u>	<u>% of total</u>
Artist operation	52	25.7%
Artist training	35	17.3%
Artist promotion	27	13.4%
Music and Pan-entertainment Business	36	17.9%
Administration	52	25.7%
Total	202	100.0%

BUSINESS

INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as based on our assessment of our operational needs and industry practice. We do not, and are not required by PRC laws to, maintain any business interruption insurance, key man life insurance, third-party liability insurance or any insurance for our leased properties. We also do not maintain insurance against risks relating to the contractual arrangements. See “Risk Factors—Risks Relating to Our Business and Industries—Our limited insurance coverage could expose us to significant costs and business disruption. Any uninsured occurrence of business disruption, material litigation or natural disaster could expose us to significant costs, which could have an adverse effect on our results of operations.”

Our Directors believe that our insurance coverage is sufficient and adequate and in line with the industry norm. We periodically review and will make necessary and appropriate adjustments to our insurance coverage. During the Track Record Period and up to the Latest Practicable Date, we had not made any material claim under our insurance policies.

PROPERTIES

During the Track Record Period, we had properties that were either owned or leased by us to conduct our business operation. These properties are primarily used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. Our properties mainly include land and buildings primarily used as our office premises, training facilities and dormitories for our trainees.

Owned Properties

As of the Latest Practicable Date, we owned a property located at 403, Nonhyeon-ro, Gangnam-gu, Seoul, Korea, which is used as the headquarters of Yuehua Korea (the “Korean Property”). Part of the Korean Property is held by our Group for letting. We have included a valuation report of our interest in the Korean Property as Appendix III to this document.

Leased Properties

As of the Latest Practicable Date, we leased several properties in China and Korea, with an aggregate gross floor area of 5,538 square meters and 3,468 square meters, respectively, from independent third parties, which are primarily used as our office premises, training facilities and dormitories for our trainees. During the Track Record Period, we had not experienced any material difficulty in renewing our tenancy agreements or locating new premises. Furthermore, we do not foresee any major difficulties or impediments in renewing the relevant leases upon their expiration.

Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local counterparts of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not obtained lease registration for certain properties that we leased in China, primarily due to the difficulty of procuring our lessors’ cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. Our PRC Legal Advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws. For details, see “—Compliance and Litigation—Non-registration of Leases.”

BUSINESS

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 may have access to certain data of our managed artists, our trainees and applicants who applied to participate in our trainee auditions, which mainly include personal information such as names, ID card information, contact addresses, telephone numbers and email addresses. In addition to personal data, we may also have access to certain business data provided by our business partners. As to our artist management business, we obtain certain sales data of some of the commercial promotion activities in which our managed artists participate in settling with our customers. As to our music IP production and operation business, we obtain certain public data on rankings of our musical works on music streaming platforms. When we settle with music streaming platforms, we also obtain data of downloads and sales of music works produced by us for the purpose of accounting. During the Track Record Period, in conducting virtual artist business, we also obtained data regarding clicks and views of the performance of virtual artists which is publicly available.

We mainly collect data that is publicly available, or personal information provided by applicants, trainees and artists with their consent, and business data provided by our business partners. We use personal information only for the purpose of trainee selection, providing trainees 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. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any investigation, penalty or recourse with respect to data security and personal information protection.

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. In the course of our business, we do not actively collect or maintain any personal information of the fans of our managed artists.

Based on the facts above, our PRC Legal Advisor is of the opinion that we have 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 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 (including any bankruptcy or receivership 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.

BUSINESS

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. The following sets forth certain incidents which we consider to be immaterial and do not constitute material or systemic non-compliances.

Social Insurance and Housing Provident Funds

During the Track Record Period, we did not make contributions to social insurance and housing provident fund in full for some employees of Yuehua Limited, Tianjin Yuehua and Tibet Yuehua in accordance with the relevant laws and regulations in the PRC. The under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to the relevant PRC laws and regulations, if there is any failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

To the best of our knowledge and based on the written confirmation (with the authority’s chop affixed but without the identities or positions of the officials) issued by the relevant government authorities for the relevant subsidiaries, during the Track Record Period, no administrative action or penalty had been imposed on us by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. Such government authorities include Chaoyang District of Beijing Human Resources and Social Security Bureau (北京市朝陽區人力資源和社會保障局), Tianjin Human Resources and Social Security Bureau (天津市人力資源和社會保障局), and Yadong County of Tibet Human Resources and Social Security Bureau (西藏自治區亞東縣人力資源和社會保障局). Our PRC Legal Advisor is of the view that the above authorities providing the written confirmations are competent authorities. Moreover, as of the Latest Practicable Date, we were not aware of any complaint filed by our employees regarding our social security insurance and housing provident fund policy.

We have enhanced our internal control measures, including designating our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a regular basis, and have taken actions to make full contributions for all employees of the subsidiaries. We will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

During the Track Record Period, our subsidiaries, Tianjin Yuehua and Tibet Yuehua, engaged a third-party human resources agency to pay social insurance and housing provident funds for certain of our employees. Such arrangements, although not uncommon in China, are not in strict compliance with relevant PRC laws and regulations. We entered such payment arrangements with third-party human resources agencies in order to enable the employees of Tianjin Yuehua and Tibet Yuehua to enjoy the social insurance and housing provident funds in the location where they work. The third-party human resources agency has confirmed in writing that they have paid such contributions pursuant to our agreements with them.

BUSINESS

As of the Latest Practicable Date, we had terminated the arrangements with the third-party human resources agency. We currently make contributions to social insurance and housing provident funds directly for all of our employees.

For the years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2022, the aggregate amount of the under-contribution of social insurance and housing provident fund and the amount of social insurance and housing provident fund paid through the third-party human resources agency amounted to RMB1.8 million, RMB2.4 million, RMB1.5 million and nil, respectively. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties for the social insurance non-compliances and therefore did not incur any penalties.

