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乐华娱乐
YUE HUA
ENTERTAINMENT

YH Entertainment Group
乐华娱乐集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2306)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2022

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2022 together with the comparative figures for the same period in 2021:

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		Year-on-Year
	2022	2021	change
	<i>(RMB in thousands, except for percentages)</i>		
Revenue	980,254	1,290,449	(24.0%)
Gross profit	363,086	601,959	(39.7%)
Gross profit margin	37.0%	46.6%	(9.6%)
Operating profit	212,211	505,141	(58.0%)
Profit before income tax	1,791,432	461,039	288.6%
Profit for the year	1,725,185	335,332	414.5%
Non-IFRS measures:			
Adjusted net profit for the year*	266,553	394,571	(32.4%)

* We define adjusted net profit for the year (a non-IFRS measure) as profit for the year adjusted for (i) equity settled share-based payments, (ii) fair value changes of convertible preferred shares, (iii) listing expenses and (iv) interest expenses on redemption liabilities. Shareholders and potential investors of the Company should note that the adjusted net profit for the year is not a measure required by, or presented in accordance with, the IFRS.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are an established artist management company in China. Since our establishment in 2009, we have grown into a culture and entertainment platform comprising three complementary businesses of artist management, music IP production and operation, and pan-entertainment business.

In 2022, despite the complicated market environment, we made endeavors to maintain and develop our connection and cooperation with our suppliers, customers and business partners. Benefiting from the increasing brand influence and growing core business, we reasonably expect that we are able to further grow and expand more sustainably and stably.

Based on our full-fledged professional artist management system, we have been continually exploring diversified career path and training scheme for our managed artists and trainees. As of December 31, 2022, we had 68 managed artists and 58 trainees enrolled in our trainee program, among which 18 trainees have successfully made their debuts as our managed artists in 2022. Leveraging their positive public images and popularity, our managed artists have played important roles in various popular productions, such as the drama series “Being a Hero (冰雨火)” and “The Glory,” and the variety programs “Street Dance of China 2022 (這！就是街舞第五季),” “Go Fighting 2022 (極限挑戰第八季)” and “Great Escape 2022 (密室大逃脫第四季).”

With our managed artists trained to sing, our music IP production and operation business steadily grew in 2022 through the expansion of our music IP library in original recordings and videos and licensed musical works from third-party copyright holders. In 2022, we successfully released 16 digital singles and 13 digital albums covering a diverse range of genres, which enjoyed wide-ranged popularity.

In addition, our development on the pan-entertainment business was also well recognized by the market. A small portion of revenue was generated from the commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise. In 2022, we, as a financial investor, jointly established two companies with business partners to further expand our virtual artist business.

Our total revenue decreased from RMB1,290.4 million for the year ended December 31, 2021 to RMB980.3 million for the year ended December 31, 2022, primarily due to the impact of the COVID-19 pandemic. Our profit for the year increased substantially from RMB335.3 million for the year ended December 31, 2021 to RMB1,725.2 million for the year ended December 31, 2022, primarily because we recorded fair value gains of convertible preferred shares of RMB1,582.0 million in 2022 as a result of the change in valuation of our convertible preferred shares.

Benefiting from the comprehensive development strategy, long-time experience accumulation in the entertainment industry and the brand influence further enhanced by the Listing on the Stock Exchange, we expect to enter a new stage of rapid and stable development in the coming year with the efficient and effective utilization of our resources across the market.

BUSINESS ANALYSIS BY BUSINESS LINE

We generated revenue from (i) artist management, (ii) music IP production and operation, and (iii) pan-entertainment business for the year ended December 31, 2022. The table below sets forth a breakdown of our revenue by business line for the periods indicated.

	For the year ended December 31,				Year-on-Year change
	2022		2021		
	Amount	% of total revenue	Amount	% of total revenue	
<i>(RMB in thousands, except for percentages)</i>					
Artist management	851,604	86.9%	1,174,842	91.0%	(27.5%)
Music IP production and operation	98,610	10.1%	77,738	6.1%	26.8%
Pan-entertainment business	30,040	3.0%	37,869	2.9%	(20.7%)
Total Revenue	<u>980,254</u>	<u>100.0%</u>	<u>1,290,449</u>	<u>100.0%</u>	<u>(24.0%)</u>

Artist Management

We continued to reinforce our leading position in China's artist management market in 2022.

As of December 31, 2022, we had 68 managed artists on our roster, among which two had more than 30 million followers each and 19 had more than two million followers each on Weibo, a leading social media platform in China, the number of followers on which serves as an indicator of an artist's popularity in China. Alongside individual artists, we also had launched seven artist groups as of December 31, 2022, including TEMPEST, NEVERLAND and BOYHOOD, which debuted in 2022.

We continuously identify candidates with high artistic potential to build a robust pipeline of trainees and providing comprehensive and high-quality training classes to such trainees. As of December 31, 2022, we maintained a pool of 58 trainees with artistic potential and strong interest in performing art career.

For the year ended December 31, 2022, we primarily generated revenue from providing services to our customers, including corporate customers, media platforms, content producers and advertising agencies, by arranging our managed artist to participate in commercial activities and provide entertainment content services.

