You should read the following discussion and analysis in conjunction with the consolidated financial statements as of and for each of the years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, and the notes thereto included in the Accountant's Report set out in Appendix I to this document which have been prepared in accordance with IFRS and the selected historical financial information and operating data included elsewhere in this document. Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in "Risk Factors."

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

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 cultural and entertainment platform comprising three complementary business segments of artist management, music IP production and operation, and pan-entertainment business. As of the Latest Practicable Date, we had 69 managed artists and 62 talented trainees enrolled in our professional trainee program. According to Frost & Sullivan, Yuehua is now a well-known entertainment brand in China.

We derive our revenue from artist management, music IP production and operation, and pan-entertainment business. With our artist management business, we provide services to our customers, including corporate customers, media platforms, content producers and advertising agencies, by arranging our managed artists to participate in commercial activities and perform in movies, drama series and variety programs. With our music IP production and operation business, we license the music IPs in our library to music streaming platforms and other music service providers for licensing fees, and sell digital and physical copies of our music IPs. We also generate a small portion of our revenue from other businesses in the pan-entertainment industry, including commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise.

During the Track Record Period, 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 by 15.9% to RMB752.6 million in the nine months ended September 30, 2022 from RMB895.1 million in the same period of 2021 primarily due to the impact of the COVID-19 pandemic. Our profit for the period increased substantially to RMB1,344.7 million in the nine months ended September 30, 2022 from RMB236.7 million in the same period of 2021, primarily because we recorded fair value gains of convertible preferred shares of RMB1,204.0 million in the nine months ended September 30, 2022 as a result of the change in valuation of our convertible preferred shares. For more details, see "—Period to Period Comparison of Results of Operations."

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 10, 2021. In preparation for the **[REDACTED]**, we underwent the Reorganization as described in "History, Reorganization and Corporate Structure." Our Company and its subsidiaries are principally engaged in artist management, music IP production and operation, and pan-entertainment business (collectively, the "**[REDACTED]** Business") in the PRC and Korea. Immediately prior to the Reorganization and during the Track Record Period, the **[REDACTED]** Business was mainly carried by Yuehua Limited and its subsidiaries (the "Operating Entities"). Pursuant to the Reorganization, the **[REDACTED]** Business was transferred to and held by our Company.

Our Company and the companies newly incorporated during the Reorganization have not been involved in any other business prior to the Reorganization and do not meet the definition of a business. The Reorganization is merely a recapitalization of the **[REDACTED]** Business with no changes in management of the **[REDACTED]** Business and the ultimate owners of the **[REDACTED]** Business remain the same. Accordingly, our Group resulting from the Reorganization is regarded as a continuation of the **[REDACTED]** Business under the Operating Entities and the historical financial information has been prepared and presented on a consolidated basis, with the assets and liabilities of our Group recognized and measured at the carrying amounts in the financial statements of the Operating Entities for all periods presented.

The historical financial information of our Group has been prepared in accordance with IFRS issued by International Accounting Standards Board ("IASB"). The historical financial information has been prepared under the historical cost convention, except for certain financial assets and financial liabilities that are measured at fair value.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgment in the process of applying our Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 of the Appendix I to this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Industry Trends and Regulatory Environment

Our business depends on discretionary consumer and corporate spending. The cumulative effect of rising disposable income level and continuous urbanization fueled the residents' demand for entertainment. The per capita expenditure of urban residents in culture and entertainment kept increasing from approximately RMB2,097.0 to RMB2,101.7 at a CAGR of 0.1% between 2017 and 2021, according to Frost & Sullivan. Along with the resumption of production in all walks of life and increasing disposable income level of Chinese residents, the per capita annual consumption expenditure of urban residents on culture and entertainment is expected to reach approximately RMB3,390.6 by 2026 at a CAGR of 10.0% between 2021 and 2026, according to Frost & Sullivan. The prosperity of the overall economy in China has incentivized enterprises to increase their expenditures in advertising, business promotion and content production activities, thus increasing the demand for services of our managed artists. In response to such trend, we have been diligently identifying collaboration opportunities with reputable domestic and international brands and securing endorsement deals and other business promotion activities for our managed artists. To reinforce the audience's affinity to our managed artists, we have proactively invested our resources in establishing strong ties between our target audience and our managed artists through various online and offline channels. However, unfavorable changes in economic conditions, including recession, inflation, lack of access to capital, lack of consumer confidence, can impact corporate and consumer spending, resulting in reductions in the demand for services provided by our managed artists, which could affect our ability to generate revenues. For more details, see "Risk Factors—Risks Relating to Our Business and Industries—Our business depends, in significant part, on the general prosperity and development of China's overall entertainment industry, corporate spending and discretionary consumer spending. Challenging economic conditions and other negative factors may impact corporate and consumer spending, which could have a material adverse effect on our business, financial condition and results of operations."

Our business and results of operations are also subject to government policies and regulations applicable to the entertainment industry. We are required to obtain and maintain a number of qualifications, licenses and permits for our business in the PRC, including the Commercial Performance Licenses required for our artist management business. 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. If any of our qualifications, licenses or permits are revoked due to our violation of applicable laws, regulations and rules, or if we fail to renew any of the qualifications, licenses and permits necessary for our business upon their expiration, our business and results of operations will be materially and adversely affected. For more details, see "Risk Factors—Risks Relating to Our Business and Industries—Inability to renew or obtain our qualifications, licenses and permits could materially affect our business, financial condition and results of operations." Moreover, our business operations could also be affected if the PRC government makes changes to the existing laws, regulations or policies or adopts additional or more stringent laws, regulations or policies applicable to us. Meanwhile, we have operations in Korea and thus are subject to regulatory requirements, including but not limited to various licensing requirements in Korea. Any changes in regulatory requirements, government policies, inspections and enforcements in Korea could increase our costs or have a negative impact on our overseas operations, which may in turn affect our results of operations.

Our Ability to Retain and Attract Customers for Artist Management Business

Our ability to continue to maintain existing customers and attract new customers is critical to the continuous success and growth of our business. Our business managers keep in close and regular contact with corporate customers, media platforms, content producers and advertising agencies to procure commercial opportunities for our managed artists. They also closely monitor the trends in Chinese pop culture to explore new commercial opportunities and identify potential customers. We implement a multichannel publicity strategy to enable our managed artists to have more exposure to the general audience and potential customers.

During the Track Record Period, we built an extensive business network with customers from a variety of industries, such as consumer, retail, automobile and telecommunication industries. The number of business activities of our artist management business generating revenue increased from approximately 380 in 2019 to approximately 500 in 2020, and further increased to approximately 640 in 2021. Due to the recent regional outbreaks of COVID-19 variants, the number of business activities of our artist management business generating revenue decreased from approximately 610 in the nine months ended September 30, 2021 to approximately 480 in the nine months ended September 30, 2022. As a result, the revenue we generated from artist management business decreased from RMB817.9 million in the nine months ended September 30, 2021 to RMB677.7 million in the nine months ended September 30, 2022. Through our insights into the entertainment needs of the general public and understanding of the artists' characters and talents, we are able to identify and match artists who are the most suitable for the customers' projects and coordinate our managed artists to provide quality services to customers. As an artist's public image is critical for his or her career success, we have built a dedicated artist promotion team specialized in guidance on how the artists would maintain a positive public image which is important for the success of customers' projects. Our artists' solid performance skills and high self-discipline standards fostered by the trainee system are also critical in helping us win the trust of our customers.

Our Relationship with Our Managed Artists

Our relationship with our managed artists is crucial to our business growth. Our managed artists are our suppliers who provide services to us by (i) participating in commercial activities we arranged for them, such as endorsement deals, business promotion activities and commercial performances, (ii) performing in movies, drama series and variety programs, and (iii) engaging in production of musical works as well as other activities in our pan-entertainment business.

As of the Latest Practicable Date, we had 69 managed artists. To maintain a stable relationship with our artists, and train and promote new talent to become our managed artists is crucial to our business success and sustainable development. To build stable relationships with our artists, we have entered into long-term artist management contracts, generally ranging from five to 15 years with all of our managed artists. We provide our artists with systematic training, professional career planning and integrated market resources, facilitating the artists to focus on their performances, increase their commercial value and prolong their career life. Through such measures, we built stable, long-term and mutually beneficial relationships with our artists.

Meanwhile, we continuously identify and attract talented trainees, prepare them for the market and expand our talent pool. As of the Latest Practicable Date, we had 62 trainees enrolled in our trainee program. Every year, we host multiple rounds of auditions to identify talented young people and offer them the opportunities to join our trainee program. After they enter into a trainee contract with us, we provide them with professional and systematic trainings and prepare them for the market to be our managed artists. By maintaining a stable talent pipeline, we are able to continuously bring new blood into our talent pool and cultivate and promote high-quality artists to expand our artist roster on a steady and ongoing basis, enabling us to achieve sustainable growth and enhancing our brand influence. We expect to increase the number of artists and trainees and generate more revenue from our business operations.

Revenue Sharing for Artist Management Business as A Major Component of Our Cost of Revenue

Revenue sharing for artist management business accounted for a majority of our total cost of revenue during the Track Record Period. We recorded revenue sharing for artist management business of RMB240.8 million, RMB318.7 million, RMB529.2 million, RMB368.7 million and RMB322.9

million in 2019, 2020 and 2021 and nine months ended September 30, 2021 and 2022, respectively, accounting for 68.4%, 74.3%, 76.8%, 78.9% and 71.5% of our total cost of revenue for the same periods, respectively. The total amount of our revenue sharing for artist management business is primarily affected by (i) the number of our managed artists, and (ii) the revenue sharing ratio our managed artists enjoy pursuant to their artist management contracts with us.

IMPACT OF COVID-19

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

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

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

Since January 2022, the regional outbreaks of COVID-19 in China has led to the imposition of more restrictive measures in major cities in China. We arranged our employees to work from home for approximately five weeks from early May 2022 to early June 2022. In October 2022, some of our employees were unable to work on-site due to the travel restrictions and work-from-home policies in the cities of our offices. Accordingly, our negotiation and liaison with customers to secure new contracts for our managed artists have been affected. In addition, our managed artists' engagement in offline activities has also been adversely affected. For example, from January 1, 2022 to the Latest Practicable Date, six secured projects (four for commercial activities and two for entertainment content services) with a total contract value of approximately RMB5.6 million, were canceled. During the same period, 36 secured projects (24 for commercial activities and 12 for entertainment content services) were postponed, which resulted in delays in receiving payments. We had also fully refunded approximately

RMB3.0 million to customers due to the cancellation of three projects for commercial activities and one project for entertainment content services from January 1, 2022 to the Latest Practicable Date. Other than the above, we had not received any refund request from any customer due to the cancelation or postponement of these projects as of the Latest Practicable Date. Due to the impact of the COVID-19 pandemic, our revenue decreased from RMB895.1 million in the nine months ended September 30, 2021 to RMB752.6 million in the nine months ended September 30, 2022.

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

Revenue is measured when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as our Group performs; or
- does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, our Group allocates revenue to each performance obligation based on its relative standalone selling price. Our Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, our Group presents the contract in the statements of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is our Group's right to consideration in exchange for goods and services that our Group has transferred to a customer. A receivable is recorded when our Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of the consideration is due.

If a customer pays consideration or our Group has a right to an amount of consideration that is unconditional, before our Group transfers a good or service to the customer, our Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due from the customer).

Revenue recognition by business line

Our Group principally derives revenue from artist management, music IP production and operation and pan-entertainment business services:

Artist management

Our Group provides artist management service to corporate customers by arranging its artists to participate in commercial activities, such as endorsement deals, business promotion events and commercial performances, and entertainment content services, such as performing in movies, drama series and variety programs. Revenue is recognized when the relevant services are provided either over the fixed endorsement deals contract period or scheduled production period of movies, drama series and variety programs, or at the point in time when the artists attend those events and performances.

In evaluating our Group's role as a principal or agent in the provision of artist management services, our Group considers individually or in combination, that (a) our Group is the primary obligator for fulfilling its promise to its customers with the artist management services as it negotiates the service scope, has full discretion to determine which business activities to undertake, which artists will be assigned the plan and the manner in which the artists will fulfill the demand of customers for these activities; (b) our Group bears certain inventory risk as it needs to pay for the training of artists and costs of training and styling services provided by third-party vendors or in-house staff to the artists, as well as the staff costs (including those staff who work together with the artist on these business activities) and does not have unconditional right to all the revenue until it has provided the services to the customers; and (c) our Group has discretion in establishing the contract price for these business activities with the corporate customers and have ability to negotiate the service terms and pricing separately with the artists and third-party vendors who provide training and styling services. Thus, our Group is regarded as the principal and recognizes revenue from artist management on a gross basis and recognizes fulfillment costs, primarily being revenue-sharing with artists and online platforms, the costs of artist training and styling services provided by third-party vendors as cost of revenue.

Music IP production and operation

Our Group generates revenue from sub-licensing music copyrights to third parties' online platforms. Under these arrangements, our Group's performance obligations are either (i) to deliver specific licensed songs from its existing music content for fixed periods of time; or (ii) to maintain dynamic licensed content libraries for these online platforms to access for fixed periods of time, during which our Group is required to maintain a minimum number of songs' licenses and obliged to replicate the licensed content libraries for any subsequent change in the content, including addition of new content or removal of existing content, as our Group primarily relies on self-produced copyrights of our Group's own artists to fill these libraries and will continuously manage the rosters of content to promote its artists via these platforms' traffic while undertaking activities including but not limited to arranging various commercial events for the artists as well as external marketing efforts that will significantly impact these artists' popularity and the number of potential listeners of these artists' music, throughout the license period.

For (i), our Group charged its customers under fixed-payment basis and considered satisfying its performance obligation at a point in time when the licensed content is made available for the customers' use and benefit, typically upon the transfer of the licensed content to the customer.

For (ii), our Group charged its customers on a minimum guarantee plus revenue-sharing basis. Our Group is paid minimum fixed considerations annually throughout the license period and entitled to additional revenue each year based on certain key performance indicators (e.g. listening rates of the content in the libraries by paid-user of the online platform) which give rise to variable considerations. As our Group's performance obligations are satisfied over time over the license period, our Group would recognize the revenue of minimum fixed considerations over the license period and the revenue of usage-based variable considerations to the extent that it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved, which is typically when our Group received the quarterly or semi-annual usage reports from the online platforms operators.

Since our Group has the ability to determine the pricing of the music licensing and negotiate the service terms, bears the relevant costs including the self-production costs of music content and costs of acquired music copyrights, and take responsibility for managing the licensed libraries, our Group is regarded as the principal and recognizes revenue from music licensing on a gross basis and recognizes production costs of music content and other applicable fulfillment costs as cost of revenue.

Pan-entertainment business

Our Group provides entertainment content services including sub-licensing of variety programs, sales of artist-related merchandise and provision of other services. The revenue from these services is recognized when the relevant services were provided.

Leases

Our Group leases certain offices and motor vehicles. Lease terms are negotiated on an individual basis and contain various terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by our Group. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by our Group under residual value guarantees
- the exercise price of a purchase option if our Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects our Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate is used.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful lives and the lease terms on a straight-line basis. If our Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Current and Deferred Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where our Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred income tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where our Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at historical costs less depreciation. Historical costs include expenditure that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Buildings	40 years
Furniture and office equipment	3-5 years
Computer equipment	3-5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of estimated useful lives and remaining lease terms
Freehold land	Indefinite

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9 to Appendix I in this document).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in "other (losses)/gains, net" in the consolidated statements of comprehensive income.

Financial Assets

Classification

We classify financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investments are held. For investments in equity instruments, this will depend on whether our Group has made an irrevocable election at the time of initial recognition to account for the equity investments at fair value through other comprehensive income ("FVOCI").

We reclassify debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which our Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and our Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, our Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on our Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which our Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "other (losses)/gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statements of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in "other (losses)/gains, net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "other (losses)/gains, net" and impairment expenses are presented as separate line item in the consolidated statements of comprehensive income.
- FVPL: Assets that do not meet the criteria for amortized cost or financial assets at FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within "other (losses)/gains, net" in the period in which it arises.