Our Directors believe that the above-mentioned failures to fully comply with relevant PRC laws would not have a material adverse effect on our business and results of operations, considering that: (i) to our knowledge and based on the written confirmations issued by the competent government authorities of the relevant subsidiaries, we had not been subject to any administrative penalties during the Track Record Period; (ii) neither were we aware of any employee complaints filed against us nor involved in any labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date; (iii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds; (iv) the relevant subsidiaries have made undertakings that they would pay the outstanding amount of contributions to social insurance and housing provident fund within a prescribed time limit if any formal notifications were issued by relevant PRC authorities; and (v) as advised by our PRC Legal Advisor, considering the facts stated above, the likelihood that we are required to pay the historical arrears or are subject to any penalties imposed by the relevant PRC authorities due to our failure to make contribution to social insurance and housing provident funds in full for our employees is remote.

Non-registration of Leases

As of the Latest Practicable Date, we leased several properties in China, with an aggregate gross floor area of 5,538 square meters from independent third parties, which are primarily used as our office premises, training facilities and dormitories for our trainees. Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local counterparts of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not obtained lease registration for certain properties that we leased in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases.

Our PRC Legal Advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws. However, we may be required by the competent authority to rectify non-compliance, and if we fail to rectify within the prescribed time limit, a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. Under the PRC law, the maximum penalty the Group may be subject to for non-registration of lease contracts is RMB70,000 as of the Latest Practicable Date. See “—Properties” and “Risk Factors—Risks Relating to Our Business and Industries—We may face penalties for the non-registration of our lease agreements in China.”

BUSINESS

The relevant properties are used mainly as our office spaces. Our Directors are of the view that that the abovementioned defects would not materially and adversely affect our business operations because: (i) if we have to terminate the leases or relocate from such leased properties with defects, we are able to relocate to qualified alternative premises within a short period of time under comparable terms without to the incurring substantial additional costs; (ii) even if we experience a temporary interruption in our usage of any of the relevant properties, we believe that our employees can continue to perform the material aspects of their duties remotely; (iii) our offices in other locations can also adequately support our ongoing business operations before we find a replacement. Therefore, we do not rely on existing leases for our business operations, and we do not believe a contingency relocation plan is required. Under PRC law, the lack of lease registration does not cast any actual or potential impact on our Group’s material licenses. Our PRC Legal Advisor has advised us that such defects do not cast any actual or potential impact on our material licenses.

RECENT REGULATORY DEVELOPMENT

A series of new regulations and policies have been issued and promulgated in recent years by certain PRC regulatory authorities in the PRC with a purpose to encouraging 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”)

	<u>Regulations</u>	<u>Promulgation Date</u>	<u>Regulating Authority</u>	<u>Regulated Party</u>	<u>Key Provisions</u>
1	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》)	August 25, 2021	Office of the Central Cyberspace Affairs Commission (中央網絡安全和信息化委員會辦公室)	Artists and their studio and fans group	(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; (v) tightening regulation on fans’ fund raising activities to promote artists.

BUSINESS

Regulations	Promulgation Date	Regulating Authority	Regulated Party	Key Provisions
2 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》)	September 2, 2021	NRTA	Radio and television institutions and online audiovisual platforms and practitioners	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.
3 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告》)	September 29, 2021	Ministry of Culture and Tourism	Artist management companies, artists’ related entities	(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 express their opinions and provide positive guidance for fans groups when they have inappropriate behaviors.

BUSINESS

Regulations	Promulgation Date	Regulating Authority	Regulated Party	Key Provisions
4 Notice on Further Strengthening the Work Related to the Regulation of Online Information for Entertainment Artistes (《關於進一步加強娛樂明星網上信息規範相關工作的通知》)	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)	Celebrity artists, fan clubs, artist management companies, entertainment marketing accounts and MCNs organizations they are affiliated with	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.
5 Administrative Measures for Performance Agencies in the Field of Radio, Television and Online Audio-visual Platforms (《廣播電視和網絡視聽領域經紀機構管理辦法》)	May 20, 2022	The NRTA	Artist management companies and managers	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 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.

BUSINESS

Regulations	Promulgation Date	Regulating Authority	Regulated Party	Key Provisions
6. 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》)	October 31, 2022	The SAMR, Office of the Central Cyberspace Affairs Commission (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 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)	Artists, artist management companies, advertisers, advertising agents, advertisement publishers and relevant internet information service providers	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.

Our PRC Legal Advisor is of the opinion that the Notices are promulgated with a focus on strengthening regulation on fan culture, prohibiting bad examples and filtering substandard market players.

Under the above-mentioned regulations, our Group is responsible for (i) maintaining and monitoring the official social media accounts of fan clubs of our managed artists, (ii) encouraging fans to take socially responsible actions, and (iii) acting together with our managed artists to prevent behaviors such as inciting fans to spend money, involving minors in fan club activities or raising fund to support our managed artists. The Notices also require our Group to possess all necessary licenses and permits and protect the legal right of minors in conducting our artist management activities.

In addition, the Notices require our managed artists and their related entities, who are our main suppliers, to act responsibly. “Tainted artists” who have committed illegal or immoral acts, have an incorrect political stance, or have violated public order and ethics are prohibited to be engaged by any market participants.

Some of our customers are also subject to the Notices. Media platforms and content production companies which engage our managed artists for entertainment content services have decided not to produce or broadcast variety programs in the idol development genre, which are prohibited under the Notices. Some music streaming platforms which license our music IPs have imposed limitation on the number of copies of a digital single or album a user can purchase on its platform, as the Notices prohibits inciting fans to spend money to support artists.

Activities of Fan Clubs

We have set up official fan club accounts for our managed artists on Weibo in order to better communicate with followers and provide guidance on their behavior. In reaction to the requirements in the Notices regarding fan club activities, we have adopted comprehensive internal control measures to reduce the risks in relation to the fan clubs of our managed artists, including (i) requiring our artist

BUSINESS

promotion team to review and make sure that the content published by us on the fan club accounts is accurate and in compliance with the Notices; (ii) monitoring internet content in relation to our fan club accounts from time to time, and if our artist promotion team spots any content posted by followers that are prohibited by the Notices, they will, either through communicating with the followers or through posting guidance on the fan club accounts, guide the followers to act in a manner in compliance with the regulations, such as deleting the prohibited content posted by the followers; (iii) avoiding engagement in any fund raising activities by fans to promote artists, such as fans raising funds to buy flowers, snacks and gifts for artists’ birthday celebrations and concerts activities, or acceptance of any money from fans for promotion of artists, and (iv) posting reminders on our official fan club accounts to advise and remind minors to avoid spending money for artists or engaging in fan club activities. Our artist promotion team and legal team also keep track of recent regulatory changes so that they will not engage in the activities prohibited or discouraged by the regulations. We had not been subject to any review, inquiry or investigation by any PRC regulatory authority for fan club-related activities during the Track Record Period and up to the Latest Practicable Date.