We arrange our managed artists to participate in various commercial activities at the request of our customers, including endorsement deals, business promotion activities and other commercial activities. For the year ended December 31, 2022, the number of commercial activities generating revenue was approximately 490. In the same period, our managed artists attended various high-profile business promotion activities and other commercial activities. Meanwhile, our managed artists have starred in a wide selection of movies, drama series, variety programs and public performances, and have gained national fame.

The revenue we generated from artist management business decreased by 27.5% from RMB1,174.8 million for the year ended December 31, 2021 to RMB851.6 million for the year ended December 31, 2022, primarily due to a decrease in the number of business activities of our artist management business generating revenue as a result of the impact of the COVID-19 pandemic.

The gross profit for artist management decreased by 45.3% from RMB540.6 million for the year ended December 31, 2021 to RMB295.9 million for the year ended December 31, 2022. The gross profit margin for artist management decreased from 46.0% for the year ended December 31, 2021 to 34.7% for the year ended December 31, 2022, primarily because in 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, leading to a decreased portion of revenue we retained in the same period.

We have entered into cooperation agreements with certain leading Chinese media platforms, which allow them to carry out artist management for some of our managed artists who participated in idol development variety programs produced by these platforms within a specified term, typically ranging from 18 to 24 months.

In the future, we will further increase the quality and quantity of our managed artists to solidify our advantage as a leading artist management company in China. We plan to enhance our core capabilities of artist training by establishing our own artist training center. Leveraging our professional and systematic Yuehua trainee program, we will continue to expand our roster of trainees with artistic potential. We plan to continue to enhance our artist operation capabilities to help boost the popularity and commercial value of our managed artists and increase our efforts in marketing and promoting our managed artists as well as recent debutants.

Music IP Production and Operation

We continued to develop our music IP production and operation business in 2022.

We maintain an extensive library of original and licensed music IPs, which is continuously expanding. As of December 31, 2022, we had built an extensive music IP library comprising more than 1,200 musical works we produced for our managed artists and more than 56,000 musical works we obtained from copyright holders. For the year ended December 31, 2022, we released 16 digital singles and 13 digital albums, comprising 83 songs in total, that we produced for our managed artists and a virtual artist group. Certain digital singles and digital albums became instant hits after release. For example, as of the date of this announcement, “Like the Sunshine (像陽光一樣),” a digital single we produced for Mr. Wang Yibo and released in 2022, sold over two million copies; “VR,” a digital album we produced for Mr. Huang Minghao and released in 2022, sold over 230 thousand copies; and “T,” a digital album we produced for Mr. Zhu Zhengting and released in 2022, sold over 220 thousand copies.

For the year ended December 31, 2022, we generated revenue from licensing our music IPs to music streaming platforms and other music service providers, and selling digital and physical copies of our music IPs. We granted license on the music IPs in our music IP library to a wide selection of music service providers, including major music streaming platforms such as NetEase Cloud Music and Tencent Music, and telecommunication companies, for licensing fees and royalties.

The revenue we generated from music IP production and operation business increased by 26.8% from RMB77.7 million for the year ended December 31, 2021 to RMB98.6 million for the year ended December 31, 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 2022.

The gross profit for our music IP production and operation business increased by 47.5% from RMB31.9 million for the year ended December 31, 2021 to RMB47.1 million for the year ended December 31, 2022. The gross profit margin for our music IP production and operation business increased from 41.1% for the year ended December 31, 2021 to 47.8% for the year ended December 31, 2022, as the increase in the revenue from music IP production and operation business outpaced the increase in the production costs of music content.

We will further develop our music IP production and operation business in the future in response to the rapidly growing digital music market in China. We will continue to produce digital singles and albums for our managed artists who have developed a music career. We also intend to further expand our music IP library by obtaining the copyrights of quality musical works from copyright holders.

Pan-entertainment Business

In addition to artist management and music IP production and operation, for the year ended December 31, 2022, we also generated a small portion of our revenue from other businesses in the pan-entertainment business, such as commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise.

We have collaborated with a business partner to develop A-SOUL, a five-member, female virtual artist group, since 2020. We have also invested in a company which launched Quantum Youth (量子少年), a four-member, male virtual artist group and EOE, a five-member, female virtual artist group. In the second quarter of 2022, we jointly established two companies with business partners who have experience in developing technologies empowering virtual artists, to further expand our virtual artist business. We are a financial investor in each of these two companies and we do not have any current plan to be involved in their daily operation.

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

The revenue we generated from pan-entertainment business decreased by 20.7% from RMB37.9 million for the year ended December 31, 2021 to RMB30.1 million for the year ended December 31, 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 the regulations issued in 2022 relating to the entertainment market in China.

The gross profit for our pan-entertainment business decreased by 31.8% from RMB29.4 million for the year ended December 31, 2021 to RMB20.1 million for the year ended December 31, 2022. The gross profit margin for our pan-entertainment business decreased from 77.7% for the year ended December 31, 2021 to 66.8% for the year ended December 31, 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.

We will continue to invest in the virtual artist industry and diversify our offerings. Going forward, when we enter into contracts regarding virtual artists, we will try our best efforts to negotiate for rights that would allow us to reasonably monitor the operation of the virtual artists. We also plan to further diversify our business model and build a comprehensive culture and entertainment platform.