Equity instruments

Our Group subsequently measures all equity investments at fair value. Where our Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognized in profit or loss as "other income" when our Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in "other (losses)/gains, net" in the consolidated statements of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

Our Group has the following types of financial assets subject to IFRS 9's expected credit loss model:

- Cash and cash equivalents
- Amounts due from shareholders
- Trade receivables
- Other receivables

While our Group's cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as they were deposited in high quality financial and other institutions with sound credit ratings.

For amounts due from shareholders, our Group has assessed the expected credit losses of these balances and the identified impairment loss was immaterial.

For trade receivables, our Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Derecognition

Financial assets

Our Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, our Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) our Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If our Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, our Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when our Group currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Intangible Assets

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line method over their estimated useful lives of 5 years.

Music copyrights

Our Group acquired music copyrights for music contents licensed from third parties and these acquired copyrights are stated at costs less accumulated amortization and impairment. Their costs are expensed to our Group's consolidated statement of profit or loss, within "cost of revenue", based on the pattern of which their future economic benefit useful life are expected be consumed by our Group, being straight line over their license periods, being generally five to ten years. The Group considers the license periods of music copyrights as the best estimation for their useful lives as they primarily generate revenue from sub-licensing which is derived evenly throughout the period which their future economic benefit are expected to be consumed by the Group.

Movie rights

Movies under production are stated at cost less any provision for impairment losses. Costs include all direct costs associated with the production of movies. Provisions are made for costs which are in excess of the expected future revenues generated by these movies. The balance of movie production costs not yet due at the end of each reporting period are disclosed as commitments.

Upon completion, costs of movies under production are transferred to movie rights of completed production, which are stated at cost less accumulated amortization and impairment losses. The cost of movie rights is expensed on first public exhibition.

Impairment of Non-Financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets (other than goodwill) that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Fair Value Estimation

To provide an indication about the reliability of the inputs used in determining fair value, our Group has classified our financial instruments into the three levels prescribed under the accounting standards:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

Our Group has a team of personnel who performs valuation on these level 3 instruments for financial reporting purposes. On an annual basis, the team adopts various valuation techniques to determine the fair value of our Group's level 3 instruments.

The valuation of our level 3 instruments mainly included financial assets being investments in wealth management products, investments in movies, drama series and variety programs, and investments in unlisted equity securities and convertible preferred shares. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including option pricing and equity allocation model, discounted cash flow model, market approach and etc.

The investments in wealth management products mainly represent the investments in wealth management products issued by the banks in the PRC with guaranteed principal and floating return rate of investments. Our Group used discounted cash flows approach to determine the fair value of the financial product as at period end.

Our Group used discounted cash flows approach to evaluate the fair value of the investments in movies, drama series and variety programs as at each period end.

The unlisted investments represent the investments in certain privately owned companies. Our Group used discounted cash flows approach to evaluate the fair value of the unlisted investments as at each period end. Also, the additional investments made during the nine months ended September 30, 2022 were close to September 30, 2022 and therefore, our management is of the view that there are no material changes in fair value of the unlisted investments during the nine months ended September 30, 2022, unless there is available information about latest round of financing.

If the fair values of financial assets at FVPL held by our Group had been 10% higher or lower, the profit before income tax for the years ended December 31, 2019, 2020 and 2021 and for the nine months ended September 30, 2021 and 2022 would have been approximately RMB8.0 million, RMB21.6 million, RMB45.1 million, RMB94.9 million and RMB33.6 million higher or lower, respectively.

If the fair values of financial liabilities at FVPL held by our Group had been 10% higher or lower, the profit for the nine months ended September 30, 2022 would have been approximately RMB130.7 million lower or higher.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the Track Record Period.

The carrying amount of our Group's other financial assets, including cash and cash equivalents, trade receivables, other receivables, and our Group's financial liabilities, including trade payables, other payables and accruals and lease liabilities, approximate their fair values.

See Note 3.3 to the Appendix I in this document for details about fair value estimation.

KEY COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

Non-IFRS Measures

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

We define adjusted net profit as profit for the year/period adjusted for (i) equity settled share-based payments, (ii) fair value changes of convertible preferred shares, (iii) **[REDACTED]** and (iv) interest expenses on redemption liabilities. Equity settled share-based payments consist of non-cash expenses arising from granting RSUs to eligible individuals under our Share Incentive Plan. Fair value changes of convertible preferred shares reflects the changes in fair value of the Series A-1, A-2 and A-3 convertible preferred shares issued by our Company to certain shareholders on January 28, 2022. For details, see "History, Reorganization and Corporate Structure—Reorganization." **[REDACTED]** mainly include professional fees paid in relation to the **[REDACTED]** and the **[REDACTED]**. Interest expenses on redemption liabilities mainly refer to unwinding of interests on redemption liabilities in relation to the preferential rights certain shareholders of Yuehua Limited are entitled to pursuant to a shareholders' agreement dated November 16, 2020. For more details, see "History, Reorganization and Corporate Structure—**[REDACTED]** Investments." We define adjusted net profit margin as adjusted net profit divided by revenue. The table below sets forth our adjusted net profit and adjusted net profit margin for the periods indicated.

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

Revenue

During the Track Record Period, we generated our revenue from artist management, music IP production and operation and pan-entertainment business. We generated a majority of our revenue from customers in the PRC. In 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, we recorded revenue of RMB631.4 million, RMB922.0 million, RMB1,290.4 million, RMB895.1 million and RMB752.6 million, respectively.

The table below sets forth a breakdown of our revenue by business line in absolute amounts and as percentages of our revenue for the periods indicated.

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

Revenue by Business Line

Artist Management

For artist management business, we primarily generate revenue from providing services to customers, including 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. For more details about this business model, see "Business—Our Business—Artist Management."

The table below sets forth a breakdown of our revenue generated from artist management business in absolute amounts and as percentages of our revenue generated from artist management business for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)						(Unaudited)			
Commercial activities	317,141	59.8%	554,494	68.6%	921,798	78.5%	641,446	78.4%	534,577	78.9%
Entertainment content services	213,087	40.2%	253,747	31.4%	253,044	21.5%	176,420	21.6%	143,149	21.1%
Total	**530,228**	**100.0%**	**808,241**	**100.0%**	**1,174,842**	**100.0%**	**817,866**	**100.0%**	**677,726**	**100.0%**

Music IP Production and Operation

During the Track Record Period, our revenue generated from music IP production and operation business consists primarily of (i) licensing fees and royalties generated from licensing our original music IPs to music service providers, (ii) licensing fees from sub-licensing our licensed music IPs to music service providers, and (iii) sales of digital and physical copies of our music IPs.

For music IP production and operation business, we generated revenue of RMB74.7 million, RMB92.7 million, RMB77.7 million, RMB51.5 million and RMB58.2 million in 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, respectively, accounting for 11.8%, 10.0%, 6.1%, 5.8% and 7.7% of our total revenues for the same periods, respectively.

Pan-entertainment Business

During the Track Record Period, our revenue generated from pan-entertainment business consists primarily of revenue generated from (i) commercial development of virtual artists, (ii) variety program format licensing and (iii) sales of artist-related merchandise.

For pan-entertainment business, we generated revenue of RMB26.5 million, RMB21.1 million, RMB37.9 million, RMB25.7 million and RMB16.7 million in 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, respectively, accounting for 4.2%, 2.3%, 2.9%, 2.9% and 2.2% of our total revenue for the same periods, respectively. During the Track Record Period, our revenue from the virtual artist business is nil, nil, RMB13.2 million and RMB9.7 million in 2019, 2020, 2021 and the nine months ended September 30, 2022, accounting for nil, nil, 1.0% and 1.3% of our total revenue for the same periods, mainly generated from live streaming events and other commercial activities of virtual artists.

Revenue by Geographical Region of Customers

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

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

Note:

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

Cost of Revenue

Our cost of revenue consists primarily of (i) revenue sharing for artist management business, (ii) artist promotion costs, (iii) production costs of music content, (iv) employee benefits expenses, (v) amortization of intangible assets and (vi) equity settled share-based payments. In 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, our cost of revenue was RMB351.9 million, RMB429.1 million, RMB688.5 million, RMB467.3 million and RMB451.7 million, respectively.

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

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

Notes:

(1) Consisting primarily of (i) amortization of production expenses in relation to a movie we produced and (ii) amortization of music IP procurement expenses.

(2) Consisting primarily of expenses arising from granting RSUs to eligible individuals under our Share Incentive Plan. We adopted our Share Incentive Plan on December 10, 2021. We granted 1,542,500 RSUs and 3,594,750 RSUs to eligible individuals on December 10, 2021 and March 4, 2022, respectively.

(3) Consisting primarily of (i) expenses for training our trainees, (ii) travel and car rental expenses for artists and assistants to participate in various commercial activities and (iii) costs for sales of artist-related merchandise on third-party e-commerce platforms.

Revenue sharing for artist management business consists primarily of payments to (i) our managed artists who participate in commercial activities and provide entertainment content services, and (ii) media platforms which jointly manage certain artists with us during a specified term. Artist promotion costs consist primarily of (i) expenses for make-up, hairstyle and dressing for our managed artists engaged in business activities, and (ii) expenses for promoting artists engaged in commercial activities by news, short videos, online forums, web pages as well as other promotional methods. Employee benefits expenses consist primarily of salaries and benefits for our employees in artist operation team and artist training team.

Cost of Revenue by Business Line

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

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)						(Unaudited)			
Artist management	287,599	81.7%	383,754	89.4%	634,249	92.1%	437,435	93.6%	405,785	89.8%
Music IP production and operation	25,253	7.2%	36,139	8.5%	45,792	6.7%	22,947	4.9%	40,672	9.0%
Pan-entertainment business	39,080	11.1%	9,167	2.1%	8,449	1.2%	6,944	1.5%	5,249	1.2%
Total	**351,932**	**100.0%**	**429,060**	**100.0%**	**688,490**	**100.0%**	**467,326**	**100.0%**	**451,706**	**100.0%**

Gross Profit and Gross Profit Margin

In 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, our gross profit was RMB279.5 million, RMB493.0 million, RMB602.0 million, RMB427.8 million and RMB300.9 million, respectively, and our gross profit margin was approximately 44.3%, 53.5%, 46.6%, 47.8% and 40.0%, respectively.

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

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

For detailed discussions of our gross profit and gross profit margin, see "—Period to Period Comparison of Results of Operations."

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of (i) employee benefits expenses, including salaries and benefits, for sales and marketing personnel, (ii) advertising and promotion expenses mainly in relation to general marketing and promotion of our managed artists, (iii) rental expenses, (iv) traveling expenses and (v) equity settled share-based payments.

The table below sets forth a breakdown of our selling and marketing expenses in absolute amounts and as percentages of our selling and marketing expenses for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)						(Unaudited)			
Employee benefits expenses	16,904	72.4%	20,008	64.9%	22,633	65.6%	16,659	72.8%	13,518	65.5%
Advertising and promotion expenses	3,620	15.5%	7,937	25.8%	6,237	18.1%	4,400	19.2%	1,149	5.6%
Rental expenses	402	1.7%	939	3.0%	1,087	3.1%	685	3.0%	330	1.6%
Traveling expenses	536	2.3%	219	0.7%	212	0.6%	93	0.4%	139	0.7%
Equity settled share-based payments[(1)]	–	–	–	–	1,706	4.9%	–	–	2,803	13.6%
Others[(2)]	1,897	8.1%	1,720	5.6%	2,648	7.7%	1.045	4.6%	2,694	13.1%
Total	**23,359**	**100.0%**	**30,823**	**100.0%**	**34,523**	**100.0%**	**22,882**	**100.0%**	**20,633**	**100.0%**

Notes:

(1) Consisting primarily of expenses arising from granting RSUs to eligible individuals under our Share Incentive Plan. We adopted our Share Incentive Plan on December 10, 2021. We granted 1,542,500 RSUs and 3,594,750 RSUs to eligible individuals on December 10, 2021 and March 4, 2022, respectively.

(2) Consisting primarily of depreciation of property, plant and equipment and expenses for office supplies.

General and Administrative Expenses

Our general and administrative expenses consist primarily of (i) employee benefits expenses, including salaries and benefits, for our management and administrative staff, (ii) **[REDACTED]** incurred for the **[REDACTED]**, (iii) depreciation and amortization in connection with our office leases, an office building in Korea and intangible assets, (iv) taxes and surcharges, (v) professional and consulting fees, (vi) traveling expenses and (vii) equity settled share-based payments.

The table below sets forth a breakdown of our general and administrative expenses in absolute amounts and as percentages of our general and administrative expenses for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)						(Unaudited)			
Employee benefits expenses	19,556	49.6%	17,940	40.7%	24,579	34.4%	19,268	41.6%	13,487	18.5%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation and amortization	7,516	19.1%	7,875	17.9%	9,252	12.9%	6,724	14.5%	5,835	8.0%
Taxes and surcharges	4,174	10.6%	4,938	11.2%	6,543	9.1%	4,648	10.0%	2,144	2.9%
Professional and consulting fees(1)	3,189	8.1%	6,286	14.3%	2,583	3.6%	2,489	5.4%	1,875	2.6%
Traveling expenses	764	1.9%	368	0.8%	445	0.6%	265	0.6%	607	0.8%
Equity settled share-based payments(2)	–	–	–	–	255	0.4%	–	–	22,897	31.4%
Others(3)	4,207	10.7%	6,674	15.1%	11,183	15.7%	6,733	14.5%	6,651	9.0%
Total	**39,406**	**100.0%**	**44,081**	**100.0%**	**71,530**	**100.0%**	**46,317**	**100.0%**	**73,033**	**100.0%**

Notes:

(1) Consisting primarily of service fees for business, legal, tax and other consultants in connection with our business operations and A Share Listing Attempt. For details about our A Share Listing Attempt, see "History, Reorganization and Corporate Structure—Listing on and Delisting from NEEQ and A Share Listing Attempt."

(2) Consisting primarily of expenses arising from granting RSUs to eligible individuals under our Share Incentive Plan. We adopted our Share Incentive Plan on December 10, 2021. We granted 1,542,500 RSUs and 3,594,750 RSUs to eligible individuals on December 10, 2021 and March 4, 2022, respectively.

(3) Consisting primarily of rental expenses for short-term leases, office supplies and other miscellaneous expenses.

Net Impairment Losses on Financial Assets

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

Other Income

Our other income consists of (i) government subsidies, (ii) tax credit of input tax additional deduction and (iii) rental income from investment properties. The government subsidies are non-recurring in nature and are mainly related to the rewards granted by China-Singapore Tianjin Eco-City Administrative Committee for tax contribution from our Group to the local economic development in Tianjin Eco-City. We are entitled to such subsidies every year during the period from September 1, 2016 to December 31, 2027, subject to the satisfaction of certain conditions set forth in our agreement with China-Singapore Tianjin Eco-City Administrative Committee, such as (i) having certain percentage of equity interest in enterprises with business and tax registrations with the Tianjin Eco-

City, and (ii) compliance with relevant government policies and regulations. There were no unfulfilled conditions or contingencies attached to these government grants during the Track Record Period. The tax credit of input tax additional deduction is a kind of exemptions on value-added tax granted by PRC government authorities as tax benefits applicable to certain subsidiaries of us. The rental income from investment properties is generated from rents we collect from leases of our office building in Korea which we purchased in September 2019. In 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, our other income was RMB3.8 million, RMB7.3 million, RMB18.4 million, RMB17.5 million and RMB3.2 million, respectively.

The table below sets forth a breakdown of our other income for the periods indicated.