Because the Notices prohibit the incitement of fans to spend money irrationally, such as ranking fans in terms of spending on artists, a major music streaming platform in China we have cooperated with adopted restrictive rules on the purchase number of digital albums and singles. The restriction, though not explicitly required under the Notices, resulted in a decrease in the royalties we derived from digital singles and albums in 2021. Such decrease is partially offset by revenue generated from our non-exclusive contract with another major music streaming platform in China, entered into after the release of the Decision on Certain Major Digital Streaming Platforms to Relinquish Exclusive Deals Held with Its Suppliers (《市場監管總局作出責令解除網絡音樂獨家版權等處罰》). For details, see “—Recent Regulatory Development—Regulations relating to anti-trust control.”

Artist Behavior

During our artist operations and artist training activities, we place importance on helping our trainees and managed artists develop sound moral character to help them build a positive public image and avoid involvement in illegal activities or behavior which deviates from societal core values. In deciding whether to sign a trainee as our managed artist, we carefully consider whether the trainee has sound character and whether the trainee has committed any illegal or immoral act. In reaction to the requirements in the Notices regarding artist behavior, we have also established and adopted comprehensive internal measures and policies in supervising and monitoring the conduct of our managed artists including (i) monitoring the artists’ exposure on the internet, such as the content published by their social media accounts, and give proper advice on the information and public image the artists convey to the public; (ii) carefully selecting business projects for our managed artists, and review the contracts we enter into with our customers to ensure that they do not contain anything that is prohibited under the Notices, such as content designed to incite fans to spend money irrationally; and (iii) circulating updated laws, regulations and policies in relation to the entertainment industry, including industry ethics, maximum wage order and taxation management, to our managed artists and their related entities from time to time. For details, see “—Risk Management and Internal Control Systems—Artists’ Conduct Risk Management.”

We also have a morals clause in our artist management contracts and trainee contracts, which prohibits them to commit any illegal or immoral acts, and would allow us to terminate the contract if a managed artist or trainee commits misconduct that might negatively affect our reputation. Notwithstanding that our Directors consider the operational and legal risks to be remote, if any of our

BUSINESS

managed artists or trainees fails to comply with the Notices, we will require the artist to rectify such non-compliance. We may also terminate the contract with the artist and claim for damages pursuant to the artist management contract.

Supervision on Entertainment Content

The Notice on Further Strengthening the Management of Cultural Programs and their Personnel (《關於進一步加強文藝節目及其人員管理的通知》) (the “Cultural Programs Notice”) requires broadcasting platforms to strengthen supervision on content they broadcast. For example, they shall not use voting mechanism in competitive variety programs or broadcast idol development variety programs. During the Track Record Period, certain of our managed artists and trainees had performed in variety programs in the idol development genre produced and broadcast by leading online video platforms in China. Pursuant to the Notices, no variety programs in the idol development genre shall be broadcast on online video platforms or TV networks. Following the release of the Cultural Programs Notice, none of our managed artists or trainees had participated in any variety program in the idol development genre. Such change did not have a material adverse impact on our business operation or financial performance, because (i) other than performing in variety programs, we have established multiple channels for our trainees to debut, such as publishing musical works for the trainees and arranging them to perform in drama series, “showcase” activities and other types of entertainment content; and (ii) we typically did not derive any revenue from the participation of our trainees or managed artists who attended in idol development programs as contestants.

We invested in, through Horgos Yuehua, a variety program with a leading online video platform in China. The program would feature some of our trainees and managed artists. Following the release of the Cultural Programs Notice, the broadcasting platform delayed the broadcasting plan, and the program is not expected to be broadcast in the foreseeable future. As such, based on the fair value assessment of our management, we recognized fair value losses of our interest in the variety program of approximately RMB25.6 million in 2021, which amounted to approximately 1.5% of our total asset as of December 31, 2021.

In reaction to the requirements in the Notices regarding supervision on variety program content, we have implemented a series of internal control measures: (i) we carefully screen endorsement contracts and entertainment content service contracts to identify any content prohibited by the Notices, such as (a) illegal or immoral content in advertisements, films, drama series or variety programs; (b) variety programs in the idol development genre; and (c) competitive variety programs that use voting mechanisms to induce the audience to spend money on contestants; (ii) our contracts with customers typically provide that the customer shall not arrange any works for our managed artists which are in breach of any laws, regulations, public orders and/or customs nor any works that will infringe the artists’ reputation, privacy, or involve in controversial political stance; (iii) we also confirm with our customers on the details of the endorsement deals and the entertainment content to be produced to ensure that they are in compliance with the Notices before the projects start.

Supervision on Artist Endorsement

The 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》) requires regulatory authorities to strengthen their supervision over artist endorsements in advertising activities. We have established and adopted comprehensive internal measures and policies to screen and choose endorsement deals for our

BUSINESS

managed artists. Pursuant to our measures and policies, we (i) require contracting parties to provide certificates of the products or services to be endorsed and licenses of the producer or service provider required for their business operation; (ii) conduct due diligence and screening before entering into endorsement contracts to identify any products or services which are prohibited from making advertisements under applicable advertising laws and regulations; (iii) require our managed artists to use the products or services to be endorsed; and (iv) stipulate that we are the only party which can enter into endorsement contracts that involve our managed artists, and prohibit any employee or artist to enter into endorsement contracts either in their own name or in the name of a third party.