Our Global Footprint

Building on our market leading position in China, we actively promoted and marketed our managed artists and our Yuehua brand in Asian markets in 2022. When our managed artists published a musical work, we simultaneously published it on multiple music streaming platforms overseas. Our musical works have been published on various overseas music streaming platforms, including Apple Music, Spotify, YouTube and KKBox, leading Chinese pop culture trend worldwide.

Yuehua Korea is an important part of our global strategy. With its strong music production capabilities, Yuehua Korea has produced many musical works that are widely popular. In addition to Korea, we were also actively expanding our business in other parts of Asia in 2022. Drama series starring Mr. Wang Yibo and Mr. Bi Wenjun, such as “Double Love (墨白),” “Being a Hero (冰雨火)” and “Love Actually (人間至味是清歡),” were distributed in countries including Japan, Thailand, Malaysia and Indonesia in 2022 and have been widely popular.

We will continue to explore the overseas markets and promote our managed artists globally. We will continue to build our team in Korea and enhance the artist operation capacities of Yuehua Korea through recruiting more professional instructors, establishing business cooperation with leading content producers and media platforms in Korea. We also plan to pursue business opportunities in other parts of the global market, such as Southeast Asia, Japan and the United States.

IMPACT OF COVID-19

Since January 2022, the regional outbreaks of COVID-19 in China have 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. In 2022, seven secured projects (five for commercial activities and two for entertainment content services) with a total contract value of approximately RMB6.4 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 RMB3.8 million to customers due to the cancellation of four projects for commercial activities and one project for entertainment content services in 2022. Other than the above, we had not received any refund request from any customer due to the cancellation or postponement of these projects as of December 31, 2022.

In early December 2022, the Chinese government adjusted the policy for COVID-19 by suspending or easing most mandatory quarantine and testing measures and travel restrictions. The positive rate of COVID-19 cases significantly increased after such policy adjustment. Some employees and our business partners cannot conduct in person communication because they tested positive.

The outbreaks of COVID-19 and policy adjustments 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 in 2022, 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 had a temporary impact on our business, results of operations and financial condition for the year ended December 31, 2022. While such impact did not seem to be material and adverse, it did adversely impact our managed artists' engagement in offline activities during the Reporting Period. Due to the uncertainties about the pandemic and the prospect of the recovering economy, we cannot reasonably estimate the ultimate and overall impact caused by the COVID-19 pandemic, including the potentially continuing negative impacts on our businesses, our business partners and general public.

FINANCIAL REVIEW

Revenue

Our revenue decreased by 24.0% from RMB1,290.4 million for the year ended December 31, 2021 to RMB980.3 million for the year ended December 31, 2022, primarily due to a decrease in revenue generated from artist management business, which was partially offset by an increase in revenue generated from music IP production and operation business.

The revenue we generated from artist management business decreased by 27.5% from RMB1,174.8 million for the year ended December 31, 2021 to RMB851.6 million for the year ended December 31, 2022, primarily due to a decrease in the number of business activities of our artist management business generating revenue as a result of the impact of the COVID-19 pandemic.

The revenue we generated from music IP production and operation business increased by 26.8% from RMB77.7 million for the year ended December 31, 2021 to RMB98.6 million for the year ended December 31, 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 2022.

The revenue we generated from pan-entertainment business decreased by 20.7% from RMB37.9 million for the year ended December 31, 2021 to RMB30.1 million for the year ended December 31, 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 the regulations issued in 2022 relating to the entertainment market in China.

Cost of Revenue

The table below sets forth our cost of revenue by nature both in absolute amount and as percentages for the periods indicated.

	For the year ended December 31,				Year-on-Year change
	2022		2021		
	Amount	%	Amount	%	
<i>(RMB in thousands, except for percentages)</i>					
Revenue sharing for artist management business	431,820	70.0%	529,193	76.8%	(18.4%)
Artist promotion costs	41,695	6.8%	73,436	10.7%	(43.2%)
Production costs of music content	46,632	7.6%	45,737	6.6%	2.0%
Employee benefits expenses	20,912	3.4%	20,607	3.0%	1.5%
Amortization of intangible assets ⁽¹⁾	1,821	0.3%	1,821	0.3%	0.0%
Equity settled share-based payments ⁽²⁾	56,453	9.1%	107	0.0%	52,659.8%
Others ⁽³⁾	17,835	2.8%	17,589	2.6%	1.4%
Total	617,168	100.0%	688,490	100.0%	(10.4%)

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 restricted share units (“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, 3,594,750 RSUs and 652,750 RSUs to eligible individuals on December 10, 2021, March 4, 2022 and December 20, 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.

Our cost of revenue decreased by 10.4% from RMB688.5 million for the year ended December 31, 2021 to RMB617.2 million for the year ended December 31, 2022, primarily attributable to:

- a decrease in revenue sharing for artist management business from RMB529.2 million for the year ended December 31, 2021 to RMB431.8 million for the year ended December 31, 2022, in relation to the decrease in our revenue generated from artist management business for the same years; and

- a decrease in artist promotion costs from RMB73.4 million for the year ended December 31, 2021 to RMB41.7 million for the year ended December 31, 2022, in relation to the decrease in our revenue generated from artist management business for the same years.