	For the year ended December 31,			For the nine months ended September30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
				(Unaudited)	
Government subsidies	2,825	4,699	14,281	14,281	314
Tax credit of input tax additional deduction	760	2,007	3,519	2,789	2,467
Rental income from investment properties	193	597	620	475	429
Total	**3,778**	**7,303**	**18,420**	**17,545**	**3,210**

Other Gains or Losses, Net

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

The table below sets forth a breakdown of our other gains or losses, net for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
				(Unaudited)	
Fair value losses on movies, drama series and variety programs	(54,907)	(31,736)	(33,659)	(30,170)	–
Fair value gains from wealth management products	12,147	14,019	20,894	15,200	9,975
Gain on deemed disposal of an associate	–	–	3,011	–	–
Gains on disposal of associates	–	–	2,068	2,063	–
Net exchange gains/(losses)	36	(976)	1,556	(148)	(6,219)
Gain on liquidation of a subsidiary	–	–	218	218	–
Net (losses)/gains on disposal of property, plant and equipment	(115)	171	41	41	(218)
Net gains/(losses) on disposal of right-of-use assets	2,843	–	(18)	(31)	21
Fair value gains from a listed equity security	–	–	–	–	2,716
Total	**(39,996)**	**(18,522)**	**(5,889)**	**(12,827)**	**6,275**

Finance Costs, Net

Our finance income consists of interest income from bank deposits and loans to third parties and a related party, while our finance costs comprise interest expenses on redemption liabilities, bank borrowings and lease liabilities. Our net finance costs amounted to RMB0.7 million, RMB2.7 million, RMB37.5 million, RMB28.8 million and RMB0.9 million in 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, respectively.

The table below sets forth a breakdown of our finance income and costs for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
				(Unaudited)	
Finance income					
Interest income from bank deposits	1,222	3,150	4,455	2,485	4,232
Interest income from loans to third parties and a related party	—	543	760	525	274
Subtotal	1,222	3,693	5,215	3,010	4,506
Finance costs					
Interest expenses on redemption liabilities	—	(3,909)	(40,481)	(30,070)	(3,406)
Interest expenses on bank borrowings	(539)	(2,037)	(1,853)	(1,412)	(1,684)
Interest expenses on lease liabilities	(1,382)	(420)	(415)	(310)	(292)
Subtotal	(1,921)	(6,366)	(42,749)	(31,792)	(5,382)
Finance costs, net	**(699)**	**(2,673)**	**(37,534)**	**(28,782)**	**(876)**

Interest expenses on redemption liabilities refer to unwinding of interests on redemption liabilities in relation to the preferential rights certain shareholders of Yuehua Limited are entitled to pursuant to a shareholders' agreement dated November 16, 2020. For details about shareholders' preferential rights, see "History, Reorganization and Corporate Structure—**[REDACTED]** Investments."

Share of Losses of Investment Accounted for Using the Equity Method

Our share of losses of investment accounted for using the equity method is primarily related to our equity investment in our associates. As of September 30, 2022, the associates in which our investment accounted for using the equity method included (i) Zhejiang Shengtenghui Brand Management Co., Ltd. (浙江盛騰輝品牌管理有限公司, "Zhejiang Shengtenghui"), (ii) Starsugar (Beijing) Technology Co., Ltd. (思蓮抒格(北京)科技有限公司, "Starsugar"), (iii) Hangzhou Agile Groups Network Technology Co., Ltd. (杭州小群網絡科技有限公司, "Hangzhou Agile"), (iv) Candy (Shanghai) Cosmetics Co., Ltd. (糖果(上海)化妝品有限公司, "Candy Cosmetics"), (v) Beijing Wuyin Digital Technology Co., Ltd. (北京吾音數字科技有限公司, "Wuyin Digital") and (vi) Hangzhou Xiaoguoyuan Network Information Technology Co., Ltd. (杭州小果元網絡信息技術有限公司, "Xiaoguoyuan"). For details, see Note 19 to the Accountant's Report in Appendix I to this document. Our share of losses of investment accounted for using the equity method in 2019, 2020, 2021 and the nine months ended September 30, 2021 and 2022 amounted to RMB9.2 million, RMB2.7 million, RMB6.6 million, RMB6.3 million and RMB1.8 million, respectively.

Fair Value Changes of Convertible Preferred Shares

The fair value changes of convertible preferred shares are primarily related to Series A-1, A-2 and A-3 convertible preferred shares issued by our Company to certain shareholders on January 28,

2022. For details, see "History, Reorganization and Corporate Structure—Reorganization." In the nine months ended September 30, 2022, the fair value changes of convertible preferred shares amounted to RMB1,204.0 million.

Income Tax Expense

Our income tax expense consists of current income tax and deferred income tax. The table below sets forth a breakdown of our income tax expense for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
				(Unaudited)	
Current income tax					
PRC corporate income tax	44,888	98,282	122,744	87,890	67,952
Hong Kong profits tax	859	510	1,012	700	756
Korea corporate income tax	4,328	3,440	2,295	2,043	1,637
Deferred income tax	(177)	(1,643)	(344)	143	(602)
Total income tax expense for the year/period	**49,898**	**100,589**	**125,707**	**90,776**	**69,743**

Our income tax expense was RMB49.9 million, RMB100.6 million, RMB125.7 million, RMB90.8 million and RMB69.7 million in 2019, 2020 and 2021 and the nine months ended September 30, 2021 and 2022, respectively. Our effective tax rate was approximately 29.5%, 25.6% and 27.3% in 2019, 2020 and 2021, respectively. Our effective tax rates in 2019, 2020 and 2021 were higher than 25%, the general PRC corporate income tax rate, primarily because (i) one of our subsidiaries entitled to corporate income tax exemption recorded operating losses during the Track Record Period, and (ii) we recorded share of losses from our equity investment in associates, which reduce our profit before income tax expense but are not deductible for tax purpose. Our effective tax rate in the nine months ended September 30, 2022 was 4.9%, primarily because the profit for the period included a substantial amount of fair value changes of convertible preferred shares which are not subject to income tax.

TAXATION

Cayman Islands

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by our Company are not subject to any Cayman Islands income tax.

PRC Corporate Income Tax

Corporate income tax provision was made on the estimated assessable profits of entities within our Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC corporate income tax rate is 25% during the Track Record Period.

As stipulated in the Notice of the Ministry of Finance and the State Administration of Taxation of the PRC on the Preferential Policies of Enterprise Income Tax in the Two Special Economic Development Zones of Kashgar and Horgos in Xinjiang (Cai Shui [2011] No. 112) (財政部國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知 (財稅[2011] 112號)), enterprises newly established in Horgos special economic areas during the periods from January 1, 2010 to

December 31, 2020 could enjoy corporate income tax ("CIT") exemption for five years starting from the year in which the first revenue was generated. According to the Filing Record of Preferential EIT (企業所得稅優惠事項備案表), Horgos Yuehua, a subsidiary established in Horgos special economic areas, obtained the approval from the PRC tax bureau for entitlement to CIT exemption from January 1, 2016 to December 31, 2020.

As stipulated in the Notice of the People's Government of the Tibet Autonomous Region on Issuing the Regulations on Preferential Policies for Investment Promotion of the Tibet Autonomous Region (Provisional) (Zang Zheng Fa [2018] No. 25) (關於印發西藏自治區招商引資優惠政策若干規定（試行）的通知 (藏政發[2018]25號)), the Notice of the People's Government of the Tibet Autonomous Region on Issuing the Regulations on Preferential Policies for Investment Promotion of the Tibet Autonomous Region (Zang Zheng Fa [2021] No. 9) (關於印發西藏自治區招商引資優惠政策若干規定的通知(藏政發[2021]9號)) and the Notice of the People's Government of the Tibet Autonomous Region on Issuing the Measures for the Implementation of Enterprise Income Tax Policies of the Tibet Autonomous Region (Provisional) (Zang Zheng Fa [2022] No. 11) (關於印發西藏自治區企業所得稅政策實施辦法(暫行)的通知(藏政發[2022]11號)), enterprises established in Tibet that fulfilled certain criteria could enjoy overall preferential CIT rate of 9% during the periods from January 1, 2018 to December 31, 2025. Our subsidiary established in Tibet, Tibet Yuehua, was entitled to such corporate income tax benefit from January 1, 2018 to September 30, 2022, and will continue to be subject to such CIT benefit if it continues to meet certain criteria set forth in Zang Zheng Fa [2022] No. 11.

Korea Corporate Income Tax

During the Track Record Period, the tax rates that applied to the estimated assessable profits of our Group's operations in Korea were 11% for the amounts up to KRW200 million, 22% for the amounts above KRW200 million and up to KRW20.0 billion, 24.2% for the amounts above KRW20 billion and up to KRW300 billion, and 27.5% for the amounts above KRW300 billion.

Hong Kong

Hong Kong profits tax has been provided for at the rate of 8.25% on the estimated assessable profits up to HK$2,000,000; and 16.5% on any part of the estimated assessable profits over HK$2,000,000 during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Revenue

Our revenue decreased by 15.9% from RMB895.1 million in the nine months ended September 30, 2021 to RMB752.6 million in the nine months ended September 30, 2022, primarily due to a decrease in revenue generated from our artist management business and pan-entertainment business.

Artist management

Our revenue generated from artist management business decreased by 17.1% from RMB817.9 million in the nine months ended September 30, 2021 to RMB677.7 million in the nine months ended September 30, 2022.

- *Commercial activities*. Revenue generated from commercial activities decreased by 16.7% from RMB641.4 million in the nine months ended September 30, 2021 to RMB534.6 million in the nine months ended September 30, 2022. The number of commercial activities generating revenue decreased from approximately 500 in the nine months ended September 30, 2021 to approximately 300 in the nine months ended September 30, 2022, primarily due to the impact of COVID-19.
- *Entertainment content services.* Revenue generated from entertainment content services decreased by 18.9% from RMB176.4 million in the nine months ended September 30, 2021 to RMB143.1 million in the nine months ended September 30, 2022. The number of contracts generating revenue from entertainment content services in the nine months ended September 30, 2022 was comparable to that in the nine months ended September 30, 2021. However, due to the impact of COVID-19, our managed artists participated in more short-term and/or small-scale projects for entertainment content services in the nine months ended September 30, 2022. Thus, the average contract price of entertainment content services generating revenue in the nine months ended September 30, 2022 was lower than that in the nine months ended September 30, 2021, leading to a decrease in the revenue generated from entertainment content services.

Music IP production and operation

Our revenue generated from music IP production and operation increased by 13.0% from RMB51.5 million in the nine months ended September 30, 2021 to RMB58.2 million in the nine months ended September 30, 2022, primarily due to an increase in sales of digital singles and albums which we produced for our managed artists and artist groups and released in the nine months ended September 30, 2022.

Pan-entertainment business

Our revenue generated from pan-entertainment business decreased by 35.0% from RMB25.7 million in the nine months ended September 30, 2021 to RMB16.7 million in the nine months ended September 30, 2022, primarily due to a decrease in revenue generated from sublicensing the program format of an idol development variety program, as variety programs in the idol development genre were banned from broadcasting on online video platforms or TV networks pursuant to recent regulations relating to the entertainment market. For more details, please refer to "Business—Our Business—Recent Regulatory Development."

Cost of Revenue

Our cost of revenue decreased by 3.3% from RMB467.3 million in the nine months ended September 30, 2021 to RMB451.7 million in the nine months ended September 30, 2022, primarily attributable to:

- a decrease in revenue sharing for artist management business from RMB368.7 million in the nine months ended September 30, 2021 to RMB322.9 million in the nine months ended September 30, 2022, in relation to the decrease in our revenue generated from artist management business for the same periods; and
- a decrease in artist promotion costs from RMB43.5 million in the nine months ended September 30, 2021 to RMB26.6 million in the nine months ended September 30, 2022, in relation to the decrease in our revenue generated from artist management business for the same periods.

The decrease was partially offset by:

- equity settled share-based payments of RMB40.5 million newly incurred in the nine months ended September 30, 2022, in relation to the grant of RSUs to eligible individuals under our Share Incentive Plan; and
- an increase in production cost of music content from RMB27.0 million in the nine months ended September 30, 2021 to RMB36.6 million in the nine months ended September 30, 2022, primarily due to the incremental production cost of new musical works we produced for our managed artists.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 29.7% from RMB427.8 million in the nine months ended September 30, 2021 to RMB300.9 million in the nine months ended September 30, 2022, primarily due to a decrease in gross profit for artist management and music IP production and operation. Our gross profit margin decreased from 47.8% in the nine months ended September 30, 2021 to 40.0% in the nine months ended September 30, 2022, as the decrease in revenue outpaced the decrease in cost of revenue. More specifically:

Our gross profit for artist management decreased by 28.5% from RMB380.4 million in the nine months ended September 30, 2021 to RMB271.9 million in the nine months ended September 30, 2022. The gross profit margin for artist management decreased from 46.5% in the nine months ended September 30, 2021 to 40.1% in the nine months ended September 30, 2022, primarily because, in the nine months ended September 30, 2022, (i) we incurred equity settled share-based payments; and (ii) certain established artists enjoyed a higher revenue sharing ratio pursuant to their contracts with us.

Our gross profit for music IP production and operation decreased by 38.8% from RMB28.6 million in the nine months ended September 30, 2021 to RMB17.5 million in the nine months ended September 30, 2022. The gross profit margin for music IP production and operation decreased from 55.4% in the nine months ended September 30, 2021 to 30.1% in the nine months ended September 30, 2022, primarily due to (i) an increase in musical works produced by Yuehua Korea, which usually have a lower gross profit margin as compared to that of musical works produced in China, as music production cost in Korea is generally higher than that in China; and (ii) an increase in the production cost incurred for our managed artists' musical works.

Our gross profit for pan-entertainment business decreased by 38.8% from RMB18.8 million in the nine months ended September 30, 2021 to RMB11.5 million in the nine months ended

September 30, 2022. The gross profit margin for our pan-entertainment business decreased from 73.0% in the nine months ended September 30, 2021 to 68.6% in the nine months ended September 30, 2022, primarily due to a decrease in revenue generated from sublicensing the program format of a variety program in the idol development genre, which has a relatively higher gross profit margin.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 10.0% from RMB22.9 million in the nine months ended September 30, 2021 to RMB20.6 million in the nine months ended September 30, 2022, primarily due to (i) a decrease in advertising and promotion expenses from RMB4.4 million in the nine months ended September 30, 2021 to RMB1.1 million in the nine months ended September 30, 2022, in relation to a decrease in the promotion costs for our managed artists and trainees for idol development variety programs, as a result of the cancellation of such programs and (ii) a decrease in the employee benefit expenses from RMB16.7 million in the nine months ended September 30, 2021 to RMB13.5 million in the nine months ended September 30, 2022. Our employee benefit expenses in the nine months ended September 30, 2022 were less than those in the same period in 2021 primarily because we have not recognized any year-end bonuses for employees for 2022 while the 2021 year-end bonuses paid to employees were amortized in the nine months ended September 30, 2021.

General and Administrative Expenses

Our general and administrative expenses increased by 57.7% from RMB46.3 million in the nine months ended September 30, 2021 to RMB73.0 million in the nine months ended September 30, 2022, primarily due to (i) equity settled share-based payments of RMB22.9 million incurred in the nine months ended September 30, 2022, in relation to the grant of RSUs to eligible general and administrative staff under our Share Incentive Plan; and (ii) an increase in **[REDACTED]** from RMB**[REDACTED]** in the nine months ended September 30, 2021 to RMB**[REDACTED]** in the nine months ended September 30, 2022, in relation to the fees paid to professional parties engaged for the **[REDACTED]**.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased significantly from RMB0.8 million in the nine months ended September 30, 2021 to RMB3.7 million in the nine months ended September 30, 2022, primarily due to an increase in the amounts of trade receivables as of September 30, 2022, as compared to such amounts as of December 31, 2021. For more information, see "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Assets—Trade Receivables."

Other Income

Our other income decreased by 81.7% from RMB17.5 million in the nine months ended September 30, 2021 to RMB3.2 million in the nine months ended September 30, 2022, mainly because we had already received the government subsidies granted by China-Singapore Tianjin Eco-City Administrative Committee (the "Committee") for our tax contribution in 2020 as of September 30, 2021, while we had not received such government subsidies from the Committee for our tax contribution in 2021 as of September 30, 2022. Our application for such government subsidies for our tax contribution in 2021 has been submitted to the Committee and is currently under the Committee's review.

Other Gains, Net

We recorded net other gains of RMB6.3 million in the nine months ended September 30, 2022, as compared to net other losses of RMB12.8 million in the nine months ended September 30, 2021.

This was primarily because we recorded fair value losses on movies, drama series and variety programs of RMB30.2 million in the nine months ended September 30, 2021, while no such losses were incurred in the nine months ended September 30, 2022 as we dismantled the contractual arrangements in respect of Horgos Yuehua in March 2022.