Protection of Minors

As of the Latest Practicable Date, all of our 69 managed artists had reached adulthood and, among the 62 trainees, 19 were minors, aged between 14 and 17. In reaction to the requirements in the Notices regarding protection of minors, we have implemented comprehensive internal control measures: (i) we closely monitor and circulate updated laws, regulations and policies in relation to the protection of minors to our underage artists, their guardians and our employees from time to time; (ii) for minors who enter into trainee contract or artist management contract with us, we will communicate with their guardians before entering into the contracts and require the consent of their guardians, who will also sign as a party to the trainee contract or the artist management contract; (iii) we arrange training for underage trainees only during after-school time, so that the trainees can attend school undisturbed; (iv) in general, we will not arrange trainees to participate in concerts or other commercial activities, unless such participation is beneficial for the trainees’ development; (v) when we arrange commercial activities for our underage managed artists or trainees, we will obtain the consent of their guardians and confirm with customers that the content of the activities are in compliance with relevant laws, regulations and policies regarding protection of minors; (vi) we place importance on helping trainees develop sound moral character and strictly avoid behavior that could lead the trainees to develop values that deviate from the societal core values and (vii) we pay close attention to the physical and mental health of our underage managed artists and trainees; when we notice an underage trainee or managed artist has any negative mood, we will communicate with the trainee or the artist and adjust his or her training or work arrangement accordingly.

Provision of Artist Management Services

We have obtained all licenses required under the Notices for our operation, such as Commercial Performance Licenses (營業性演出許可證), which remained valid as of the Latest Practicable Date. We monitor the validity status of our licenses and permits on a regular basis, and will make timely applications for the renewal of the relevant licenses and permits prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses and permits for our business operation during the Track Record Period and up to the Latest Practicable Date. For details, see “—Licenses and Permits” in this section. In addition, the ratio of the number of our managers to the number of their managed persons was no lower than 1/100 during the Track Record Period and up to the Latest Practicable Date. We will recruit enough staff to meet our business needs and keep such ratio no lower than 1/100.

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. 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

BUSINESS

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. Based on the above, our Directors, with the advice provided by our PRC Legal Advisor, are of the view that the Notices have not and will not have any material adverse impact on our business operation or financial position.

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

	Notice/Guidance/ Measures	Promulgation Date	Regulating Authority	Regulated Party	Regulation
1	Notice on the 14th Five-Year Development Plan of Chinese TV Series (《「十四五」中國電視劇發展規劃》)	February 8, 2022	The NRTA	Content production companies and media platforms	It 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 remuneration of all actors and actresses.

Impact on Our Artist Management Business

As advised by our PRC Legal Advisor, content production companies and media platforms, which are among the major customers of our artist management business, are directly regulated under the Maximum Wage Order. According to the Maximum Wage Order, the total remuneration of all actors and actresses who performed in a web movie, drama series or variety program shall not exceed 40% of the total cost of production, and the remuneration of all major actors and actresses shall not exceed 70% of the remuneration of all actors and actresses. As advised by our PRC Legal Advisor, the relevant authorities will take into account of the fees paid to artists, their related entities and their artist management companies, if any, for the purpose of compliance with the Maximum Wage Order.

As we arrange our managed artists to perform in web movies, drama series and variety programs, the service fees to be paid by the content production companies and media platforms to us for our managed artists’ performance must comply with the Maximum Wage Order. During the Track Record Period and up to the Latest Practicable Date, other than performing as actors or actresses in web movies, drama series and variety programs, none of our managed artists took up other roles, such as the role of a director or producer, in the works they performed in.

We enter into contracts with content production companies and media platforms to arrange our managed artists to perform in various types of entertainment content, including web movies, drama series and variety programs subject to the Maximum Wage Order. We receive service fees from these customers and pay a portion of such service fees to our managed artists or their related entities, who are our suppliers, according to the agreed-upon percentages in the relevant artist management contracts. We pay the amounts that our managed artists are entitled to receive for their performance in the entertainment content either to relevant related entities or to the artist directly. During the Track

BUSINESS

Record Period, other than the settlement with our managed artists for their performance services to us, we did not enter into any material transactions, or were engaged in fund flow related to any material transactions, with the related entities of our managed artists.

During the Track Record Period and up to the Latest Practicable Date, we had not been the subject of any review, enquiry or investigation by any PRC regulatory authorities in relation to the Maximum Wage Order. However, for the web movies, drama series and variety programs in which we arrange our artists to perform, it is beyond our control and impracticable for us to have knowledge of (i) the total production cost incurred, (ii) the remuneration paid to all actors and actresses or their respective artist management companies during the whole production process, or (iii) the remuneration paid to other actors, as such information is typically confidential and commercially sensitive for our customers, actors and their respective artist management companies. Therefore, we cannot guarantee that all of our customers would be in compliance with the Maximum Wage Order at all times.

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 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.

Our PRC Legal Advisor further advised that, if a web movie, drama series or variety program in which any of our managed artists performed is found to violate requirements under the Maximum Wage Order, the content production companies and broadcasting platforms shall be held accountable for providing untrue information, and as of the Latest Practicable Date, the Maximum Wage Order in its currently effective form does not stipulate that the performing artists and their respective artist management companies would be subject to administrative penalties for such non-compliance of the content production companies and media platform.

In reaction to the requirements under the Maximum Wage Order, we have adopted internal control measures to monitor our compliance with the Maximum Wage Order. Under the policies, we will, based on the prevailing market standards and our due inquiries with the content production companies, internally assess whether the fees to be paid by these customers for our artists' performance are likely to breach the Maximum Wage Order and request these customers to confirm their compliance with the Maximum Wage Order before entering into the contracts. In addition, we also circulate updated laws, regulations and policies in relation to the Maximum Wage Order to our managed artists or their related entities from time to time, and remind them to stay in compliance with the Maximum Wage Order.

BUSINESS

Impact on Our Pan-entertainment Business

During the Track Record Period, we were regulated by the Maximum Wage Order for our production of, and investments in variety programs, drama series and web movies. During the Track Record Period, we entered into contracts to invest in one drama series and two variety programs as minority investors. The drama series had obtained the license necessary for distribution in 2022. One of the variety programs had obtained the license necessary for distribution and were initially broadcast in 2020. The broadcasting plan of the other variety program was delayed and this program is not expected to be broadcast in the foreseeable future. To our knowledge, the online platform which produced this program did not apply for the license for the distribution of this program. For details, see “—Supervision on Content of Variety Programs.”