The decrease was partially offset by an increase in equity settled share-based payments from RMB0.1 million for the year ended December 31, 2021 to RMB56.5 million for the year ended December 31, 2022, in relation to the grant of RSUs to eligible individuals in March 2022 under our Share Incentive Plan.

Gross Profit and Gross Profit Margin

As a result of the foregoing, we recorded (i) a gross profit of RMB602.0 million and RMB363.1 million in 2021 and 2022, respectively, and (ii) a gross profit margin of 46.6% and 37.0% in 2021 and in 2022, respectively.

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

	For the year ended December 31,			
	2022		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>(RMB in thousands, except for percentages)</i>			
Artist management	295,890	34.7%	540,593	46.0%
Music IP production and operation	47,135	47.8%	31,946	41.1%
Pan-entertainment business	20,061	66.8%	29,420	77.7%
Total/Overall	<u>363,086</u>	37.0%	<u>601,959</u>	46.6%

The gross profit for artist management decreased by 45.3% from RMB540.6 million for the year ended December 31, 2021 to RMB295.9 million for the year ended December 31, 2022. The gross profit margin for artist management decreased from 46.0% for the year ended December 31, 2021 to 34.7% for the year ended December 31, 2022, primarily because in 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, leading to a decreased portion of revenue we retained in the same period.

The gross profit for our music IP production and operation business increased by 47.5% from RMB31.9 million for the year ended December 31, 2021 to RMB47.1 million for the year ended December 31, 2022. The gross profit margin for our music IP production and operation business increased from 41.1% for the year ended December 31, 2021 to 47.8% for the year ended December 31, 2022, as the increase in the revenue from music IP production and operation business outpaced the increase in the production costs of music content.

The gross profit for our pan-entertainment business decreased by 31.8% from RMB29.4 million for the year ended December 31, 2021 to RMB20.1 million for the year ended December 31, 2022. The gross profit margin for our pan-entertainment business decreased from 77.7% for the year ended December 31, 2021 to 66.8% for the year ended December 31, 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 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,				Year-on-Year change
	2022		2021		
	Amount	%	Amount	%	
<i>(RMB in thousands, except for percentages)</i>					
Employee benefits expenses	22,154	58.9%	22,633	65.6%	(2.1%)
Advertising and promotion expenses	8,285	22.0%	6,237	18.1%	32.8%
Rental expenses	147	0.4%	1,087	3.1%	(86.5%)
Traveling expenses	167	0.4%	212	0.6%	(21.2%)
Equity settled share-based payments ⁽¹⁾	3,671	9.8%	1,706	4.9%	115.2%
Others ⁽²⁾	3,187	8.5%	2,648	7.7%	20.4%
Total	37,611	100.0%	34,523	100.0%	8.9%

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, 3,594,750 RSUs and 652,750 RSUs to eligible individuals on December 10, 2021, March 4, 2022 and December 20, 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) listing expenses incurred for the Listing, (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, (vii) equity settled share-based payments and (viii) auditor's remuneration.

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,				Year-on-Year change
	2022		2021		
	Amount	%	Amount	%	
	<i>(RMB in thousands, except for percentages)</i>				
Employee benefits expenses	26,000	21.8%	24,579	34.4%	5.8%
Listing expenses	28,841	24.1%	16,690	23.3%	72.8%
Depreciation and amortization	7,564	6.3%	9,252	12.9%	(18.2%)
Taxes and surcharges	2,832	2.4%	6,543	9.1%	(56.7%)
Professional and consulting fees ⁽¹⁾	3,177	2.7%	2,583	3.6%	23.0%
Traveling expenses	831	0.7%	445	0.6%	86.7%
Equity settled share-based payments ⁽²⁾	30,989	25.9%	255	0.4%	12,052.2%
Auditor's remuneration	1,800	1.5%	–	–	N/A
Others ⁽³⁾	17,460	14.6%	11,183	15.7%	56.1%
Total	119,494	100.0%	71,530	100.0%	67.1%

Notes:

- (1) Consisting primarily of service fees for business, legal, tax and other consultants in connection with our business operations and our attempt to list on the main board of the Shanghai Stock Exchange in 2018.
- (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, 3,594,750 RSUs and 652,750 RSUs to eligible individuals on December 10, 2021, March 4, 2022 and December 20, 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. We recorded net impairment losses on financial assets of RMB3.3 million and RMB7.7 million in 2021 and 2022, 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 Reporting 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.

The table below sets forth a breakdown of the components of our other income in absolute amounts and as a percentage of our total other income for the periods indicated.

	For the year ended December 31,	
	2022	2021
	<i>(RMB in thousands)</i>	
Government subsidies	314	14,281
Tax credit of input tax additional deduction	3,009	3,519
Rental income from investment properties	578	620
Total	<u>3,901</u>	<u>18,420</u>

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 gains in 2022 were RMB10.0 million, compared with net other losses of RMB5.9 million in 2021. We did not record fair value losses on movies, drama series and variety programs in 2022, as we disposed of all our 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 and no fair value changes were recorded from January 1, 2022 to the date of the dismantlement. Our Group has not made additional investments in movies, drama series and variety programs since the date of the dismantlement.