Finance Costs, Net

Our net finance costs decreased substantially from RMB28.8 million in the nine months ended September 30, 2021 to RMB0.9 million in the nine months ended September 30, 2022, primarily due to a decrease in interest expenses on redemption liabilities, because the redemption liabilities were derecognized following the issuance of Series A-1, A-2 and A-3 convertible preferred shares by our Company to certain shareholders on January 28, 2022 and no interest expenses on redemption liabilities were incurred since then. For details, see "History, Reorganization and Corporate Structure—Reorganization" and "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Liabilities—Redemption Liabilities."

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method losses decreased by 71.4% from RMB6.3 million in the nine months ended September 30, 2021 to RMB1.8 million in the nine months ended September 30, 2022. The decrease was primarily because we did not record share of losses of investments accounted for using the equity method from Beijing Tianhao Shengshi Entertainment Culture Co., Ltd. (北京天浩盛世娛樂文化有限公司, "Beijing Tianhao"), a company in which we had investments accounted for using the equity method through Horgos Yuehua until the dismantlement of our contractual arrangements in respect of Horgos Yuehua in March 2022.

Fair Value Changes of Convertible Preferred Shares

We did not record fair value changes of convertible preferred shares in the nine months ended September 30, 2021, but recorded fair value changes of convertible preferred shares of RMB1,204.0 million in the nine months ended September 30, 2022, in relation to the issuance of Series A-1, A-2 and A-3 convertible preferred shares by our Company to certain shareholders on January 28, 2022. For details, see "History, Reorganization and Corporate Structure—Reorganization."

Income Tax Expense

Our income tax expense decreased by 23.2% from RMB90.8 million in the nine months ended September 30, 2021 to RMB69.7 million in the nine months ended September 30, 2022, primarily due to a decrease in our taxable profit.

Profit for the Period and Net Profit Margin

As a result of the foregoing, our net profit increased substantially from RMB236.7 million in the nine months ended September 30, 2021 to RMB1,344.7 million in the nine months ended September 30, 2022, and our net profit margin increased from 26.4% in the nine months ended September 30, 2021 to 178.7% in the nine months ended September 30, 2022.

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

Revenue

Our revenue increased by 40.0% from RMB922.0 million in 2020 to RMB1,290.4 million in 2021, primarily due to an increase in revenue generated from our artist management business.

Artist management

Our revenue generated from artist management business increased by 45.4% from RMB808.2 million in 2020 to RMB1,174.8 million in 2021.

- *Commercial activities*. Revenue generated from commercial activities increased by 66.2% from RMB554.5 million in 2020 to RMB921.8 million in 2021. We secured more endorsement deals and business promotion activities in 2021 for our managed artists with well-known domestic or international brands across various industries and sectors, such as consumer and retail industries. The number of commercial activities generating revenue was approximately 510 in 2021, as compared to approximately 370 in 2020. Meanwhile, due to the increasing popularity, influence and commercial value of our managed artists, we renewed certain contracts with our customers of commercial activities at higher prices in 2021.
- *Entertainment content services*. Revenue generated from entertainment content services was RMB253.0 million in 2021, which remained stable as compared to RMB253.7 million in 2020, as the number of contracts generating revenue from entertainment content services remained comparable to that in 2020.

Music IP production and operation

Our revenue generated from music IP production and operation decreased by 16.2% from RMB92.7 million in 2020 to RMB77.7 million in 2021. This is primarily attributable to a decrease in revenue generated from sales of digital singles and albums, mainly because in August 2021, major music streaming platforms in China we cooperated with adopted restrictive rules on the purchase number of digital albums and singles, which led to a significant decrease in the sales of our musical works. Meanwhile, there was a decrease in our revenue generated from a major music streaming platform in China in 2021 following the expiry of our exclusive licensing agreement with such platform in July 2021. We spent relatively longer time renegotiating terms in our agreement with such music streaming platform as relevant regulatory authorities in China issued a decision to require termination of exclusive music copyright licensing agreements in the market for anti-monopoly reasons, and entered into a new contract with such music streaming platform in December 2021. The decrease in our revenue generated from music IP production and operation was partially offset by the revenue generated from our licensing contract with another major music streaming platform in China entered into in the second half of 2021.

Pan-entertainment business

Our revenue generated from pan-entertainment business increased by 79.6% from RMB21.1 million in 2020 to RMB37.9 million in 2021, primarily due to revenue generated from the commercial development of the virtual artist group, A-SOUL, launched in the end of 2020.

Cost of Revenue

Our cost of revenue increased by 60.5% from RMB429.1 million in 2020 to RMB688.5 million in 2021, primarily attributable to:

- an increase in revenue sharing for artist management business from RMB318.7 million in 2020 to RMB529.2 million in 2021, primarily as a result of our growing artist management business and the higher revenue sharing ratio of certain established artists in 2021;
- an increase in artist promotion costs from RMB43.9 million in 2020 to RMB73.4 million in 2021, along with our growing artist management business;
- an increase in employee benefits expenses from RMB10.9 million in 2020 to RMB20.7 million in 2021, primarily due to an increase in salaries and benefits paid to our employees as well as the number of our employees who provide management services to our managed artists, primarily as a result of increasing revenue generated from our artist management business; and
- an increase in production cost of music content from RMB41.6 million in 2020 to RMB45.7 million in 2021, primarily due to the incremental production cost of musical works for a new artist group which debuted in 2021.

Gross Profit and Gross Profit Margin

Our gross profit increased by 22.1% from RMB493.0 million in 2020 to RMB602.0 million in 2021, primarily due to an increase in gross profit for artist management. Our gross profit margin decreased from 53.5% in 2020 to 46.6% in 2021, as increase in cost of revenue outpaced the increase in revenue. More specifically:

Our gross profit for artist management increased by 27.3% from RMB424.5 million in 2020 to RMB540.6 million in 2021. The gross profit margin for our artist management decreased from 52.5% in 2020 to 46.0% in 2021, primarily because certain established artists enjoyed a higher revenue sharing ratio in 2021 pursuant to their contracts with us and thus the revenue sharing for artist management business increased at a faster pace in 2021.

Our gross profit for music IP production and operation decreased by 43.6% from RMB56.6 million in 2020 to RMB31.9 million in 2021. The gross profit margin for our music IP production and operation business decreased from 61.0% in 2020 to 41.1% in 2021, primarily due to (i) a decrease in revenue generated from music IP production and operation and (ii) the cost we incurred in production of musical works for a new artist group in 2021 while no revenue was generated for such musical works in that year.

Our gross profit for pan-entertainment business increased significantly from RMB11.9 million in 2020 to RMB29.4 million in 2021. The gross profit margin for our pan-entertainment business increased from 56.5% in 2020 to 77.7% in 2021, primarily because we started to generate revenue from the commercial development of the virtual artist group, A-SOUL, launched in the end of 2020, which has a relatively higher gross profit margin as our cost of operating virtual artist group was relatively low, leading to an overall higher gross profit margin.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 12.0% from RMB30.8 million in 2020 to RMB34.5 million in 2021, primarily due to an increase in employee benefits expenses from RMB20.0 million in 2020 to RMB22.6 million in 2021, driven by the increase in employee salaries and benefits.

General and Administrative Expenses

Our general and administrative expenses increased by 62.1% from RMB44.1 million in 2020 to RMB71.5 million in 2021, primarily due to (i) **[REDACTED]** of RMB**[REDACTED]** newly incurred in 2021, in relation to the fees paid to professional parties engaged for the **[REDACTED]**; (ii) an increase from RMB17.9 million in 2020 to RMB24.6 million in 2021 in employee benefits expenses, driven by the increase in employee salaries and benefits as well as the growing number of our employees; (iii) an increase in depreciation and amortization from RMB7.9 million in 2020 to RMB9.3 million in 2021, primarily due to the procurement of new equipment and office supplies for our new office in Beijing.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets decreased by 63.3% from RMB9.0 million in 2020 to RMB3.3 million in 2021, primarily because we made more impairment allowance in 2020 for trade receivables which had aged over three years. For more information, see "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Assets—Trade Receivables."

Other Income

Our other income increased significantly from RMB7.3 million in 2020 to RMB18.4 million in 2021, primarily due to an increase in government subsidies from RMB4.7 million in 2020 to RMB14.3 million in 2021, as we were rewarded for our greater contribution (in terms of tax paid) to the local economy in 2020.

Other Losses, Net

Our net other losses decreased by 68.1% from RMB18.5 million in 2020 to RMB5.9 million in 2021, primarily due to (i) an increase in the fair value gains from wealth management products from RMB14.0 million in 2020 to RMB20.9 million in 2021, as our investment in wealth management products increased from RMB194.4 million in 2020 to RMB446.3 million in 2021. For more details, see "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Financial Assets at Fair Value Through Profit or Loss"; (ii) the gain on deemed disposal of an associate of RMB3.0 million incurred in 2021 in relation to the financing activities of an associate, Beijing Tianhao, (iii) the gains on disposal of associates of RMB2.1 million in 2021 as a result of the strategic restructuring of the associates, and (iv) the net exchange gains of RMB1.6 million generated in 2021, as compared to net exchange losses of RMB1.0 million incurred in 2020. For more details about our investment policies concerning wealth management products, see "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Assets—Financial Assets at Fair Value Through Profit or Loss."

Finance Costs, Net

Our net finance costs increased substantially from RMB2.7 million in 2020 to RMB37.5 million in 2021, primarily due to an increase in interest expenses on redemption liabilities from RMB3.9 million in 2020 to RMB40.5 million in 2021, in relation to the redemption liabilities we recorded for shareholders' preferential rights pursuant to a shareholders' agreement dated November 16, 2020. For details about shareholders' preferential rights, see "History, Reorganization and Corporate Structure—**[REDACTED]** Investments."

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method increased from RMB2.7 million in 2020 to RMB6.6 million in 2021, mainly because the associates we invested in were start-ups in their early stage and they recorded higher losses in 2021 than that in 2020.

Income Tax Expense

Our income tax expense increased by 25.0% from RMB100.6 million in 2020 to RMB125.7 million in 2021, primarily due to an increase in our taxable profit as a result of the continuous expansion of our business.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased by 14.9% from RMB291.9 million in 2020 to RMB335.3 million in 2021, while our net profit margin decreased from 31.7% in 2020 to 26.0% in 2021.

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

Revenue

Our revenue increased by 46.0% from RMB631.4 million in 2019 to RMB922.0 million in 2020, primarily due to an increase in revenue generated from our artist management business and our music IP production and operation business.

Artist management

Our revenue generated from artist management business increased by 52.4% from RMB530.2 million in 2019 to RMB808.2 million in 2020.

- *Commercial activities*. Revenue generated from commercial activities increased by 74.9% from RMB317.1 million in 2019 to RMB554.5 million in 2020. In 2020, the popularity, influence and commercial value of our managed artists substantially increased and enabled us to seize more endorsement deals and business promotion activities for these managed artists. In 2020, the number of commercial activities generating revenue was approximately 370, across various industries and sectors such as automobile, consumer products and retail, as compared to approximately 300 in 2019. Moreover, our cooperation agreement with a media platform expired in 2020, pursuant to which such platform had the exclusive rights to manage certain artists during a specified term and shared revenue generated from such management with us. We resumed to manage such artists on an exclusive basis after the conclusion of this cooperation agreement and generated more revenue from management of these artists in 2020. For more details, see "Business—Our Business—Artist Management—Artist Operation."

- *Entertainment content services.* Revenue generated from entertainment content services increased by 19.1% from RMB213.1 million in 2019 to RMB253.7 million in 2020. The number of contracts generating revenue from entertainment content services was approximately 130 in 2020, as compared to approximately 80 in 2019.

Music IP production and operation

Our revenue generated from music IP production and operation increased by 24.1% from RMB74.7 million in 2019 to RMB92.7 million in 2020, mainly attributable to an increase in sales of digital singles and albums in 2020 driven by increased popularity of our digital singles and albums.

Pan-entertainment business

Our revenue generated from pan-entertainment business decreased by 20.4% from RMB26.5 million in 2019 to RMB21.1 million in 2020, primarily because (i) we generated revenue in 2019 from a movie of which we were the lead investor while no such revenue was generated in 2020, as we strategically decided to focus more on our artist management and music IP production and operation businesses; and (ii) the revenue generated from artist-related IPs and merchandise decreased from 2019 to 2020. These were partially offset by an increase in the revenue generated from sublicensing the program format of a variety program.

Cost of Revenue

Our cost of revenue increased by 21.9% from RMB351.9 million in 2019 to RMB429.1 million in 2020, primarily driven by:

- an increase in revenue sharing for artist management business from RMB240.8 million in 2019 to RMB318.7 million in 2020, which is mainly due to an increase in our revenue generated from artist management business;
- an increase in artist promotion costs from RMB34.1 million in 2019 to RMB43.9 million in 2020, reflecting the expansion of our artist management business;
- an increase in production costs of music content from RMB27.0 million in 2019 to RMB41.6 million in 2020, primarily due to an increase in our investment in music IP production, as a result of the expansion of our music IP production and operation business; and
- an increase in employee salaries and benefits from RMB7.6 million in 2019 to RMB10.9 million in 2020 primarily as a result of our measures to provide competitive compensation for our employees and incentives for our key personnel in artist management team.

These increases were partially offset by a decrease in cost related to amortization of intangible assets from RMB32.3 million in 2019 to RMB1.8 million in 2020 primarily due to the cost we recorded in 2019 for a movie we produced, while no such cost was incurred in 2020.

Gross Profit and Gross Profit Margin

Our gross profit increased by 76.4% from RMB279.5 million in 2019 to RMB493.0 million in 2020, primarily due to an increase in the gross profit from our artist management business and music

IP production and operation business. Our gross profit margin increased from 44.3% in 2019 to 53.5% in 2020. More specifically:

Gross profit for our artist management business increased by 75.0% from RMB242.6 million in 2019 to RMB424.5 million in 2020. The gross profit margin for our artist management business increased from 45.8% in 2019 to 52.5% in 2020, primarily due to the increase in our revenue generated from artist management business which outpaced the increase in cost of revenue for artist management business. There was a substantial increase in the revenue generated from our artist management business from 2019 to 2020, driven by the enhanced popularity and commercial value of our managed artists. Meanwhile, our cooperation agreement with another media platform expired in the fourth quarter of 2019, pursuant to which this platform jointly managed certain artists with us and we shared revenue generated from our management of such artists with this platform. We resumed to manage such artists on an exclusive basis after the conclusion of this cooperation agreement and no longer needed to share revenue from management of such artists with this platform in 2020. For more details, see "Business—Our Business—Artist Management—Artist Operation." Such decrease in revenue sharing for artist management business partially offset the increase in cost of revenue for artist management in 2020.

Gross profit for our music IP production and operation increased by 14.3% from RMB49.5 million in 2019 to RMB56.6 million in 2020. The gross profit margin for our music IP production and operation business decreased from 66.2% in 2019 to 61.0% in 2020. The decrease in gross profit margin is primarily due to (i) an increase in revenue generated from musical works produced by Yuehua Korea, which recorded relatively lower gross profit margin as compared to the gross profit margin from musical works produced in China, as music production cost in Korea is generally higher than that in China; and (ii) an increase in cost due to an increased number of digital singles and albums we produced, while some of the musical works we produced were published near the end of 2020 and thus generated a small amount of revenue for us in 2020.

We incurred a gross loss of RMB12.6 million in 2019 for the pan-entertainment business, primarily attributable to a movie distributed in 2019 of which we were the lead investor, revenue from which could not sufficiently cover the cost. We recognized a gross profit of RMB11.9 million for the pan-entertainment business in 2020, representing a gross profit margin of 56.5%, primarily because (i) we no longer participated as the lead investor in drama series and movie production, as part of our strategic decision to focus more on artist management and music IP production and operation businesses, and (ii) we generated more revenue from sublicensing the program format of a variety program in 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 31.6% from RMB23.4 million in 2019 to RMB30.8 million in 2020, primarily due to (i) an increase in advertising and promotion expenses from RMB3.6 million in 2019 to RMB7.9 million in 2020, as a result of our increased efforts in promoting our managed artists, and (ii) an increase in employee benefits expenses from RMB16.9 million in 2019 to RMB20.0 million in 2020 driven by the growing number of our selling and marketing staff.

