
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the Company was owned as to approximately 50.18% by DING GUOHUA LIMITED, and approximately 3.31% by QINGDINGDANG LIMITED, respectively. DING GUOHUA LIMITED is owned as to 80% by HuaDingGuo Limited (an entity wholly owned by Ms. Du), and 20% by Xihaha International Holding Limited (an entity controlled by Ms. Du through a trust), respectively. QINGDINGDANG LIMITED is owned as to 99% by Dawei International Holding Limited (an entity controlled by Mr. Sun through a trust) and 1% by DingDangQing Limited (an entity wholly owned by Mr. Sun).

Mr. Sun is cohabiting with Ms. Du as a spouse. By virtue of such relationship, Ms. Du, Mr. Sun and their respective controlled entities (being DING GUOHUA LIMITED, HuaDingGuo Limited, Xihaha International Holding Limited, QINGDINGDANG LIMITED, Dawei International Holding Limited and DingDangQing Limited) are considered to be a group of Controlling Shareholders, collectively holding approximately 53.49% equity interest in our Company as of the Latest Practicable Date.

Upon completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised), Ms. Du and Mr. Sun will be indirectly interested in and control, through their respective controlled entities, an aggregate of [REDACTED]% of the issued share capital of our Company.

Accordingly, immediately upon completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised), Ms. Du, Mr. Sun and their controlled entities remain as a group of Controlling Shareholders of our Company. DING GUOHUA LIMITED, HuaDingGuo Limited, Xihaha International Holding Limited, QINGDINGDANG LIMITED, Dawei International Holding Limited and DingDangQing Limited are investment holding companies with no substantive business activities. For the background of Ms. Du and Mr. Sun, see “Directors and Senior Management.”

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [REDACTED], our Board will consist of nine Directors comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. For more information, see “Directors and Senior Management.”

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of his or her fiduciary duties as a director which require that he or she acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his or her personal interests;

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- (b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions. In addition, the interested Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or she or any of his or her close associates (as defined in the Articles) is materially interested in except for certain circumstances as set out in the Articles. For details, see “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV to this document; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. See “—Corporate Governance Measures” for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the [REDACTED], we operate independently of our Controlling Shareholders and their respective close associates. Our Company (through our subsidiaries) holds the relevant licenses, approvals and permits from the relevant regulatory authorities that are material to our operations. We have sufficient capital, facilities and employees to operate our business independently from our Controlling Shareholders and their respective close associates. We also have independent access to our customers and suppliers and an independent management team to operate our business.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. More importantly, we have been and are capable of obtaining equity and debt financing from third parties.

There were no outstanding loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates as of the Latest Practicable Date.

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Based on the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates after the [REDACTED].

COMPETITION ISSUE UNDER RULE 8.10 OF THE LISTING RULES

As of the Latest Practicable Date, Ms. Du and Mr. Sun collectively hold 100% equity interest in Horgos Yuehua, a company engages in production and investment of variety programs, movies and drama series. As distinguished from the business conducted by Horgos Yuehua, the Group’s pan-entertainment business mainly includes commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise. The variety program format licensing under the Group’s pan-entertainment business refers to Yuehua Korea’s sublicensing of the program format of a variety program to a leading online video platform in China, for which it receives licensing fees in return. As such, the variety program format licensing business under the pan-entertainment business is different from the variety program production business conducted by Horgos Yuehua. After the dismantlement of Horgos Yuehua, the Group does not intent to engage in the businesses historically conducted by Horgos Yuehua during the Track Record Period due to its strategic focus on the Group’s core business. Therefore, the Directors consider that Horgos Yuehua does not competes and is not likely to compete, directly or indirectly, with our business. For details of the dismantlement of the Contractual Arrangements with respect to Horgos Yuehua, see “History, Reorganization and Corporate Structure—Reorganization—VI. Dismantlement of Contractual Arrangements.”

Save as disclosed above, and except for the interests of our Controlling Shareholders in our Company and its subsidiaries, our Controlling Shareholders and Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interest. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and the Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which the Controlling Shareholders or any of his or her associates has a material interest, the Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his or her associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders (the

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“Annual Review”) and provide impartial and professional advice to protect the interests of our minority Shareholders;

- (d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and
- (g) we have appointed China Securities (International) Corporate Finance Company Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].