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

	For the year ended December 31,	
	2022	2021
	<i>(RMB in thousands)</i>	
Fair value losses on movies, drama series and variety programs	–	(33,659)
Fair value gains from wealth management products	12,949	20,894
Gain on deemed disposal of an associate	–	3,011
Gains on disposal of associates	–	2,068
Net exchange (losses)/gains	(5,424)	1,556
Gain on liquidation of a subsidiary	–	218
Net (losses)/gains on disposal of property, plant and equipment	(218)	41
Net gains/(losses) on disposal of right-of-use assets	21	(18)
Fair value gains from a listed equity security	2,716	–
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Total	10,044	(5,889)
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Finance Income or 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 income amounted to RMB0.3 million in 2022, compared to net finance costs of RMB37.5 million in 2021.

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. Our share of losses of investment accounted for using the equity method in 2022 amounted to RMB3.1 million, compared to RMB6.6 million in 2021.

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. In 2022, the fair value changes of convertible preferred shares amounted to RMB1,582.0 million.

Income Tax Expense

Our income tax expense in 2022 was RMB66.2 million. Our effective tax rate was approximately 3.7% in 2022.

Profit for the year

As a result of the foregoing, our profit for the year increased from RMB335.3 million in 2021 to RMB1,725.2 million in 2022.

Non-IFRS Measures

To supplement our consolidated financial statements which are presented under IFRS, we also use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that the non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impact of certain items. We believe that such measures provide useful information to investors 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 adjusted for (i) equity settled share-based payments, (ii) fair value changes of convertible preferred shares, (iii) listing expenses 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 reflect 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. Listing expenses mainly include professional fees paid in relation to the Listing and the Global Offering. Interest expenses on redemption liabilities mainly refer to unwinding of interests on redemption liabilities in relation to the preferential rights that certain shareholders of Yuehua Limited are entitled to pursuant to a shareholders' agreement dated November 16, 2020. 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,	
	2022	2021
	<i>(RMB in thousands, except for percentages)</i>	
Profit for the year	1,725,185	335,332
Adjusted for:		
Equity settled share-based payments	91,113	2,068
Fair value changes of convertible preferred shares	(1,581,992)	–
Listing expenses	28,841	16,690
Interest expenses on redemption liabilities	3,406	40,481
Non-IFRS measures:		
Adjusted net profit	266,553	394,571
Adjusted net profit margin	27.2%	30.6%

Financial Assets at Fair Value Through Profit or Loss

Our financial assets at fair value through profit or loss comprise our investments in wealth management products, movies, drama series and variety programs, unlisted equity securities at fair value and a listed equity security at fair value.

Our financial assets at fair value through profit or loss decreased by 25.5% from RMB450.9 million as of December 31, 2021 to RMB335.8 million as of December 31, 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. Such decrease was partially offset by an increase in our investments in unlisted and listed equity securities in relation to our investments in certain private companies in consumer, media and technology industries and a biotech company listed on the National Equities Exchange and Quotations.

Trade Receivables

Our net trade receivables increased by 21.6% from RMB106.8 million as of December 31, 2021 to RMB129.9 million as of December 31, 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.

As of December 31, 2021 and 2022, we made allowance for impairment of trade receivables of approximately RMB17.0 million and RMB22.8 million, respectively, which we believe were sufficient as of the end of each year.

Prepayments and Other Receivables

Our prepayments increased significantly from RMB8.3 million as of December 31, 2021 to RMB44.6 million as of December 31, 2022, primarily due to an increase in other prepayments in relation to artist promotion.

Our other receivables decreased by 55.6% from RMB42.6 million as of December 31, 2021 to RMB18.9 million as of December 31, 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 a related company in which we have 9.5% equity interest.

Investments measured at Amortized Cost

We had investments measured at amortized cost of RMB87.3 million as of December 31, 2022, primarily in relation to our investments in the debt instruments issued by a Hong Kong listed company.

Restricted Cash

We had restricted cash of RMB23.9 million as of December 31, 2022, as a result of asset preservation procedures in relation to a contract dispute that we are involved in.

Trade Payables

Our trade payables decreased by 10.7% from RMB213.5 million as of December 31, 2021 to RMB190.6 million as of December 31, 2022, primarily due to a decrease in payables in relation to our revenue sharing for artist management business in 2022, reflecting the decrease in revenue generated from artist management business as a result of the impact of COVID-19 pandemic.

Other Payables and Accruals

Our other payables and accruals decreased by 54.5% from RMB109.3 million as of December 31, 2021 to RMB49.7 million as of December 31, 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 a result of the decreased year-end bonuses for 2022 that we will pay to employees; and (iii) a decrease in listing expenses payable and accrual as a result of our partial payments of listing expenses in 2022.

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. 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. As of December 31, 2022, we had financial liabilities at fair value through profit or loss of RMB903.8 million, with a non-current portion of RMB774.9 million and a current portion of RMB128.9 million.

The convertible preferred shares have been re-designated from financial liabilities to equity as a result of automatic conversion into ordinary shares upon our Listing on January 19, 2023.

Contract Liabilities

Our contract liabilities decreased by 33.2% from RMB240.1 million as of December 31, 2021 to RMB160.2 million as of December 31, 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 2022.

Financial Position, Liquidity and Capital Resources

The Shares of our Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on January 19, 2023.