General and Administrative Expenses

Our general and administrative expenses increased by 11.9% from RMB39.4 million in 2019 to RMB44.1 million in 2020, primarily due to (i) an increase in professional and consulting fees from RMB3.2 million in 2019 to RMB6.3 million in 2020, reflecting our increased demand for professional and consulting services in our daily operation, and (ii) an increase in others from RMB4.2 million in 2019 to RMB6.7 million in 2020, primarily reflecting an increase in our short-term leases and office expenses due to our increasing demand for working and training space.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased significantly from RMB1.4 million in 2019 to RMB9.0 million in 2020, primarily because we made more impairment allowance in 2020 for trade receivables which had aged over three years. For more information, see "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Assets—Trade Receivables."

Other Income

Our other income increased by 92.1% from RMB3.8 million in 2019 to RMB7.3 million in 2020, primarily due to (i) the increase of RMB1.9 million in government subsidies in relation to our contribution to the local economy and development, and (ii) the increase of RMB1.2 million in the tax credit of input tax additional deduction, along with our business growth.

Other Losses, Net

Our other losses decreased by 53.8% from RMB40.0 million in 2019 to RMB18.5 million in 2020, primarily due to (i) a decrease in the fair value losses on the movies, drama series and variety programs from RMB54.9 million in 2019 to RMB31.7 million in 2020, in relation to a decrease in our investments in movies, drama series and variety programs, as part of our strategic decision to focus more on artist management and music IP production and operation businesses. The number of movies, drama series and variety programs we invested in decreased from 12 as of December 31, 2019 to seven as of December 31, 2020; and (ii) an increase in fair value gains from wealth management products from RMB12.1 million in 2019 to RMB14.0 million in 2020, as a result of our increased investment in wealth management products in 2020. The decrease was partially offset by the decrease in the net gains on disposal of right-of-use assets, as we recognized net gains of RMB2.8 million on disposal of right-of-use assets in 2019, in relation to the early termination of our leasing contract with a landlord, while no such gain was recognized in 2020.

Finance Costs, Net

Our net finance costs increased substantially from RMB0.7 million in 2019 to RMB2.7 million in 2020, primarily due to an increase in interest expenses on redemption liabilities, in relation to the redemption liabilities we recorded for shareholders' preferential rights pursuant to a shareholders' agreement dated November 16, 2020. For details about shareholders' preferential rights, see "History, Reorganization and Corporate Structure—**[REDACTED]** Investments". Such increase was partially offset by an increase in our interest income from bank deposits.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method decreased by 70.7% from RMB9.2 million in 2019 to RMB2.7 million in 2020, primarily due to the better operation results and financial performance of the associates in which we have investments in 2020.

Income Tax Expense

Our income tax expense increased substantially from RMB49.9 million in 2019 to RMB100.6 million in 2020, primarily due to an expansion in our business with higher profits generated, which led to an increase in our taxable profit.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased significantly from RMB119.3 million in 2019 to RMB291.9 million in 2020. Our net profit margin increased from 18.9% in 2019 to 31.7% in 2020.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which has been extracted from the Accountant's Report included in Appendix I to this document.

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

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Lease liabilities	4,777	4,314	5,143	5,035
Total current liabilities	**397,023**	**488,237**	**813,220**	**637,143**
Total liabilities	**506,149**	**1,188,637**	**1,359,339**	**1,845,621**
EQUITY				
Share capital	—	—	—	50
Combined capital	110,046	110,046	110,046	—
Treasury shares	—	—	—	(4)
Reserves	84,321	(455,287)	(459,873)	(2,556,501)
Retained earnings	259,277	325,673	662,351	2,006,292
Equity attributable to equity owners of the Company	**453,644**	**(19,568)**	**312,524**	**(550,163)**
Non-controlling interests	1,387	6,109	7,034	4,281
Total equity/(deficit)	**455,031**	**(13,459)**	**319,558**	**(545,882)**

Assets

Trade Receivables

Our trade receivables include amounts due from our customers. The table below sets forth the breakdown of our trade receivables as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Trade receivables	60,069	95,200	123,877	146,912
Less: allowance for impairment	(5,737)	(14,219)	(17,044)	(21,207)
Trade receivables – net	**54,332**	**80,981**	**106,833**	**125,705**

Our net trade receivables increased by 49.2% from RMB54.3 million as of December 31, 2019 to RMB81.0 million as of December 31, 2020, primarily due to an increase in trade receivables mainly due from media platforms and content producers for our managed artists' participation in commercial activities and entertainment content services and for pan-entertainment business. Our net trade receivables increased by 31.9% from RMB81.0 million as of December 31, 2020 to RMB106.8 million as of December 31, 2021, primarily due to an increase in trade receivables due from corporate customers, media platforms and music service providers for artist management, music IP production and operation and pan-entertainment businesses. Our net trade receivables increased by 17.7% from RMB106.8 million as of December 31, 2021 to RMB125.7 million as of September 30, 2022, primarily due to an increase in trade receivables due from corporate customers, media platforms and music service providers for artist management, music IP production and operation and pan-entertainment businesses.

We normally allow a payment term within 30 days to our customers upon their receipt of invoice. We have monitoring procedures to ensure that our management review the balances of trade receivables regularly and that we will take follow-up actions to collect overdue balances.

The following table sets forth our trade receivables turnover days for the periods indicated. Our trade receivables turnover days remained relatively stable in 2019, 2020 and 2021 and in general consistent with the payment terms we granted to customers. Our trade receivables turnover days increased from 31 in 2021 to 49 in the nine months ended September 30, 2022, primarily due to an increase in the average of the beginning and ending balances of trade receivables for the nine months ended September 30, 2022, mainly in relation to trade receivables due from certain customers which carried relatively larger amounts but had not been settled as of September 30, 2022.

	For the year ended December 31,			For the nine months ended September 30,
	2019	2020	2021	2022
Trade receivables turnover days[(1)]	35	31	31	49

Note:

(1) Trade receivables turnover days for each period equals the average of the beginning and ending balances of trade receivables (without giving effect to allowance we made for trade receivables) for that period divided by revenue for the period and multiplied by the number of days in that period.

The following table sets forth the aging analysis of our trade receivables before deducting the allowance for impairment as of December 31, 2019, 2020 and 2021 and September 30, 2022, based on date of revenue recognition.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Up to 3 months	39,901	75,620	96,786	80,183
3 to 6 months	4,741	7,561	7,293	31,201
6 months to 1 year	477	117	6,867	22,430
1 to 2 years	6,957	1,000	2,536	2,703
2 to 3 years	7,993	1,062	—	—
Over 3 years	—	9,840	10,395	10,395
Total	60,069	95,200	123,877	146,912

As indicated above, approximately 75.1%, 87.5%, 89.6% and 91.1% of trade receivables as of December 31, 2019, 2020 and 2021 and September 30, 2022 were aged within one year as of the same dates, respectively. For trade receivables aged over two years, we have made sufficient allowance for impairment in response to potential credit risks in relation to our trade receivables. As of October 31, 2022, approximately RMB20.6 million, or 14.0% of our trade receivables as of September 30, 2022, had been subsequently settled.

We regularly review the recoverable amount of each individual receivable to ensure that adequate impairment allowance is made for irrecoverable amounts. As of December 31, 2019, 2020 and 2021 and September 30, 2022, we made provision for impairment of trade receivables of approximately RMB5.7 million, RMB14.2 million, RMB17.0 million and RMB21.2 million, respectively. As of December 31, 2019, 2020 and 2021 and September 30, 2022, we made provision for impairment of trade receivables aged over 2 years of RMB2.5 million, RMB10.2 million, RMB10.4 million and RMB10.4 million, respectively, at an expected loss rate of 31%, 94%, 100% and 100%, respectively. An expected credit loss analysis was performed at the end of each of the year of the Track Record Period and we applied the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Our Directors have carefully re-assessed the lifetime expected credit loss of trade receivables as at December 31, 2020 and 2021 and September 30, 2022, and increased the expected credit loss rate as at December 31, 2020 and 2021 and September 30, 2022 to reflect the adverse impact of COVID-19 to the macroeconomic environment and the PRC pan-entertainment industry. Considering all the above, our Directors are of a view that we have made sufficient provision consistent with IFRS for irrecoverable amounts of trade receivables.

To minimize the credit risks arising from collection of trade receivables from our customers, we have implemented a series of control measures. We have applied enhanced standards in grading our customers by evaluating their financial condition and repayment abilities, and choose high-quality customers for business transactions. Our legal team works closely with our business team to keep track of the payments of our customers and send them reminders to fulfill their payment obligations. If we identify any customer who fail to perform its payment obligations in a timely manner, we may take actions, including legal actions, to collect any overdue balances.

We do not expect to have any material recoverability issue with the outstanding trade receivables primarily because: (i) a substantial portion of our trade receivables as of December 31, 2019, 2020 and 2021 and September 30, 2022 were aged within one year as of the same dates, respectively; (ii) our trade receivables were mainly due from reputable companies; (iii) we have been continuously receiving payments from relevant customers to settle the trade receivables due from them; (iv) we have a series of policies and measures in place to minimize the credit risks in relation to trade receivables as mentioned above; and (v) we have made sufficient provision consistent with IFRS for irrecoverable amounts of trade receivables.

Prepayments and Other Receivables

The table below sets forth the breakdown of our prepayments and other receivables as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Deferred **[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Prepayments for acquisitions of property, plant and equipment	—	2,371	—	—
Others[(1)]	1,113	1,916	3,099	2,680
Prepayments	**1,113**	**4,287**	**8,255**	**7,955**
Loans to third parties and a related party	11,021	13,668	21,875	3,811
Other tax recoverables	1,289	4,831	11,961	9,725
Rental and other deposits	3,749	4,519	6,380	5,838
Others[(2)]	3,450	3,048	3,241	864
Less: allowance for impairment	(360)	(417)	(824)	(309)
Other receivables—net	**19,149**	**25,649**	**42,633**	**19,929**
Total prepayments and other receivables	**20,262**	**29,936**	**50,888**	**27,884**
Less: Non-current deposits and prepayments	(2,446)	(3,694)	(2,158)	(1,123)
Current portion	17,816	26,242	48,730	26,761

Notes:

(1) Consisting primarily of prepayments of promotion expenses.

(2) Consisting primarily of the repayable portion of rent for the leased office we paid for other co-lessees.

Our prepayments increased from RMB1.1 million as of December 31, 2019 to RMB4.3 million as of December 31, 2020, primarily due to an increase in prepayments for renovation of our office building. Our prepayments increased by 93.0% from RMB4.3 million as of December 31, 2020 to

RMB8.3 million as of December 31, 2021, primarily due to the **[REDACTED]** to be capitalized of RMB**[REDACTED]**, which was partially offset by a decrease in prepayments for acquisitions of property, plant and equipment of RMB2.4 million as a result of recategorization of prepayment for renovation as long-term amortization costs after the completion of renovation. Our prepayments decreased by 3.6% from RMB8.3 million as of December 31, 2021 to RMB8.0 million as of September 30, 2022, primarily due to a decrease in the prepayments of promotion expenses which was partially offset by an increase in the **[REDACTED]** to be capitalized.

Our other receivables consist primarily of (i) loans to third parties and a related party, (ii) other tax recoverables and (iii) rental and other deposits. Loans to third parties and a related party consist primarily of (i) loans to third-party entities, (ii) the loan to a related company we have an equity interest in and (iii) advances to our trainees and managed artists. Loans to third-party entities primarily relate to our loans to two third-party private media companies engaging public relation and promotion, Guangzhou Felix Advertising Limited (廣州菲里科司廣告有限公司) and Guangzhou Showing Tower Culture Communication Limited (廣州尚鋭堂文化傳播有限公司), for working capital, which have an aggregate principal amount of RMB10.0 million and accrue interest at a rate of 7% per annum. We previously acquainted with these two private media companies through one of our suppliers who provided concert production services for us. With an intention to further develop business relationships, we provided such loans to the two private media companies. These loans were fully repaid in April 2022. The loan to a related company is the loan that we made to Nice Future, a related company in which we have 9.5% equity interest, for working capital. This loan has a principal amount of RMB7.0 million and accrues interest at China's one-year loan prime rate. This loan was fully repaid in March 2022. During the Track Record Period, we provided certain advances to our trainees and managed artists for their personal use, which were interest-free. As of December 31, 2019, 2020 and 2021 and September 30, 2022, loans to third parties and a related party are unsecured and repayable on demand.

As advised by our PRC Legal Advisor, any financing arrangement or lending transaction between non-financial institutions is prohibited by the General Lending Provisions (《貸款通則》) promulgated by PBOC. However, according to the latest revised Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "Judicial Interpretations on Private Lending Cases"), the Supreme People's Court recognizes the validity and legality of financing arrangements and lending transactions between non-financial institutions so long as certain requirements are satisfied and there is no violation of mandatory provisions of applicable laws and regulations.

We made the loans to third-party entities and Nice Future for the purpose of such parties' normal business operation and the source of the loans is the funds legally owned by us. We have no intention to engage in any private lending activity to derive interest income, and our provision of interest-bearing loan to related and third parties has not involved the circumstances which would cause the lending agreement invalid as set forth in the Civil Code of the PRC or the Judicial Interpretations on Private Lending Cases. As of the Latest Practicable Date, we had not been subject to any investigation or penalties in relation to loans to third-party entities and Nice Future, and there was no administrative penalty imposed by any governmental authority with respect to such loans. We will not enter into loans to third-party entities or related parties after the **[REDACTED]**.

Considering the above factors, our PRC Legal Advisor is of the view that the risk of us being penalized for the above-mentioned loans pursuant to the General Lending Provisions by the relevant regulatory authorities is remote.

Our net other receivables increased by 34.0% from RMB19.1 million as of December 31, 2019 to RMB25.6 million as of December 31, 2020, primarily due to (i) an increase in other tax recoverables in relation to input tax to be deducted, as a result of our business growth and (ii) an increase in loans to third parties and a related party in relation to our loans to the above-mentioned two private companies.

Our net other receivables increased by 66.4% from RMB25.6 million as of December 31, 2020 to RMB42.6 million as of December 31, 2021, primarily due to (i) an increase in other tax recoverables in relation to input tax to be deducted, as a result of our business growth; (ii) an increase in loans to third parties and a related party in relation to a loan of RMB7.0 million to Nice Future as its working capital; and (iii) an increase in rental and other deposits in relation to a new lease by Yuehua Korea.

Our net other receivables decreased by 53.3% from RMB42.6 million as of December 31, 2021 to RMB19.9 million as of September 30, 2022, primarily due to a decrease in loans to third parties and a related party as a result of the repayments of loans to two private media companies and the loan to Nice Future.

Financial Assets at Fair Value Through Profit or Loss

Our financial assets at fair value through profit or loss comprise our investments in wealth management products, movies, drama series and variety programs, unlisted equity securities at fair value and a listed equity security at fair value. For details about fair value estimation, see Note 3.3 to the Accountant's Report in Appendix I to this document. The table below sets forth the breakdown of our financial assets at fair value through profit or loss as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Current portion				
Investments in wealth management products	873	194,420	446,265	290,243
Investments in movies, drama series and variety programs	79,113	20,293	1,820	—
Subtotal	79,986	214,713	448,085	290,243
Non-current portion				
Investment in unlisted equity securities	—	800	2,800	31,452
Investment in a listed equity security	—	—	—	14,715
Total	**79,986**	**215,513**	**450,885**	**336,410**

Our financial assets at fair value through profit or loss increased substantially from RMB80.0 million as of December 31, 2019 to RMB215.5 million as of December 31, 2020, primarily due to our increased investment in wealth management products. Such increase was partially offset by a decrease in our investments in movies, drama series and variety programs primarily due to our strategic decision to focus more on our artist management and music IP production and operation businesses. The number of movies, drama series and variety programs we invested in decreased from 12 as of December 31, 2019 to seven as of December 31, 2020. Our financial assets at fair value through profit or loss further increased from RMB215.5 million as of December 31, 2020 to RMB450.9 million as of December 31, 2021, primarily due to our increased investments in wealth management products and increased investments in unlisted equity securities. These increases were partially offset by a decrease in investments in movies, drama series and variety programs. The number of movies, drama series and variety programs we invested in decreased from seven as of December 31, 2020 to two as of December 31, 2021. Our financial assets at fair value through profit or loss decreased by 25.4% from RMB450.9 million as of December 31, 2021 to RMB336.4 million as of September 30, 2022, primarily due to a decrease in our investments in wealth management products. The decrease was partially offset by an increase in our investments in unlisted and listed equity securities.