During the Track Record Period, we did not produce any web movie, drama series or variety program which are regulated by the Maximum Wage Order. We produced, through Horgos Yuehua, a movie which was shown in theaters. As advised by our PRC Legal Advisor, the movie is not subject to the Maximum Wage Order because the Maximum Wage Order does not apply to movies distributed through theaters. On March 4, 2022, we structurally dismantled the Contractual Arrangements with Horgos Yuehua as part of the Reorganization and, as a result, ceased to engage in production and do not intend to make investment in variety programs, movies and drama series to allocate more resources to develop our artist management business.

Based on the above, our Directors, with advice provided by our PRC Legal Advisor, are of the view that the Maximum Wage Order has not and will not have any material adverse impact on our business operation or financial position.

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

	Notice/Guidance/ Measures	Promulgation Date	Regulating Authority	Regulated Party	Regulation
1	Notice of the State Administration of Taxation on Further Regulating the Taxation Order in 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》)	October 2, 2018	State Administration of Taxation (國家稅務總局)	Film and television production companies, brokerage companies, performing arts companies, artists and their related entities and high-income practitioners in the film and television industry	Local taxation authorities have notified enterprises such as content production companies, artist management companies and other high-income practitioners in the film and television industry in their local districts to conduct self-examination and self-correction of their tax returns since 2016. All film and television enterprises and practitioners that seriously self-correct and take the initiative to pay back taxes by the end of December 2018 will be exempted from administrative penalties and fines.

BUSINESS

Notice/Guidance/ Measures	Promulgation Date	Regulating Authority	Regulated Party	Regulation
2 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》)	September 18, 2021	State Administration of Taxation	Artists, network anchors and their studio, company, agent and relevant producers	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.

As advised by our PRC Legal Advisor, those who violate the above Tax Notices and relevant taxation laws may be subject to a rectification, fine, penalties or even criminal liability depending on the seriousness of the situation according to the Tax Notices and applicable laws.

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. Pursuant to our artist management contracts, artists who are managed by us on an exclusive basis shall not enter into any other contracts to provide performing services. We are responsible for collecting service fees from our customers who engaged our managed artists for performing services and sharing the revenue with our managed artists. To the best knowledge and belief of our Directors after making all reasonable inquiries, none of the artists who are managed by us on an exclusive basis or their related entities had entered into any contracts to provide performing services during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we settled most of the amounts payable to our managed artists with their related entities and sometimes also settled directly with artists (for example, such artist does not have any related entities). We did not settle with both an artist and the artist’s related entities in

BUSINESS

relation to the same business project. When we settled directly with an artist, we withheld the artist’s tax before settlement as required by relevant laws and regulations. During the Track Record Period, we withheld a total amount of tax of approximately RMB6.5 million, RMB3.5 million, RMB1.1 million and RMB5.8 million in 2019, 2020, 2021 and the nine months ended September 30, 2022, respectively, for our managed artists, and had paid the amount withheld to the relevant Chinese tax authorities without disputes. When we settled with artists’ related entities, the entities were responsible for the tax payment.

It is beyond our control and impracticable for us to know if our managed artists and their related entities are in compliance with the Tax Notices at all time. To the best knowledge and belief of our Directors after making all reasonable enquires, none of our managed artists or artists’ related entities was in breach of the Tax Notices during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, artist management companies will not be subject to administrative penalties from the relevant authorities for non-compliance of their managed artists or their related entities, provided that the artist management companies are in compliance with the Tax Notices and other relevant tax regulations, such as (i) withholding taxes for the artists as required by laws and regulations; and (ii) refraining from aiding or abetting tax evasion of managed artists or their related entities.

In reaction to the requirements under the Tax Notices, we have adopted a combination of internal control measures to reduce non-compliance risks that may arise from our managed artists and their related entities and minimize the reputational harm. For example, we fulfill our responsibilities under relevant tax laws and regulations, such as withholding tax for our managed artists when we directly settle with them. We have adopted internal policies which require us to (i) circulate updated laws, regulations and policies in relation to taxation regulation to our managed artists or their related entities from time to time, (ii) provide them with advice when they have tax-related questions, and (iii) inquire about the tax compliance status of our artists and their related entities from time to time and remind them to fulfill their tax obligations. We have also adopted internal control policies regarding our tax management, which covers topics such as invoice management, tax filing and record keeping, and sets out the personnel responsible for the tasks. In addition, we have designated personnel to perform internal audits on our tax management from time to time. Notwithstanding that our Directors consider the operational and legal risks to be remote, if any of our managed artists or trainees fails to comply with the Tax Notices, we will require the artist to rectify such non-compliance. We may also terminate the contract with the artist and claim for damages pursuant to the artist management contract.

Past Tax Compliance Self-examination

We have placed great importance on compliance with applicable tax laws, regulations and policies, and has adopted an internal control policy regarding tax filing practices. We have assigned our accounting personnel to make timely tax filings and keep track of the developments in tax laws, regulations and policies. They are also tasked with filling in the tax payment calculation reports on a regular basis and submit the same for the review and approval of the head of the accounting team and the chief financial officer.

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,

BUSINESS

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 (the “2018 Tax Compliance Self-examination”). The detailed information of the 2018 Tax Compliance Self-examination is set forth below.

Yuehua Limited

After the completion of the 2018 Tax Compliance Self-examination, Yuehua Limited submitted a self-examination report in November 2018, to the local tax authority. As set out in the self-examination report, there was a shortfall of (i) corporate income tax due to the timing difference between the issuance of invoices and the recognition of cost with respect to a film we invested; (ii) the VAT and VAT surcharges due to a reversal of input tax credits; and (iii) personal income tax withheld related to fringe benefits.

We made additional tax payment of approximately RMB1.1 million with surcharge for overdue tax payment of approximately RMB0.3 million by December 2018.

Tianjin Yuehua

After the completion of the 2018 Tax Compliance Self-examination, Tianjin Yuehua submitted a self-examination report in December 2018, to the local tax authority. As set out in the self-examination report, there was a shortfall of corporate income tax, VAT and VAT surcharges, as such taxes were not fully paid on a timely basis with respect to our purchases of music copyrights from abroad with an amount of US\$50,000 or below.

We made additional tax payment of approximately RMB0.2 million with surcharge for overdue tax payment of approximately RMB40,000 by December 2018.