We have historically funded our cash requirements principally from cash generated from our business operations. After the Global Offering, we financed our capital requirements through cash generated from our business operations, the net proceeds from the Global Offering, and other future equity or debt financings. We currently do not anticipate any changes to the availability of financing to fund our operations in the near future. We had cash and cash equivalents of RMB546.6 million and RMB528.7 million as of December 31, 2021 and 2022, respectively. As of December 31, 2022, we had restricted cash of RMB23.9 million. We did not have any pledged deposits as of December 31, 2022.

We had borrowings of RMB64.3 million and RMB66.3 million as of December 31, 2021 and 2022, respectively, all of which were denominated in KRW, in relation to our secured loan from a Korean bank for the purchase of Yuehua Korea's office building in Korea in 2019. As of December 31, 2022, our borrowings were secured by certain property, plant and equipment and investment properties with floating interest rates of 2.76% to 5.23% per annum. Our Group does not have any interest rate hedging policy as of the date of this announcement.

We intend to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate liquid assets including cash and cash equivalents or to retain adequate financing arrangements to meet our liquidity requirements.

Gearing Ratio

Gearing ratio is calculated based on our total debt divided by our total equity as of the same dates and multiplied by 100%. 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. Gearing ratio is not applicable as of December 31, 2022 because we recorded a total deficit as of December 31, 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.

Significant Investments Held

Our Group did not make or hold any significant investments during the Reporting Period.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this announcement, as of December 31, 2022, we did not have other plans for material investments and capital assets.

Material Acquisitions and/or Disposals of Subsidiaries and Affiliated Companies

Our Group did not have any material acquisitions and/or disposals of subsidiaries and affiliated companies for the year ended December 31, 2022.

Employee and Remuneration Policy

The following table sets forth the numbers of our employees dedicated to our business and operations categorized by function as of December 31, 2022.

Function	Number of Employees	% of Total
Artist operation	38	18.9%
Artist training	33	16.4%
Artist promotion	27	13.4%
Music and Pan-entertainment Business	57	28.4%
Administration	46	22.9%
Total	201	100.0%

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including, among other things, pension, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance and housing fund plans through a PRC government-mandated benefit contribution plan. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our staff, up to a maximum amount specified by the local government from time to time.

Our Company also has a pre-IPO employee share incentive plan.

The total employee benefit expenses, including share-based payments, for the year ended December 31, 2022 were RMB160.2 million, as compared to RMB69.9 million for the year ended December 31, 2021, representing a year-on-year increase of 129.2%.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of the entities of our Group. The functional currency of our Company is HKD and our Company is exposed to foreign currency risk with respect to our Company's monetary assets and liabilities denominated in RMB. The functional currency of our subsidiaries that operate in the PRC is RMB and such PRC subsidiaries are exposed to foreign exchange risk arising from recognized assets and liabilities denominated in USD. Since balances denominated in USD are reasonably stable with the Hong Kong dollars under the Linked Exchange Rate System, our directors are of the opinion that our Company is not exposed to significant foreign exchange risk and that the exposure to fluctuation in exchange rates will only arise from the translation to RMB, the presentation currency of our Group. For the year ended December 31, 2022, our net exchange losses were RMB5.4 million, as compared to net exchange gains of RMB1.6 million for the year ended December 31, 2021. We currently have no hedging policy with respect to foreign exchange risks. Therefore, we have not entered into any hedging transactions to manage potential fluctuation in foreign currencies. We will closely monitor our foreign exchange risks and will utilize appropriate financial tools for hedging purposes when necessary to help reduce foreign exchange risk.

Pledge of Assets

As of December 31, 2022, certain property, plant and equipment and investment properties of our Group with an aggregate carrying value of RMB104.1 million were pledged to secure the bank borrowings of our Group.

Treasury Policy

Our Group adopts a prudent financial management approach for its treasury policy to ensure that our Group's liquidity structure comprising assets, liabilities and other commitments is able to always meet its capital requirements.

Contingent Liabilities

As of December 31, 2022, we did not have any material contingent liabilities or guarantees.

Subsequent Events After the Reporting Period

On January 19, 2023, our Company was listed on the Main Board of the Stock Exchange and made a Global Offering of 120,060,000 Shares (excluding any ordinary shares issued pursuant to the exercise of the Over-allotment Option) at the offer price of HK\$4.08 per share.

In connection with the Listing, our Company issued a total of 634,210,000 Shares by capitalizing the relevant sum standing to the credit of the share premium account of our Company.

Pursuant to the partial exercise of the Over-allotment Option described in the Prospectus, our Company allotted and issued 1,821,000 Shares on February 15, 2023 at the offer price of HK\$4.08 per Share.