Our investments in wealth management products increased from RMB0.9 million as of December 31, 2019 to RMB194.4 million as of December 31, 2020, and further increased to RMB446.3 million as of December 31, 2021, primarily due to a continuous increase in cash generated from operating activities in line with the growth of our business. Our investments in wealth management products decreased from RMB446.3 million as of December 31, 2021 to RMB290.2 million as of September 30, 2022, primarily due to the disposal of a portion of our investments in wealth management products in order to meet our cash needs to pay the dividends declared in March 2022.

Our investments in wealth management products were mainly our investments in the wealth management products issued by large commercial banks in the PRC with guaranteed principal and floating return rate of investment ranging from 1.49% to 4.65% during the Track Record Period.

To limit the risks in relation to the wealth management products, we manage and evaluate the performance of investments on a fair value basis in accordance with our risk management and investment strategy under the premise that each purchasing does not affect our business operations. Specifically, our investment policies and internal control measures for wealth management product investments include, but not limited to: (i) we only allow investments in principal-guaranteed and interest-bearing wealth management products such as structured deposits, certificates of deposit, bank deposits with high interest rates and low-risk bonds issued by domestic central government bonds; (ii) the wealth management products we invest in should be issued by large commercial banks in the PRC; (iii) our finance department is in charge of assessment and purchase of wealth management products after considering the amount of our available funds and future capital needs while ensuring liquidity safety under the principle of maximizing the return on funds; and (iv) the finance department submits the investment proposals for internal review and the approvals from both our chief executive officer and our chief financial officer are required for each investment. At the beginning of each year, our Board of Directors reviews our investment plans in wealth management products, including the annual amount limit on our investments in wealth management products and the expected investment return, and approves such plans after careful assessment. Our finance department should make investments in wealth management products within the amount limit approved by our Board of Directors.

Subsequent to the purchases of wealth management products, we have designated personnel in our finance department to monitor performance of our investments and assess the risks associated with the investments. Any anomaly shall be timely reported to the management and we take actions immediately to avoid or reduce our investment losses. Our internal audit department is responsible for the review and audit of our investments in wealth management products and report the results to the management and the audit committee.

In redemption of our investments in wealth management products, our finance department communicate with the banks before the redemption date to ensure the return of our principals and interest gains or the re-investment in wealth management products. Our finance department is required to collect all the principals and gains within seven business days after the redemption date.

After the **[REDACTED]**, we intend to continue to invest in financial assets at fair value through profit or loss strictly in accordance with our internal policies and the requirements under Chapter 14 of the Listing Rules.

Our investments in movies, drama series and variety programs mainly represent our investments in certain movies, drama series and variety programs in which we hold a minority interest. Fair value of movies, drama series and variety programs is generally valued using the discounted cashflow method. The principal assumptions adopted in arriving at the fair value included, but not limited to: (i) management's best estimates of projected revenue of the relevant movies, drama series and variety programs are achievable; (ii) a weighted average cost of capital estimated with reference to listed comparable companies in the industry; (iii) the public and statistical information obtained from sources are deemed to be reputable, accurate and reliable; and (iv) the projects we invested in will retain and have competent management, key personnel, and technical staff to support their ongoing operation and will continue to operate as a going concern and have sufficient liquidity and capability to achieve the financial forecasts.

Our investments in movies, drama series and variety programs as of December 31, 2019 consisted primarily of our investments in (i) nine movies, including Star Trek Beyond (星際迷航3), Lie Detector (測謊人), Vanguard (急先鋒), Ba Sui De Ba Ba (八歲的爸爸) and The Magic School: Return of Flash (捉妖學院之閃影歸來), among others; and (ii) three drama series, including God of Lost Fantasy (太古神王), Chuan Luo Xue (莽荒紀之川落雪) and The Monkey King: The Lady Kingdom (西遊記之女兒國).

Our investments in movies, drama series and variety programs decreased from RMB79.1 million as of December 31, 2019 to RMB20.3 million as of December 31, 2020, primarily due to the decreases in the fair value of our investments in (i) two drama series God of Lost Fantasy of RMB28.2 million and Chuan Luo Xue of RMB8.6 million, as they were initially broadcast in 2020 and we received the return of our investments in the two drama series; and (ii) the movie Star Trek Beyond of RMB17.7 million, as we received the return of our investment in this movie in 2020, which was partially offset by our investments in a variety program Super Hit (宇宙打歌中心) of RMB4.3 million and a novel script right for future commercial development.

Our investments in movies, drama series and variety programs further decreased from RMB20.3 million as of December 31, 2020 to RMB1.8 million as of December 31, 2021, primarily due to the decreases in the fair value of (i) Lie Detector of RMB10.5 million, as it was initially broadcast in 2021 and we received the return of our investments in this movie; and (ii) Super Hit of RMB4.3 million, as the initial broadcast of Super Hit ended in 2021 and we received the return of our investments. As of December 31, 2021, we had investments in one novel script right and one movie with a relatively small amount of fair value of RMB1.8 million. As of September 30, 2022, we had no investments in movies, drama series and variety programs, as a result of the dismantlement of our contractual arrangements in respect of Horgos Yuehua in March 2022.

Our investments in unlisted equity securities represent our minority interests in certain private companies on which we have no significant influence. Our investments in unlisted equity securities increased from nil as of December 31, 2019 to RMB0.8 million as of December 31, 2020, primarily due to our investment in a private company in the consumer industry. Our investments in unlisted equity securities increased from RMB0.8 million as of December 31, 2020 to RMB2.8 million as of December 31, 2021, primarily due to our investments in another two private companies in the consumer entertainment industries. Our investments in unlisted equity securities increased from RMB2.8 million as of December 31, 2021 to RMB31.5 million as of September 30, 2022, primarily due to our investments in four private companies in the consumer, media and technology industries. Our investments in listed equity securities represent our minority interests in a public company. As of September 30, 2022, our investments in listed equity securities were RMB14.7 million in relation to our investment in a biotech company listed on the NEEQ.

In respect of the valuation of level 3 financial assets, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the financial assets without readily determinable fair value; (ii) carefully considered available information, including public and statistical information from reputable, accurate and reliable sources, in assessing the financial data and assumptions including but not limited to discount rate, expected rate of return and political and industry conditions; (iii) engaged independent valuer to appraise the fair value of certain financial assets that are significant, provided necessary financial information to the valuer for the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis is fair and reasonable and our financial statements are properly prepared.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 and Note 21 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-1 to I-3 of Appendix I to this document.

In relation to the valuation of our level 3 financial assets, the Joint Sponsors have performed, among others, the following independent due diligence: (i) discussing with our management with a view to understanding the nature and accounting treatment of our financial assets, and the background and evaluation methodology of our investments; (ii) reviewing the full list and breakdown of our financial assets and other relevant documents prepared by us to understand the work conducted by us in fair value estimation and our assessment of the financial assets valuation; (iii) reviewing the valuation report of certain of our financial assets prepared by a professional valuer and discussing with the valuer on the valuation methodology and assumptions, and qualification, competence and independence of the valuer; (iv) discussing the valuation assumptions relating to the macro political, legal, social and economic environment with Frost & Sullivan; and (v) discussing with the Reporting Accountant in respect of the audit procedures conducted for the purpose of reporting on the Historical Financial Information of our Group as a whole and reviewing the relevant notes in the Accountant's Report set out in Appendix I to this document. Based on the due diligence work carried out as described above, and taking into account the work done and representations by our Directors and the opinion of the Reporting Accountant, nothing has come to the Joint Sponsors' attention that would lead them to cast doubts on the valuation of the fair value of our financial assets.

Inventories

Our inventories comprise artist-related merchandise, drama series and movie scripts.

Our inventories decreased by 47.6% from RMB2.1 million as of December 31, 2019 to RMB1.1 million as of December 31, 2020, primarily due to a decrease in artist-related merchandise of RMB1.0 million as we disposed certain merchandise. Our inventories remained relatively stable at RMB1.1 million as of December 31, 2021. Our inventories increased from RMB1.1 million as of December 31, 2021 to RMB4.1 million as of September 30, 2022, as we purchased some artist-related merchandise for Yuehua Family Concert to sell to our business partners. As of October 31, 2022, none of our inventories as of September 30, 2022 had been subsequently consumed or sold.

Property, Plant and Equipment

Our property, plant and equipment mainly comprise freehold land and office building in Korea, motor vehicles and office equipment.

The value of our property, plant and equipment was RMB105.7 million, RMB106.4 million, RMB103.6 million and RMB94.9 million as of December 31, 2019, 2020 and 2021 and September 30, 2022, respectively. The value of our property, plant and equipment remained relatively stable primarily due to combined effects of the currency translation differences in relation to our freehold land and office building in Korea, the depreciation of our office building, as well as procurement of new property, plant and equipment.

Investment Properties

Our investment properties mainly comprise two floors of the basement of the office building in Korea we purchased in 2019. The value of our investment properties decreased slightly from RMB16.3 million as of December 31, 2019 to RMB16.0 million as of December 31, 2020, and further decreased to RMB14.1 million as of December 31, 2021 and further decreased to RMB12.9 million as of September 30, 2022, primarily due to the depreciation and currency translation differences between KRW and RMB.

Right-of-use Assets

Our right-of-use assets mainly comprise leased offices and motor vehicles.

Our right-of-use assets increased by 38.0% from RMB12.1 million as of December 31, 2019 to RMB16.7 million as of December 31, 2020, primarily due to our lease of a new office in China in 2020. Our right-of-use assets decreased by 26.9% from RMB16.7 million as of December 31, 2020 to RMB12.2 million as of December 31, 2021, primarily due to disposal of right-of-use assets from early termination of a lease as we moved to the new office. Our right-of-use assets decreased by 13.9% from RMB12.2 million as of December 31, 2021 to RMB10.5 million as of September 30, 2022, primarily due to depreciation.

Investments Accounted for Using the Equity Method

Our investments accounted for using the equity method comprise our investments in associates, being private companies in which we have significant influences. For details about our investments in associates, see Note 19 to the Accountant's Report in Appendix I to this document.

We invested in certain pan-entertainment and technology companies which we believe are with great growth potential. Our investments accounted for using the equity method increased by 7.2% from RMB43.0 million as of December 31, 2019 to RMB46.1 million as of December 31, 2020, primarily due to the acquisition of equity interest in three associates, namely Starsugar, Hangzhou Agile, and Agile Groups International (HK) Limited (小群國際(香港)有限公司) ("Agile Groups") in 2020. Our investments accounted for using the equity method decreased by 15.2% from RMB46.1 million as of December 31, 2020 to RMB39.1 million as of December 31, 2021, primarily due to the losses incurred in the business operations of our associates as well as disposal of all our interests in Agile Groups and partial disposal of our interests in Hangzhou Agile and in 2021. Our investments accounted for using the equity method decreased by 60.4% from RMB39.1 million as of December 31, 2021 to RMB15.5 million as of September 30, 2022, primarily due to the disposal of all our interests in Beijing Tianhao as a result of the dismantlement of our contractual arrangements in respect of Horgos Yuehua in March 2022. Such decrease was partially offset by our equity investments in Candy Cosmetics, Wuyin Digital and Xiaoguoyuan in the nine months ended September 30, 2022.

Liabilities

Trade Payables

Our trade payables consist primarily of payables in relation to our revenue sharing arrangements with our managed artists and certain media platforms for our artist management business.

Our trade payables were RMB163.7 million, RMB156.6 million, RMB213.5 million and RMB150.9 million as of December 31, 2019, 2020 and 2021 and September 30, 2022, respectively. Our trade payables decreased slightly from RMB163.7 million as of December 31, 2019 to RMB156.6 million as of December 31, 2020, primarily due to a decrease in revenue shared with a major media platform in China as our cooperation agreement with this media platform expired in the fourth quarter of 2019, pursuant to which this platform managed certain artists jointly with us and we shared the revenue generated by these artists with this platform. We resumed to operate such artists on an exclusive basis after the conclusion of this cooperation agreement and no longer need to share revenue from operation of such artists with this platform in 2020. Our trade payables increased by 36.3% from RMB156.6 million as of December 31, 2020 to RMB213.5 million as of December 31, 2021, primarily due to an increase in revenue sharing with our established managed artists. Our trade payables decreased by 29.3% from RMB213.5 million as of December 31, 2021 to RMB150.9 million as of September 30, 2022, primarily due to a decrease in payables in relation to our revenue sharing for artist management business in the nine months ended September 30, 2022, reflecting the decrease in revenue generated from artist management business as a result of the impact of COVID-19 pandemic.

Payables in relation to our revenue sharing for artist management business were the major component of our trade payables during the Track Record Period. We generally reconcile the amount of revenue to be shared with our managed artists on a quarterly basis and arrange payment upon receipt of invoices from them subsequently. The following table sets forth our trade payables turnover days for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,
	2019	2020	2021	2022
Trade payables turnover days[(1)]	149	136	98	110

Note:

(1) Trade payables turnover days for each period equals the average of the beginning and ending balances of trade payables for that period divided by cost of revenue for the period and multiplied by the number of days in that period.

Our trade payables turnover days were 149 days in 2019, primarily because it took a much longer time to settle the payments of revenue to be shared with media platforms which jointly managed certain artists with us during a specified term, as compared to the quarterly settlement with our managed artists. Our trade payables turnover days were 136 days in 2020, primarily attributable to a large ending balance of our trade payables as of December 31, 2020, driven by a substantial growth in our artist management business in 2020. Our trade payables turnover days were 98 days in 2021, which generally accorded with the quarterly settlement with our managed artists. Our trade payables turnover days were 110 days in the nine months ended September 30, 2022, primarily due to a decrease in cost of revenue, while the average of the beginning and ending balances of trade payables remained relatively stable.

The following table sets forth our trade payables as of December 31, 2019, 2020 and 2021 and September 30, 2022.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Up to 3 months	49,179	125,756	113,355	73,548
3 to 6 months	58,004	16,812	76,079	55,801
6 months to 1 year	33,829	2,002	13,545	9,835
Over 1 year	22,721	12,021	10,504	11,723
Total	**163,733**	**156,591**	**213,483**	**150,907**

As of October 31, 2022, RMB134.1 million, or 88.9% of our trade payables outstanding as of September 30, 2022, had been subsequently settled.

Other Payables and Accruals

Other payables and accruals consist primarily of (i) payables in respect of investments of movies, (ii) accrual for payroll, employee benefit and other expenses, (iii) payables in respect of sharing in the receipts from movies and variety programs and (iv) **[REDACTED]** payable and accrual. The table below sets forth the breakdown of our other payables and accruals as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Payables in respect of investments in movies	33,204	33,204	33,204	–
Accrual for payroll, employee benefit and other expenses	17,521	20,540	30,665	12,536
Payables in respect of sharing in the receipts from movies and variety programs(1)	18,816	16,949	19,780	8,703
[REDACTED] payable and accrual	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
VAT and surcharges payable	13,110	16,596	9,619	6,730
Payables in respect of investments received for canceled licensing arrangement	8,925	–	–	–
Payables in respect of canceled events	7,547	7,547	–	–
Loans from a third party and related parties(2)	21,573	–	–	–
Dividend payable	1,875	–	–	–
Others(3)	3,903	6,060	5,960	1,502
Total	**126,474**	**100,896**	**109,332**	**32,320**

Notes:

(1) Consisting primarily of payables for revenue sharing with co-investors in movies and variety programs.

(2) Consisting primarily of loans from a third party and two related parties, which are unsecured, interest free and repayable on demand or in one year. These loans were fully repaid in 2020.