Tibet Yuehua

After the completion of the 2018 Tax Compliance Self-examination, Tibet Yuehua submitted a self-examination report in December 2018, to the local tax authority. As set out in the self-examination report, there was a shortfall of (i) corporate income tax, VAT and surcharges, as such taxes were not timely paid with respect to our purchases of music copyrights from abroad with an amount of US\$50,000 or below, and (ii) personal income tax withheld with respect to compensation we paid to seven temporary actors in a film we produced, and (iii) the VAT and VAT surcharges due to a reversal of input tax credits.

We made additional tax payment of approximately RMB0.5 million with surcharge for overdue tax payment of approximately RMB0.1 million by December 2018.

Horgos Yuehua

After the completion of the 2018 Tax Compliance Self-examination, Horgos Yuehua submitted a self-examination report in November 2018, to the local tax authority. As set out in the self-examination reports, there was a shortfall of (i) the VAT and VAT surcharges due to a reversal of input tax credits with respect to a movie we invested; (ii) the VAT and VAT surcharges due to the timing difference between the settlement with other investors and our cost recognition with respect to a movie we invested; and (iii) stamp duty with respect to a movie copyright contract entered into by Horgos Yuehua, which was not fully paid on a timely basis.

BUSINESS

We made additional tax payment of approximately RMB0.5 million and surcharge for overdue tax payment of approximately RMB0.1 million 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. We believe the findings stated in the self-examination reports were primarily due to the timing difference between the cost recognition and VAT invoice issuance and due to an inadvertent oversight of the relevant accounting personnel. We had no intention of tax evasion and we took initiatives to eliminate the consequences and implications of the shortfall in tax payments.

Our PRC Legal Advisor is of the view that both the requirement to conduct the 2018 Tax Compliance Self-examination and the additional tax payments made by the Entities did not constitute any administrative penalties. In addition, we had not received any rectification requirements or been punished under PRC tax laws, regulations or policies during the Track Record Period and up to the Latest Practicable Date.

We have taken comprehensive internal control measures to strengthen our tax compliance management after the completion of the 2018 Tax Compliance Self-examination. We conduct examinations on and reviews of our tax filings from time to time to improve our tax filing practices. We have assigned dedicated personnel to coordinate our communications with the competent authorities and keep track of the developments of the applicable PRC tax laws, regulations and policies on an ongoing basis, and to understand the latest tax filing requirements. We have also engaged a professional tax agent to assist us to examine our tax filings on an annual basis.

Based on the above, our Directors are of the view that the 2018 Tax Compliance Self-check and the tax payments and surcharges are not material or systematic non-compliances.

Based on the above, our Directors, with the advice provided by our PRC Legal Advisor, are of the view that the Tax Notice has not and will not have any material adverse impact on our business operation or financial performance.

Regulations relating to Anti-trust Control (the “Decision”)

Notice/Guidance/Measures	Promulgation Date	Regulating Authority	Regulated Party	Regulation
Decision on certain major digital streaming platforms to relinquish exclusive deals held with its suppliers (《市場監管總局作出責令解除網絡音樂獨家版權等處罰》)	July 24, 2021	State Administration for Market Regulation (國家市場監督管理總局)	Certain major digital streaming platforms	Pursuant to the Decision, music streaming platforms shall not sign exclusive copyright agreements except in a limited number of circumstances.

Music streaming platforms, which are customers of our music IP production and operation business, are subject to the Decision. Pursuant to the Decision, music streaming platforms shall not sign exclusive music licensing contract except in a limited number of circumstances.

Following the issuance of the Decision, we entered into a non-exclusive music licensing contract with a leading music streaming platform in China in July 2021. We also renegotiated the terms

BUSINESS

and entered into a non-exclusive music licensing contract with another music streaming platform in December 2021, which had an exclusive music licensing contract with us previously. As of the Latest Practicable Date, we did not have any exclusive music licensing contracts with music streaming platforms that were effective.

According to Frost & Sullivan, the Decision encourages fair competition and aims at providing an open, fair and healthy industry environment. Through lowering the entry barriers for music service providers, the Decision encourages musical works to be distributed on a wider selection of platforms other than music streaming platforms. Consequently, producers of musical works are able to expand their customer base and generate more revenue by entering into multiple non-exclusive contracts with an increased number of customers, instead of exclusive contract with a limited number of customers.

Accordingly, the Decision has given us more opportunities to enter into music licensing contract with various customers and in turn expand our customer base and generate more revenue in terms of the accumulated revenue from multiple non-exclusive music licensing contracts.

As advised by our PRC Legal Advisor, we had complied with the Decision since it became effective and up to the Latest Practicable Date. In reaction to the Decision, we have implemented internal control measures which require our legal team to screen the content of contracts we will enter into, including music copyright licensing contracts and to identify any provision that is against applicable law or regulation.

Based on the above, our Directors, with the advice provided by our PRC Legal Advisor, are of the view that the Decision has not and will not have any material adverse impact on our business operation or financial performance.

Document relating to entertainment content service contracts

	<u>Document</u>	<u>Publish Date</u>	<u>Publishing Associations</u>	<u>Targeted Parties</u>	<u>Key Provisions</u>
1	Template Entertainment Content Service Contract (Trial) 《演員聘用合同示範文本（試行）》	May 7, 2022	China Federation of Radio and Television Association (中國廣播電視社會組織聯合會); China Netcasting Services Association (中國網絡視聽節目服務協會)	Media platforms, content production companies, artist management companies and managed artists	(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.

BUSINESS

As advised by our PRC Legal Advisor, the Template Entertainment Content Service Contract (Trial) (《演員聘用合同示範文本(試行)》) (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

	Notice/ Guidance/ Measures	Promulgation Date	Regulating Authority	Regulated Party	Regulation
1	Measures for Cybersecurity Review (2021 Revision) (《網絡安全審查辦法》) (the “Revised Cybersecurity Review Measures”)	December 28, 2021	MIIT, CRSC and nine other governmental authorities	CIIOs and network platform operators	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 a network platform operator holding personal information of more than one million users of listing abroad; and (iii) any network products or services, or data processing activities that the competent authorities believe affect or may affect national security (collectively, the “Regulated Cases”).
2	Draft Internet Data Security Regulations (《網絡資料安全管理條例(徵求意見稿)》) (the “Draft Regulations”)	November 14, 2021	CAC	CIIOs and network platform operators	Data processors are required 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 (collectively, the “Regulated Activities”).