Save as disclosed above and as of the date of this announcement, there were no other significant events that might affect our Group since December 31, 2022.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
	Note	2022	2021
		RMB'000	RMB'000
Revenue	4	980,254	1,290,449
Cost of revenue	5	(617,168)	(688,490)
Gross profit		363,086	601,959
Selling and marketing expenses	5	(37,611)	(34,523)
General and administrative expenses	5	(119,494)	(71,530)
Net impairment losses on financial assets		(7,715)	(3,296)
Other income	6	3,901	18,420
Other gains/(losses), net	7	10,044	(5,889)
Operating profit		212,211	505,141
Finance income	8	6,597	5,215
Finance costs	8	(6,306)	(42,749)
Finance income/(costs), net		291	(37,534)
Share of losses of investments accounted for using the equity method		(3,062)	(6,568)
Fair value changes of convertible preferred shares		1,581,992	–
Profit before income tax		1,791,432	461,039
Income tax expense	9	(66,247)	(125,707)
Profit for the year		1,725,185	335,332
Other comprehensive income, net of tax			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(870)	(6,642)
<i>Items that will not be reclassified to profit or loss</i>			
Currency translation differences		(119,333)	–
Total comprehensive income for the year		1,604,982	328,690
Profit attributable to:			
Owners of the Company		1,724,470	336,684
Non-controlling interests		715	(1,352)
		1,725,185	335,332
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)	10		
Basic		3.72	0.73
Diluted		0.20	0.53
Total comprehensive income attributable to:			
Owners of the Company		1,604,470	329,978
Non-controlling interests		512	(1,288)
		1,604,982	328,690

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at December 31,	
		2022	2021
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		103,001	103,645
Right-of-use assets		10,581	12,221
Investment properties		14,353	14,112
Intangible assets		4,426	5,843
Investments accounted for using the equity method		15,078	39,076
Financial assets at fair value through profit or loss		45,546	2,800
Prepayments and other receivables	12	35,717	2,158
Deferred income tax assets		4,248	3,103
		232,950	182,958
Current assets			
Inventories		1,522	1,132
Trade receivables	12	129,940	106,833
Prepayments and other receivables	12	27,754	48,730
Amounts due from shareholders		–	344,600
Financial assets at fair value through profit or loss		290,265	448,085
Investments measured at amortized cost		87,280	–
Restricted cash		23,900	–
Cash and cash equivalents		528,660	546,559
		1,089,321	1,495,939
Total assets		1,322,271	1,678,897
EQUITY			
Share capital		50	–
Combined capital		–	110,046
Treasury shares		(4)	–
Reserves		(2,507,993)	(459,873)
Retained earnings		2,386,821	662,351
Equity attributable to owners of the Company		(121,126)	312,524
Non-controlling interests		4,273	7,034
Total (deficit)/equity		(116,853)	319,558

		As at December 31,	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		66,276	–
Lease liabilities		5,841	5,066
Redemption liabilities		–	488,202
Financial liabilities at fair value through profit or loss		774,964	–
Contract liabilities		30,636	52,851
		<u>877,717</u>	<u>546,119</u>
Current liabilities			
Borrowings		–	64,322
Trade payables	13	190,619	213,483
Other payables and accruals	14	49,696	109,332
Redemption liabilities		–	123,274
Financial liabilities at fair value through profit or loss		128,884	–
Contract liabilities		129,596	187,234
Current income tax liabilities		60,358	110,432
Lease liabilities		2,254	5,143
		<u>561,407</u>	<u>813,220</u>
Total liabilities		<u>1,439,124</u>	<u>1,359,339</u>
Total equity and liabilities		<u>1,322,271</u>	<u>1,678,897</u>

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

YH Entertainment Group (“**the Company**”) was incorporated in the Cayman Islands on June 10, 2021 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On January 19, 2023, the Company completed the initial listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited. The address of the Company’s registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “**Group**”) are principally engaged in artist management, music IP production and operation and pan-entertainment business in the People’s Republic of China (the “**PRC**”) and Korea (collectively, the “**Listing Business**”). The ultimate holding company of the Company is DING GUOHUA LIMITED, a company incorporated in the British Virgin Islands (“**BVI**”). The ultimate controlling shareholder is Ms. DU Hua (“**Ms. Du**” or the “**Controlling Shareholder**”), who has been controlling the group companies since their incorporation.

These consolidated financial statements for the year ended December 31, 2022 are presented in Renminbi (“**RMB**”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on March 20, 2023.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standard (“**IFRS**”) issued by International Accounting Standards Board (“**IASB**”) and the requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements has been prepared under the historical cost convention, except for certain financial assets and financial liabilities (measured at fair value).

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) New and amended standards adopted by the Group

The Group has applied the new and amended standards effective for the financial year beginning on January 1, 2022. The adoption of these new and revised standards does not have any significant impact on the consolidated financial statements of the Group.

(b) New and amended standards and interpretations not yet adopted by the Group

The below new or revised accounting standards, amendments and interpretations to existing standards have been published but are not yet effective in current year and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards, amendments to standards and interpretations to the existing IFRS.

3 SEGMENT INFORMATION

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-makers, being the executive directors of the Group.

As a result of this evaluation, the executive directors of the Group consider that the Group's operations are operated and managed as a single segment. Accordingly, no segment information is presented.

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and earns majority of the revenue from external customers in the PRC.

During the years ended December 31, 2022 and 2021, all of the Group's revenues are from contracts with customers.

During the years ended December 31, 2022 and 2021, the Group's non-current assets other than financial instruments and deferred income tax assets were located in Mainland China and Korea as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	41,831	68,841
Korea	105,608	108,856
	<u>147,439</u>	<u>177,697</u>

4 REVENUES

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Artist management	851,604	1,174,842
Music IP production and operation	98,610	77,738
Pan-entertainment business	30,040	37,869
	<u>980,254</u>	<u>1,290,449</u>

The timing of revenue recognition of the Group's revenue was as follows:

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue at a point in time	243,490	293,766
Revenue over time	736,764	996,683
	<u>980,254</u>	<u>1,290,449</u>

During the years ended December 31, 2022 and 2021, there were no customers who contributed to 10% or more of the total revenue of the Group in each respective year.