(3) Consisting primarily of payables and accruals for daily expenses.

We entered into a loan agreement with Huahua Media Co., Limited, a third-party Hong Kong private media company with the principal amount of US$2.1 million, interest-free and unsecured, as work capital for our intention to invest in movies and drama series overseas. This loan was repaid in 2020.

Our other payables and accruals decreased by 20.2% from RMB126.5 million as of December 31, 2019 to RMB100.9 million as of December 31, 2020, primarily due to (i) the payoff of the above-mentioned loan from Huahua Media Co., Limited, and (ii) the payoff of loans from related parties, Ms. Sun Yuqing to purchase office building in Korea and Mr. LEE Sang Kyu as our working capital in 2020.

Our other payables and accruals increased by 8.3% from RMB100.9 million as of December 31, 2020 to RMB109.3 million as of December 31, 2021, primarily due to (i) an increase in accrued payroll, employee benefit and other expenses resulting from the increase in the number of our employees and in employee salaries and benefits. The number of our employees increased from 166 as of December 31, 2020 to 195 as of December 31, 2021; (ii) **[REDACTED]** payable and accrual newly incurred in 2021.

Our other payables and accruals decreased by 70.4% from RMB109.3 million as of December 31, 2021 to RMB32.3 million as of September 30, 2022, primarily due to (i) decreases in payables in respect of investments in movies and payables in respect of sharing in the receipts from movies and variety programs, as a result of the dismantlement of our contractual arrangements in respect of Horgos Yuehua in March 2022; (ii) a decrease in accrual for payroll, employee benefit and other expenses as we paid the year-end bonuses for 2021 to our employees in the nine months ended September 30, 2022; and (iii) a decrease in **[REDACTED]** payable and accrual as a result of our partial payments of **[REDACTED]** in the nine months ended September 30, 2022.

Contract Liabilities

Our contract liabilities mainly represent non-refundable advanced payments received from the customers for services that have not yet been delivered to the customers. We recognize contract liabilities as revenue once our obligations have been performed under the relevant contracts. For details, see Note 2.22 to the Accountant's Report in Appendix I to this document.

The table below sets forth the breakdown of our contract liabilities by business line as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Artist management	81,088	172,001	193,683	159,702
Music IP production and operation	18,233	25,800	44,003	35,432
Pan-entertainment business	3,914	4,440	2,399	2,692
Total	**103,235**	**202,241**	**240,085**	**197,826**

Our contract liabilities increased by 95.9% from RMB103.2 million as of December 31, 2019 to RMB202.2 million as of December 31, 2020, primarily due to an increase in contract liabilities for artist management as a result of an increase in the number of contracts of commercial activities we secured in 2020. Our contract liabilities increased by 18.7% from RMB202.2 million as of December 31, 2020 to RMB240.1 million as of December 31, 2021, primarily due to (i) a continuous increase in contract liabilities for artist management as a result of an increase in the number and price of contracts of commercial activities we secured in 2021; and (ii) an increase in contract liabilities for music IP production and operation, as a result of the prepayments from music streaming platforms when we entered into licensing agreements with them. Our contract liabilities decreased by 17.6% from RMB240.1 million as of December 31, 2021 to RMB197.8 million as of September 30, 2022, primarily due to (i) the recognition of certain contract liabilities under the contracts of endorsement deals secured in 2021 as revenue and (ii) a decrease in the number of contracts newly secured in the nine months ended September 30, 2022.

As of October 31, 2022, RMB28.0 million, or 14.2% of our contract liabilities as of September 30, 2022, had been subsequently recognized as revenue.

Redemption Liabilities

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

We had RMB571.0 million redemption liabilities as of December 31, 2020. Our redemption liabilities increased by 7.1% from RMB571.0 million as of December 31, 2020 to RMB611.5 million as of December 31, 2021, primarily due to unwinding of interests in 2021. We had no redemption liabilities as of September 30, 2022 as the redemption liabilities were derecognized following the issuance of Series A-1, A-2 and A-3 convertible preferred shares by our Company to certain shareholders in January 2022. For more details about our redemption liabilities, see Note 32 to the Accountant's Report in Appendix I to this document.

Financial Liabilities at Fair Value Through Profit or Loss

Our Company issued Series A-1, A-2 and A-3 convertible preferred shares to certain shareholders on January 28, 2022. For details, see "History, Reorganization and Corporate Structure—Reorganization." Following such issuance, these convertible preferred shares were recognized as financial liabilities at fair value through profit or loss with an initial fair value of RMB2,484.4 million, while the redemption liabilities were derecognized.

We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted option-pricing method and equity allocation model to determine the fair value of the Series A-1, A-2, A-3 convertible preferred shares. The key assumptions we relied on are set as below:

	As of September 30, 2022
	(RMB in thousands)
Discount rate	12.00%
Risk-free interest rate	4.22%
Discount for lack of marketability	5.40%
Expected volatility	40.65%

In addition to the assumptions adopted above, we also factored our projections of future performance into the determination of the fair value of Series A-1, A-2, A-3 convertible preferred shares on each appraisal date.

As of September 30, 2022, we had financial liabilities at fair value through profit or loss of RMB1,307.2 million, with a non-current portion of RMB1,119.8 million and a current portion of RMB187.4 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary use of cash is to fund our working capital requirements and other recurring expenses. During the Track Record Period, we met our working capital requirements mainly from cash generated from operations.

Current Assets and Current Liabilities

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

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Current assets				
Inventories	2,096	1,108	1,132	4,130
Trade receivables	54,332	80,981	106,833	125,705
Prepayments and other receivables	17,816	26,242	48,730	26,761
Amounts due from shareholders	—	—	344,600	—
Financial assets at fair value through profit or loss	79,986	214,713	448,085	290,243
Cash and cash equivalents	616,662	651,924	546,559	663,476
Total current assets	**770,892**	**974,968**	**1,495,939**	**1,110,315**
Current liabilities				
Borrowings	—	—	64,322	—
Trade payables	163,733	156,591	213,483	150,907
Other payables and accruals	126,474	100,896	109,332	32,320
Redemption liabilities	—	—	123,274	—
Financial liabilities at fair value through profit or loss	—	—	—	187,371
Contract liabilities	71,666	151,342	187,234	174,466
Current income tax liabilities	30,373	75,094	110,432	87,044
Lease liabilities	4,777	4,314	5,143	5,035
Total current liabilities	**397,023**	**488,237**	**813,220**	**637,143**
Net current assets	**373,869**	**486,731**	**682,719**	**473,172**

Our net current assets decreased by 30.7% from RMB682.7 million as of December 31, 2021 to RMB473.2 million as of September 30, 2022, primarily due to a decrease in our current assets which outpaced a decrease in our current liabilities. Our current assets decreased by 25.8% from RMB1,495.9 million as of December 31, 2021 to RMB1,110.3 million as of September 30, 2022, primarily due to (i) the settlement of amounts due from shareholders in March 2022 and (ii) a decrease in financial assets at fair value through profit or loss, primarily in relation to the disposal of a portion of our investments in wealth management products. The decrease in our current assets was partially offset by an increase in cash and cash equivalents, as a result of cash generated from our operating activities. Our current liabilities decreased by 21.7% from RMB813.2 million as of December 31, 2021 to RMB637.1 million as of September 30, 2022, primarily due to (i) the derecognition of redemption liabilities of RMB123.3 million in relation to the issuance of convertible preferred shares of our Company to certain shareholders, (ii) a decrease in other payables and accruals of RMB77.0 million, primarily as a result of the dismantlement of our contractual arrangements in respect of Horgos Yuehua in March 2022, our payments of year-end bonuses for 2021 to our employees and partial payments of **[REDACTED]**, (iii) a decrease in trade payables of RMB62.6 million, mainly attributable to a decrease in payables in relation to our revenue sharing for artist management business in the nine months ended September 30, 2022, reflecting the decrease in revenue generated from artist management business as a result of the impact of the COVID-19 pandemic, and (iv) the re-categorization of the current portion of borrowings into the non-current portion of borrowings, as we entered into an agreement with a Korean bank to extend the term of our three-year loan from this bank. The decrease in our current liabilities was partially offset by the recognition of convertible preferred shares as financial liabilities at fair value through profit or loss of RMB187.4 million in relation to the issuance of convertible preferred shares of our Company to certain shareholders. For details, see "History, Reorganization and Corporate Structure—Reorganization."

Our net current assets increased by 40.3% from RMB486.7 million as of December 31, 2020 to RMB682.7 million as of December 31, 2021, primarily due to an increase in our current assets, which was partially offset by an increase in our current liabilities. Our current assets increased by 53.4% from RMB975.0 million as of December 31, 2020 to RMB1,495.9 million as of December 31, 2021, primarily due to (i) an increase in amounts due from shareholders of RMB344.6 million, which were subsequently settled in March 2022, in relation to our Reorganization which had not been completed as of December 31, 2021, (ii) an increase in financial assets at fair value through profit or loss of RMB233.4 million, reflecting our increased investments in wealth management products and increased investments in unlisted equity securities, (iii) an increase in trade receivables of RMB25.8 million, reflecting our business growth and expansion, and (iv) an increase in prepayments and other receivables of RMB22.5 million as a result of an increase in loans to third parties and a related party. Our current liabilities increased by 66.6% from RMB488.2 million in 2020 to RMB813.2 million in 2021, primarily due to (i) an increase in redemption liability of RMB123.3 million in relation to the additional redemption rights that certain shareholders of Yuehua Limited are entitled to pursuant to the shareholders' agreement dated November 16, 2020, (ii) borrowings of RMB64.3 million in relation to our three-year loan from the above mentioned Korean bank, (iii) an increase in trade payables of RMB56.9 million, as a result of the growth and expansion of our business, (iv) an increase in contract liabilities of RMB35.9 million as a result of our expanding business and (v) an increase in current income tax liabilities of RMB35.3 million, as a result of the increase in our taxable profit.

Our net current assets increased by 30.2% from RMB373.9 million as of December 31, 2019 to RMB486.7 million as of December 31, 2020, primarily due to an increase in our current assets, which was partially offset by an increase in our current liabilities. Our current assets increased by 26.5% from RMB770.9 million as of December 31, 2019 to RMB975.0 million as of December 31, 2020, primarily due to (i) an increase in financial assets at fair value through profit or loss of RMB134.7 million, reflecting our addition of wealth management products, (ii) an increase in cash and cash equivalents of RMB35.2 million, and (iii) an increase in trade receivables of RMB26.7 million, reflecting the expansion of our business. Our current liabilities increased by 23.0% from RMB397.0 million as of December 31, 2019 to RMB488.2 million as of December 31, 2020, primarily attributable to (i) an increase in contract liabilities of RMB79.6 million, as a result of an increase in the number of contracts of commercial activities we secured in 2020, and (ii) an increase in current income tax liabilities of RMB44.7 million, as a result of the increase in our taxable profit.

Cash Flows

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

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

Operating Activities

During the Track Record Period, we generated cash inflow from our operating activities primarily through our artist management, music IP production and operation and pan-entertainment business. Cash outflow from operating activities primarily comprises costs incurred in operation of our businesses. Our cash generated from or used in operating activities reflects our profit before tax as adjusted by non-cash and non-operating items and movements in working capital.

Our net cash generated from operating activities was RMB42.2 million in the nine months ended September 30, 2022. This net cash inflow was primarily attributable to (i) profit before income tax of approximately RMB1,414.4 million and (ii) adjustments for non-cash items, mainly including the equity settled share-based payments of approximately RMB66.2 million. The net cash inflow was partially offset by (i) adjustments for non-cash items, mainly including the fair value changes of convertible preferred shares of approximately RMB1,204.0 million; (ii) income tax paid of approximately RMB91.6 million, (iii) a decrease in trade payables of approximately RMB62.5 million, primarily as a result of the settlement of certain trade payables in the nine months ended September 30, 2022, (iv) a decrease in contract liabilities of approximately RMB40.0 million, as a result of the recognition of certain contract liabilities as revenue upon our performance of services to customers and a decrease in the number of contracts newly secured in the nine months ended September 30, 2022, (v) a decrease in other payables and accruals of approximately RMB24.5 million, primarily as a result of our payments of the year-end bonuses for 2021 to employees and partial payments of **[REDACTED]** expenses and (vi) an increase in trade receivables of approximately RMB19.2 million, primarily as a result of trade receivables due from certain customers which carried relatively larger amounts but had not been settled as of September 30, 2022.

Our net cash generated from operating activities was RMB507.9 million in 2021. This net cash inflow was primarily attributable to (i) profit before income tax of approximately RMB461.0 million, (ii) an increase in trade payables of approximately RMB56.9 million, reflecting our expanding business, (iii) an increase in contract liabilities of approximately RMB37.8 million as a result of an increase in the number of contracts of commercial activities we secured in 2021, and (iv) adjustments for non-cash items, mainly including the interest expenses on redemption liabilities of approximately RMB40.5 million and the fair value gains on financial assets at fair value through profit or loss of approximately RMB12.8 million. The net cash inflow was partially offset by (i) income taxes paid of approximately RMB90.6 million, and (ii) an increase in trade receivables of approximately RMB28.8 million, as a result of our growing business.

Our net cash generated from operating activities was RMB425.5 million in 2020. This net cash inflow was primarily attributable to (i) profit before income tax of approximately RMB392.5 million, (ii) an increase in contract liabilities of approximately RMB99.0 million, as a result of an increase in the number of contracts of commercial activities we secured in 2020, and (iii) adjustments for non-cash items, mainly including the fair value losses on financial assets at fair value through profit or loss of approximately RMB17.7 million, net impairment loss on financial assets of RMB9.0 million and depreciation of right-of-use assets of approximately RMB6.5 million. The net cash inflow was partially offset by (i) income taxes paid of approximately RMB57.5 million, (ii) an increase in trade receivables of approximately RMB35.5 million, primarily due to an increase in our revenue as a result of our business expansion and (iii) an increase in deposits, prepayments and other receivables of approximately RMB7.1 million, reflecting our business growth.

Our net cash generated from operating activities was RMB254.0 million in 2019. This net cash inflow was primarily attributable to (i) profit before income tax of approximately RMB169.2 million, (ii) an increase in trade payables of approximately RMB39.7 million, reflecting our expansion of business, (iii) an increase in other payables and accruals of approximately RMB17.9 million, and (iv) adjustments for non-cash items, mainly including the fair value losses on financial assets at fair value through profit or loss of approximately RMB42.8 million, amortization of intangible assets of approximately RMB32.3 million, share of results of investments accounted for using the equity method of approximately RMB9.2 million and depreciation of right-of-use assets of approximately RMB6.7 million. The net cash inflow was primarily offset by (i) income taxes paid of approximately RMB53.7 million, and (ii) a decrease in contract liabilities of approximately RMB11.3 million.

Investing Activities

During the Track Record Period, our cash outflow from investing activities mainly relates to (i) purchases of property, plant and equipment, (ii) purchases of investment properties, (iii) purchases of intangible assets, (iv) payments for financial assets at fair value through profit or loss, (v) payments for investments accounted for using the equity method and (vi) advance of loans to third parties; while our cash inflow from investing activities mainly comprises (i) proceeds from disposals of financial assets at fair value through profit or loss and (ii) repayment from loans to third parties and a related party.

Our net cash generated from investing activities was approximately RMB132.9 million in the nine months ended September 30, 2022. This net cash inflow was primarily due to the proceeds from disposals of financial assets at fair value through profit or loss of RMB908.8 million primarily in relation to disposal of wealth management products and repayment from loans to third parties and a related party of RMB21.9 million in relation to the repayments of loans from the two private media companies and Nice Future, which was partially offset by (i) payments for financial assets at fair value through profit or loss of RMB781.7 million primarily in relation to purchases of wealth management products and our new investments in unlisted equity securities and a listed equity security, (ii) payments for investments accounted for using the equity method of RMB15.5 million primarily in relation to our investments in Candy Cosmetics, Wuyin Digital and Xiaoguoyuan.