Applicability of the Revised Cybersecurity Review Measures

Based on our PRC Legal Advisor’s opinion, we are of the view that the Revised Cybersecurity Review Measures is not applicable to us currently, based on the facts that our case does not fall under any of the Regulated Cases: (i) we had not been identified as a CIIO by any government authority as of the Latest Practicable Date; (ii) as of the date of this document, we were not a “network platform operator processing more than one million users’ personal information” under the Revised Cybersecurity Review Measures; (iii) our PRC Legal Advisor consulted on June 9, 2022, 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 our PRC Legal Advisor that

BUSINESS

[REDACTED] in Hong Kong will not be deemed as [REDACTED] abroad under the Revised Cybersecurity Review Measures; and (iv) we have not been involved in any review or investigation by the CAC or other authorities with respect to the Revised Cybersecurity Review Measures and we have no obligation to comply with relevant articles under the Revised Cybersecurity Review Measures. Our PRC Legal Advisor is of the view that CCRC is the competent authority for such inquiry based on the delegation of the CAC.

Applicability of the Draft Regulations

Based on our PRC Legal Advisor's opinion, we are of the view that the Draft Regulations might be applicable to us and we would be able to comply with the Draft Regulations in all material aspects, assuming the Draft Regulations are implemented in their current form on the basis of the following :

The Draft Regulations stipulate that data processing activities carried out through networks as well as the supervision and regulation of network data security within the territory of the PRC should be subject to the Draft Regulations. Specifically, the Draft Regulations require data processors to apply for cybersecurity review when carrying out any Regulated Activities. As we may process business data and personal information of our artists via some network tools or platform, such as email and Wechat, based on the opinion of our PRC Legal Advisor, we are of the view that the Draft Regulations might be applicable to us if they are implemented in their current form.

As of the Latest Practicable Date, we had neither been involved in any investigations on cybersecurity review conducted by the CAC or any other relevant authorities, nor received any inquiry, notice, warning, or sanctions in this regard. Although we do not operate any network service or platform, or provide network product, we have adopted internal measures regarding data security and personal information protection to ensure that we can comply with relevant laws and regulations. We will closely monitor the legislative progress and seek guidance from relevant regulatory authorities in a timely manner to ensure that we take the appropriate measures. Based on the above, we could comply with the Draft Regulations in all material aspects if they are fully adopted and implemented in the current form.

Based on the opinion of our PRC Legal Advisor, we believe that (i) 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 (ii) and 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 on the following grounds:

According to Article 2 of the National Security Law of the People's Republic of China (《中華人民共和國國家安全法》), national security refers to the condition in which the state power, sovereignty, unity and territorial integrity, people's welfare, sustainable economic and social development, and other vital interests of the state does not face any danger or encounter any internal or external threats, and the state has the capability to safeguard its security. Article 10 of the Revised Cybersecurity Review Measures further provides that cybersecurity review shall focus on the following assessments of national security risks: (i) the risks of illegal control, interference or destruction of critical information infrastructure brought about by the use of products or services; (ii) the risks of supply interruption of products or services necessary for the business continuity of

BUSINESS

critical information infrastructure; (iii) risks relating to the safety, transparency and diversity of sources of products or services and reliability of supply channels; (iv) the risks relating to compliance with PRC laws, administrative regulations and rules by products and services providers; (v) the risks of theft, leakage, damage, illegal use or cross-border transfer of core data, important data or large amounts of personal information; (vi) the risks of influence on, control or malicious use of critical information infrastructure, core data, important data or large amounts of personal information by foreign governments after overseas [REDACTED], as well as the risks of network information security; and (vii) other factors that may endanger critical information infrastructure security, network security or data security.

As of the Latest Practicable Date, we had not been identified as a CIIO by any relevant authority, so as advised by our PRC Legal Advisor, items (i) to (iv) of Article 10 of the Revised Cybersecurity Review Measures are not applicable to us. In addition, as of the Latest Practicable Date, based on the public search of our PRC Legal Advisor and to our best knowledge, no data processed by us has been included in the effective catalogue of important data or core data published by the relevant authority pursuant to the Data Security Law of the PRC (《中華人民共和國數據安全法》). Therefore, as advised by our PRC Legal Advisor, item (v) of Article 10 regarding important data and core data is not applicable to us. Furthermore, pursuant to the consultation with CCRC mentioned above, [REDACTED] in Hong Kong is not considered as [REDACTED] abroad, so item (vi) of Article 10 is not applicable to us.

Based on the above, as advised by our PRC Legal Advisor, we are of the view that the likelihood of our business operations or our proposed [REDACTED] in Hong Kong being deemed as affecting national security is remote.

In addition to the assessment above, we have adopted proper internal control measures to prevent improper disclosure of personal information. Furthermore, the Revised Cybersecurity Review Measures is not currently applicable to us and we would be able to comply with the Draft Regulations in all material aspects, assuming they are implemented in their current form. Based on all the facts stipulated herein and the opinion of our PRC Legal Advisor, we believe that the Revised Cybersecurity Review Measures and the Draft Regulations (assuming the Draft Internet Data Security 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.

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 as set out in the section headed “—Recent Regulatory Development” above.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Operational Risk Management

Our business operation is exposed to various risks, such as administration of daily operation, financial reporting and recording, compliance with applicable laws and regulations, and changes in the regulatory environment in the PRC. For more details, see “Risk Factors” for disclosures on various risks we face.

As risk management is essential to our growth and success, we have implemented detailed policies and procedures that we believe are appropriate for our business operation. To monitor the ongoing implementation of our risk management policies, we have adopted and will adopt robust

BUSINESS

measures in various aspects of our business operation, such as financial reporting, human resources, intellectual property and information system. We are committed to building and maintaining an effective risk management approach that strictly abides by legal and compliance requirements to facilitate our business growth.

Regulatory Compliance Risk Management

We are subject to evolving regulatory requirements across multiple jurisdictions, including requirements to obtain and renew certain licenses, permits, approvals and certificates for our business operation in various jurisdictions. In order to manage our ongoing compliance with the laws and regulations applicable to our business effectively, we have implemented several internal control measures.

Our legal team is responsible for regularly monitoring changes in laws, regulations and policies issued by the relevant government authorities in the jurisdictions we operate, to ensure we obtain requisite licenses to operate our business and we have the up-to-date understanding with the applicable requirements. They also review the status of our licenses and permits on a regular basis and renew those licenses and permits that are about to expire.

In response to recent regulatory development, we have further improved our internal control system by adopting the following measures:

- We have adopted the compliance management policies, under which a compliance team is responsible for identifying, assessing and controlling the compliance risks and also monitoring our daily operation and our employees’ behaviors.
- Our internal teams also work together to help our managed artists and their related entities stay informed of the latest regulations. For details, see “—Recent Regulatory Development.”
- We have adopted internal control policies to manage the amounts of artists’ remuneration and monitor the remuneration cost ratios. We require our artist operation team to evaluate and review the amounts of artists’ remuneration and the corresponding remuneration cost ratios in the movies, drama series and variety shows we produce, invest in or our managed artists participate in, and to timely report anomalies to the management.
- We provide trainings to our senior management on the listing rules, disclosure management, corporate governance, changes in laws, regulations and policies. We also provide trainings to our employees on the evolving regulatory requirements and inform all employees of changes in laws and regulations, including the recent regulatory development in the entertainment industry in China.
- We also provide relevant materials and trainings to our managed artists on regulatory changes and monitor their behaviors when necessary. For details, see “—Risk Management and Internal Control Systems—Artists’ Conduct Risk Management.”

We are committed to continually improving our internal policies according to changes in laws, regulations and industry standards to better manage any regulatory compliance risks.

Financial Reporting Risk Management

We have put in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, financial statements preparation

BUSINESS

policies, treasury management policies, and finance seal management policies. We have designed and maintained consistent procedures for implementation of accounting policies and our finance department reviews our management accounts based on such procedures.

Intellectual Property Rights Risk Management

We are committed to establishing and maintaining intellectual property rights risk management and internal control procedures to protect our intellectual property rights and prevent liabilities resulting from infringement of third-party intellectual property rights. Our legal team is responsible for reviewing and approving contracts and protecting our legal rights, including intellectual property rights. Our legal team also takes the lead in ensuring that all necessary applications or filings for trademark, copyright and patent registrations have been timely made to the competent authorities, and that our intellectual properties are under the protection of relevant laws and regulations. See “—Intellectual Property” for more information about our efforts and measures in intellectual property rights risk management.

Human Resources Risk Management

We arrange training courses for our employees to improve their understanding of our internal policies. We have in place an employee handbook which has been distributed to all of our employees. These documents contain internal rules and guidelines regarding issues such as anti-corruption, work ethics, confidentiality, performance evaluation and workplace safety.

We also have in place an anti-corruption and anti-bribery policy to safeguard against any corruption activities. The policy explains potential corruption conducts and our anti-corruption measures. In particular, the policy explicitly prohibits employees from making or accepting illegal or improper payments. We make our internal reporting channel open and available for our employees to report, on an anonymous basis, any noncompliance incidents and acts, including bribery and corruption. Our audit committee is responsible for overseeing the implementation of the policy and we give trainings to new hires to help them familiarize with the policy. In addition, we have an anti-money laundering policy that sets out the measures to safeguard against money laundering activities. The Board is responsible for reviewing and adopting the company’s anti-money laundering measures, and designating the personnel to implement the measures. The Board will also designate an anti-money laundering task force that will identify money-laundering risks that may arise during our business operations and report them promptly to the management. The taskforce is also responsible for the investigation of any money-laundering activities identified. In addition, it will coordinate with other internal teams to monitor our transactions and report any suspicious cases to the relevant authorities.

Artists’ Conduct Risk Management

During our business operations, we have established and adopted comprehensive internal measures and policies in selection and supervision of the conduct of our managed artists, in reaction to the changes in the regulatory environment from time to time. Such measures include:

- We will conduct background search on artists before we enter into artist management contract with them.
- Our contracts with customers include that the customer shall not arrange any works for our managed artists which are in breach of any laws, regulations, public orders and/or customs nor any works that will infringe the artists’ reputation, privacy, or involve in controversial political stance.

BUSINESS

- Our artist promotion team is tasked with monitoring public opinion of our managed artists and giving proper advice on the information and public image the artists conveyed to the public, including the contents published by artists in their Weibo accounts and other social media accounts.
- We carefully select business projects for our managed artists, and review the contracts we enter into with our customers to ensure that they do not contain anything that is prohibited under the Notices, such as content designed to incite fans to spend money irrationally.
- We also have a morals clause in our artist management contracts and trainee contracts, which prohibits them to commit any illegal or immoral acts, and would allow us to terminate the contract if a managed artist or trainee commits misconduct that might negatively affect our reputation.
- We have set up the official social media accounts for followers of our managed artists on Weibo, which enable us to communicate the regulatory changes to followers and help them act responsibly on the internet.
- We pay close attention and regularly check with the announcements or other publications circulated by relevant administrative authorities and the “Warning List (警示名單)” circulated by CAPA.
- We circulate the updated laws, regulations and policies in relation to the entertainment industry, including the personal speech and behavior, maximum wage order and taxation management, to each of managed artists or their related entities from time to time. For example, in relation to taxation management, we provide them with advice when they have tax-related questions, and inquire about the tax compliance status of our artists and their related entities from time to time and remind them to fulfill their tax obligations.

Corporate Governance Measures

Our Board of Directors is responsible for and has the general power to supervise the operation of our business, and is in charge of managing the overall risks of our company. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures. Our Board of Directors will monitor the ongoing implementation of our risk management policies and corporate governance measures. The Audit Committee comprises three independent non-executive Directors, namely Mr. FAN Hui, Mr. LU Tao and Mr. HUANG Jiuling. Mr. FAN Hui, the chairperson of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules. For the professional qualifications and experience of the members of our audit committee, see “Directors and Senior Management.”