Our net cash used in investing activities was approximately RMB258.7 million in 2021. This net cash outflow was primarily due to (i) payments for financial assets at fair value through profit or loss of RMB1,456.4 million primarily in relation to purchases of wealth management products, and (ii) purchases of property, plant and equipment of RMB12.4 million for purchase of equipment when moving to our new office building. This net cash outflow was partially offset by proceeds from disposals of financial assets at fair value through profit or loss of RMB1,208.3 million primarily in relation to disposals of wealth management products.

Our net cash used in investing activities was approximately RMB161.2 million in 2020. This net cash outflow was primarily due to payment for financial assets at fair value through profit or loss of RMB1,123.6 million primarily in relation to purchases of wealth management products, which was partially offset by proceeds from disposals of financial assets at fair value through profit or loss of RMB970.3 million primarily in relation to disposals of wealth management products.

Our net cash generated from investing activities was approximately RMB23.5 million in 2019. This net cash inflow was primarily due to the proceeds from disposals of financial assets at fair value through profit or loss of RMB1,228.3 million primarily in relation to disposals of wealth management products, which was partially offset by (i) payments for financial assets at fair value through profit or loss of RMB1,076.6 million primarily in relation to purchase of wealth management products, (ii) purchases of property, plant and equipment and investment properties of RMB118.7 million primarily in relation to the office building purchased in 2019 in Korea.

Financing Activities

During Track Record Period, our cash inflow from financing activities comprises proceeds from borrowings, capital injection by non-controlling interests and proceeds from issuance of convertible preferred shares; while our cash outflow from financing activities mainly comprises dividends paid to the then shareholders of Yuehua Limited and shareholders of our Company, payment for lease liabilities, repayment of borrowings and payment for **[REDACTED]**.

Our net cash used in financing activities was approximately RMB77.8 million in the nine months ended September 30, 2022. This net cash outflow was primarily due to (i) effect of reorganization in respect of the acquisition of a company comprising our Group of RMB402.3 million and (ii) the dividends of RMB197.3 million paid by our Company to our shareholders in March 2022, which was partially offset by proceeds from issuance of convertible preferred shares of RMB544.8 million we received in the nine months ended September 30, 2022.

Our net cash used in financing activities was approximately RMB353.3 million in 2021. This net cash outflow was primarily due to (i) effect of reorganization in respect of the acquisition of a company comprising our Group of RMB344.6 million and (ii) payment for **[REDACTED]** of RMB**[REDACTED]**, which was partially offset by a capital injection of RMB2.6 million by a non-controlling shareholder of certain of our subsidiaries.

Our net cash used in financing activities was approximately RMB230.4 million in 2020. This net cash outflow was primarily due to (i) dividends of RMB201.9 million paid by Yuehua Limited to its then shareholders in 2020 and (ii) the repayment of borrowings of RMB21.2 million, which were partially offset by a capital injection of RMB5.4 million from a non-controlling shareholder of certain of our subsidiaries.

Our net cash generated from financing activities was approximately RMB36.9 million in 2019. This net cash inflow was primarily due to proceeds from borrowings of RMB73.8 million, which was partially offset by (i) repayment of borrowings of RMB30.6 million and (ii) payment for lease liabilities (principal and interest) of RMB5.8 million.

Working Capital Sufficiency

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

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of borrowings, lease liabilities, redemption liabilities, loan from third parties and related parties, and financial liabilities at FVPL.

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

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Current portion				
Borrowings	—	—	64,322	—
Lease liabilities	4,777	4,314	5,143	5,035
Loans from a third party and related parties	21,573	—	—	—
Redemption liabilities	—	—	123,274	—
Financial liabilities at fair value through profit or loss	—	—	—	187,371
Subtotal	26,350	4,314	192,739	192,406
Non-current portion				
Borrowings	72,381	71,964	—	59,574
Lease liabilities	5,176	6,542	5,066	5,685
Redemption liabilities	—	570,995	488,202	—
Financial liabilities at fair value through profit or loss	—	—	—	1,119,859
Subtotal	77,557	649,501	493,268	1,185,118
Total	**103,907**	**653,815**	**686,007**	**1,377,524**

For details about redemption liabilities, loan from third parties and related parties and convertible preferred shares, see "—Discussion of Selected Items from the Consolidated Statements of Financial Position—Liabilities."

Borrowings

During the Track Record Period, our borrowings consisted of a secured loan from a Korean bank denominated in KRW for the purchase of Yuehua Korea's office building in Korea in 2019. On August 29, 2022, we entered into an agreement with this Korean bank to extend the repayment term of such secured loan. Pursuant to this extension agreement, the secured loan is due on August 29, 2025. Therefore, we recategorized this loan into non-current borrowings as of September 30, 2022. The decrease in our borrowings was primarily due to currency translation differences between KRW and RMB.

The table below sets forth a breakdown of our borrowings as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Current				
Bank borrowings	—	—	64,322	—
Non-current				
Bank borrowings	72,381	71,964	—	59,574
Total[(1)]	**72,381**	**71,964**	**64,322**	**59,574**

Note:

(1) As of September 30, 2022, the bank borrowings were denominated in KRW, and secured by certain property, plant and equipment and investment properties with floating interest rates. These bank borrowings are due on August 29, 2025.

The table below sets forth the repayment terms of our bank borrowings as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Within 1 year	—	—	64,322	—
1 to 2 years	—	71,964	—	—
2 to 5 years	72,381	—	—	59,574
Total	**72,381**	**71,964**	**64,322**	**59,574**

Lease Liabilities

During the Track Record Period, our lease liabilities mainly consisted of the unpaid portion of lease payments for our leases of offices and motor vehicles.

The table below sets forth a breakdown of our lease liabilities as of the dates indicated.

	As of December 31,			As of September 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Current	4,777	4,314	5,143	5,035
Non-current	5,176	6,542	5,066	5,685
Total	**9,953**	**10,856**	**10,209**	**10,720**

Indebtedness Statement

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

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

CONTINGENT LIABILITIES

As of December 31, 2019, 2020 and 2021 and September 30, 2022, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on property, plant and equipment, investment properties and intangible assets. Our capital expenditures were RMB126.7 million, RMB3.5 million, RMB12.4 million and RMB2.7 million in 2019, 2020 and 2021 and the nine months ended September 30, 2022, respectively. We intend to fund our planned capital expenditures through a combination of the **[REDACTED]** from the **[REDACTED]** as well as cash generated from our operations. Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

CAPITAL COMMITMENTS

Our capital commitments are mainly in relation to property, plant and equipment, intangible assets and investments accounted for using the equity method. As of December 31, 2019, 2020 and 2021 and September 30, 2022, we had significant capital expenditure contracted for but not recognized as liabilities of RMB2.0 million, RMB5.7 million, RMB12.7 million and RMB2.5 million, respectively.

DIVIDENDS

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

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

Our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. We are a holding company incorporated under the laws of the Cayman Islands, pursuant to which, dividends may be declared and paid out of our share premium account, provided that our Company satisfies the solvency test set out in the Cayman Companies Act. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our subsidiaries, including our PRC companies. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

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

KEY FINANCIAL RATIOS

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

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

Notes:

(1) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity of the same period and multiplied by 100%.

(2) Return on equity and gearing ratio are not applicable because we recorded a total deficit as of December 31, 2020, primarily due to the redemption liabilities we recorded for shareholders' preferential rights pursuant to a shareholders' agreement dated November 16, 2020.

(3) Gearing ratio is not applicable as of September 30, 2022 because we recorded a total deficit as of September 30, 2022, primarily due to the recognition of convertible preferred shares we issued on January 28, 2022 as financial liabilities at fair value through profit or loss.

(4) Return on assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets of the same period and multiplied by 100%.

(5) Current ratio is calculated based on total current assets divided by total current liabilities as of the dates indicated.

(6) Gearing ratio is calculated based on total debt divided by total equity as of the dates indicated and multiplied by 100%.

(7) Ratios are not calculated for the nine months ended September 30, 2022 because the numbers for the period are not comparable to the numbers for the year.

Return on Equity

Our return on equity was 30.2% in 2019. We did not record return on equity in 2020 primarily because we recorded a total deficit of RMB13.5 million as of December 31, 2020 mainly due to recognition of redemption liabilities and there was no closing balance of total equity for 2020. The redemption liabilities were derecognized as of January 28, 2022, and relevant convertible preferred shares were recognized as financial liabilities measured at fair value through profit or loss. We did not record return on equity in 2021 because we recorded a total deficit of RMB13.5 million as of December 31, 2020 and there was no opening balance of total equity for 2021. We recorded a total equity of RMB319.6 million as of December 31, 2021 primarily due to an increase in our profit for the year of 2021.

Return on Assets

Our return on assets increased from 14.0% in 2019 to 27.3% in 2020, primarily due to a substantial increase in our profit for the year from 2019 to 2020. Our return on assets decreased from 27.3% in 2020 to 23.5% in 2021, primarily due to a substantial increase in our total assets as of December 31, 2021, as compared to our total assets as of December 31, 2020.

Current Ratio

Our current ratio was 1.9, 2.0, 1.8 and 1.7 as of December 31, 2019, 2020 and 2021 and September 30, 2022, respectively, which remained relatively stable. For detailed discussion, see "—Liquidity and Capital Resources—Current Assets and Current Liabilities."

Gearing Ratios

Our gearing ratio was 22.8% as of December 31, 2019. We did not record the gearing ratio as of December 31, 2020 primarily because we recorded a total deficit of RMB13.5 million as of December 31, 2020, mainly due to recognition of redemption liabilities. Our gearing ratio was 214.7% as of December 31, 2021, primarily due to an increase in total debt in relation to the redemption liabilities recognized. We did not record the gearing ratio as of September 30, 2022, primarily because we recorded a total deficit of RMB545.9 million as of September 30, 2022, mainly due to the recognition of convertible preferred shares we issued on January 28, 2022 as financial liabilities at fair value through profit or loss.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including foreign exchange risk, fair value interest rate risk, credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, see Note 3.1 to the Accountant's Report in Appendix I to this document.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our Group entities' functional currency. The functional currency of our Company is HKD whereas functional currency of our subsidiaries operate in the PRC is RMB. Our Group has not entered into any derivative instruments to hedge its foreign exchange exposures.

Our Group's PRC subsidiaries are exposed to foreign exchange risk arising from recognized assets and liabilities denominated in USD whereas their functional currency is RMB. For the years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2022, if USD had strengthened or weakened by 5% against RMB with all other variables held constant, the profit for the years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2022 would have been approximately RMB423,000, RMB359,000, RMB279,000 and RMB4,000 lower or higher.

Fair Value Interest Rate Risk

Our interest rate risk arises from borrowings. Borrowings issued at floating rates expose us to cash flow interest rate risk. Borrowings at fixed rates expose us to fair value interest rate risk.

We have no significant interest-bearing assets. Hence, our Directors do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly. For further information relating to our interest rate risk, see Note 3.1 to the Accountant's Report in Appendix I to this document.

Credit Risk

The Group is exposed to credit risk primarily in relation to its cash and cash equivalents, trade and other receivables and amounts due from shareholders.

For further information relating to our credit risk, see Note 3.1 to the Accountant's Report in Appendix I to this document.

INVESTMENT PROPERTIES AND VALUATION OF INVESTMENT PROPERTIES

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, valued our property interests in the Korean Property as at September 30, 2022 at RMB122.8 million. Details of the valuation are summarized in Appendix III to this document.

As required under Rule 5.07 of the Listing Rules, a reconciliation between the net book value of the Korean Property as at September 30, 2022 as extracted from the Accountant's Report set out in Appendix I to this document and the property valuation report set out in Appendix III to this document as at September 30, 2022 is set out below:

	(RMB in thousands)
Net book value of the Korean Property as at September 30, 2022	93,678
Net valuation surplus	29,152
Valuation of the Korean Property as at September 30, 2022 as set out in the property valuation report set out in Appendix III to this document	122,830

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

SIGNIFICANT RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into various related party transactions. For more details about our related party transactions, see Note 36 to the Accountant's Report in Appendix I to this document and "Relationship with the Controlling Shareholders."

Our Directors believe that each of the related party transactions set out in Note 36 to the Accountant's Report in Appendix I to this document was conducted on an arm's length basis and would not distort our track record results or make our historical results not reflective of our future performance.

[REDACTED]

Our **[REDACTED]** mainly include **[REDACTED]**, professional fees paid to legal advisors and the Reporting Accountant for their services rendered in relation to the **[REDACTED]** and the

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

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited **[REDACTED]** adjusted net tangible assets of our Group have been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 Preparation of **[REDACTED]** Financial Information for inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the **[REDACTED]** on the net tangible assets of our Group attributable to the equity holders of our Company as of September 30, 2022 as if the **[REDACTED]** had taken place on September 30, 2022.

	Audited consolidated net tangible liabilities attributable to the equity holders of our Company as of September 30, 2022(1)	Estimated impact related to the conversion of convertible preferred shares upon [REDACTED](2)	Estimated [REDACTED] from the [REDACTED](3)	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to the equity holders of our Company as of September 30, 2022	Unaudited [REDACTED] adjusted net tangible assets per Share(4)(6)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share, after **[REDACTED]** of **[REDACTED]**%	(554,697)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	(554,697)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	(554,697)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) The audited consolidated net tangible liabilities of our Group attributable to the equity holders of our Company as of September 30, 2022 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net liabilities of our Group attributable to the equity holders of our Company as of September 30, 2022 of approximately RMB550,163,000, with adjustment for intangible assets attributable to the equity holders of the Company as of September 30, 2022 of approximately RMB4,534,000.

(2) Upon the **[REDACTED]** and the completion of the **[REDACTED]**, all the convertible preferred shares will be automatically converted into ordinary shares. These convertible preferred shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited **[REDACTED]** financial information the unaudited **[REDACTED]** net tangible assets attributable to the owners of the Company will be increased by RMB1,307,230,000, being the carrying amounts of the convertible preferred shares as of September 30, 2022.

(3) The estimated **[REDACTED]** from the **[REDACTED]** are based on the indicative **[REDACTED]** of HK$**[REDACTED]** and HK$**[REDACTED]** per share, being the low and high end of the indicative **[REDACTED]**, respectively, and also based on an **[REDACTED]** of HK$**[REDACTED]** per share after making a **[REDACTED]** of **[REDACTED]**% below the low-end of the indicative **[REDACTED]**, after deduction of the **[REDACTED]** fees and other related expenses (excluding **[REDACTED]** of approximately RMB**[REDACTED]** which have been accounted for in the consolidated statements of comprehensive income of our Group prior to September 30, 2022) paid/payable by our Company, and takes no account of any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** or any Shares which may be issued or repurchased by our Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital".

(4) The unaudited **[REDACTED]** net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that **[REDACTED]** Shares were in issue, assuming that the **[REDACTED]** and **[REDACTED]** have been completed on September 30, 2022 but takes no account of (i) the **[REDACTED]** Shares (after taking into account of the effect of the **[REDACTED]**) issued pursuant to the Share Incentive Plan that are subject to vesting conditions; and (ii) any Shares which may be issued or repurchased by our Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital".

(5) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to September 30, 2022. In particular, the unaudited **[REDACTED]** adjusted consolidated net tangible assets attributable to owners of our Company does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors for issue or allotment of Shares as described in "Share Capital".

(6) For the purpose of this unaudited **[REDACTED]** adjusted consolidated net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK$[1.0880]. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(7) The property interests of our Group as of September 30, 2022 have been valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer. By comparing the valuation of our Group's property interests of approximately RMB122,830,000 as set out in Appendix III to this document and the audited carrying amounts of these properties of approximately RMB93,678,000 as of September 30, 2022, the valuation surplus was approximately RMB29,152,000, as of September 30, 2022 which was not reflected in the net tangible liabilities of our Group as of September 30, 2022. The revaluation surplus will not be incorporated in our Group's consolidated financial statements. If the revaluation surplus was recorded in our Group's consolidated financial statements, the annual depreciation of our Group for the year ending December 31, 2022 would increase by approximately RMB729,000.

The unaudited **[REDACTED]** adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the **[REDACTED]** been completed as of September 30, 2022 or any future date.

SUBSEQUENT EVENTS

Since October 2022, there has been an increasing number of COVID-19 cases in various parts of China due to the Omicron variant. For more details, see "—Impact of COVID-19."

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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