Contract liabilities of the Group represent non-refundable advanced payments received from the customers for services that have not yet been transferred to the customers. Changes in the balances of such liabilities during the years ended December 31, 2022 and 2021 was mainly due to fluctuations in sales with advanced payments.

The following table shows how much of the revenue is recognized in the current reporting period relates to carried-forward contract liabilities.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Revenue recognized that was included in contract liabilities at the beginning of each of the year	194,040	151,342

The amount of transaction prices allocated to the remaining unsatisfied or partially unsatisfied performance obligations during the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Amount expected to be recognized as revenue:		
– Within one year	129,596	187,234
– More than one year but less than two years	30,636	52,851
	160,232	240,085

As a practical expedient permitted under IFRS 15, the above balances do not include any estimated amounts of variable consideration that are constrained and not included in the transaction prices.

5 EXPENSES BY NATURE

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Revenue sharing for artist management business	431,820	529,193
Equity settled share-based payments	91,113	2,068
Employee benefits expenses other than equity settled share-based payments	69,066	67,819
Production costs of music content	46,632	45,737
Artist promotion costs	41,695	73,436
Listing expenses	28,841	16,690
Advertising and promotion expenses	8,285	6,237
Depreciation of property, plant and equipment	6,848	4,353
Depreciation of right-of-use assets	5,321	7,251
Amortization of intangible assets	1,907	1,826
Travelling expenses	5,493	6,077
Costs of inventories sold	4,125	1,606
Taxes and surcharges	2,832	6,543
Rental expenses for short-term and low-value leases	2,073	2,939
Professional fees	3,177	2,002
Depreciation of investment properties	188	192
Auditor's remuneration	1,800	–
Others	23,057	20,574
Total cost of revenue, selling and marketing expenses, and general and administrative expenses	774,273	794,543

6 OTHER INCOME

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Tax credit of input tax additional deduction	3,009	3,519
Government subsidies	314	14,281
Rental income from investment properties	578	620
	<u>3,901</u>	<u>18,420</u>

7 OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value gains from wealth management products	12,949	20,894
Net exchange (losses)/gains	(5,424)	1,556
Fair value gains from a listed equity security	2,716	–
Net (losses)/gains on disposal of property, plant and equipment	(218)	41
Fair value losses on movies, drama series and variety programs	–	(33,659)
Net gains/(losses) on disposal of right-of-use assets	21	(18)
Gains on liquidation of subsidiaries	–	218
Gains on disposal of associates	–	2,068
Gain on deemed disposal of an associate	–	3,011
	<u>10,044</u>	<u>(5,889)</u>

8 FINANCE INCOME/(COSTS) – NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Finance income		
– Interest income from bank deposits	6,323	4,455
– Interest income from loans to third parties and a related party	274	760
	<u>6,597</u>	<u>5,215</u>
Finance costs		
– Interest expenses on bank borrowings	(2,511)	(1,853)
– Interest expenses on lease liabilities	(389)	(415)
– Interest expenses on redemption liabilities	(3,406)	(40,481)
	<u>(6,306)</u>	<u>(42,749)</u>
Finance income/(costs) – net	<u>291</u>	<u>(37,534)</u>

9 INCOME TAX EXPENSE

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	61,861	122,744
– Hong Kong profits tax	–	1,012
– Korea corporate income tax	5,498	2,295
Deferred income tax	(1,112)	(344)
Income tax expense	<u>66,247</u>	<u>125,707</u>

10 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended December 31, 2022 and 2021.

In determining the weighted average number of ordinary shares deemed to be in issue during the years ended December 31, 2022 and 2021, 463,200,000 shares, being the number of ordinary shares issued by the Company on June 10, 2021 (date of incorporation) and also taking into account the capitalisation issue that took place in January 2023, were deemed to have been allocated and issued since January 1, 2021, when computing the basic and diluted earnings per share for the years ended December 31, 2022 and 2021.

The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue that took place in January 2023.

(a) Basic earnings per share

	Year ended December 31,	
	2022	2021
Profit attributable to owners of the Company (RMB'000)	1,724,470	336,684
Weighted average number of ordinary shares in issue	<u>463,200,000</u>	<u>463,200,000</u>
Basic earnings per share (RMB)	<u>3.72</u>	<u>0.73</u>

(b) Diluted earnings per share

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period with the weighted average number of ordinary shares deemed to be issued assuming the dilutive impact on the shares pursuant to the convertible preferred shares, which were deemed to have been allotted and issued on January 1, 2021 as if the Company has been incorporated by then, and taking into account the capitalisation issue that took place in January 2023. For restricted shares granted, they are contingently issuable shares and have therefore been excluded in the calculation of diluted earnings per share as the relevant conditions for the issuance of these shares have not been satisfied.

	Year ended December 31,	
	2022	2021
Profit attributable to owners of the Company (<i>RMB'000</i>)	1,724,470	336,684
Adjustment for interest expenses on redemption liabilities and fair value changes of convertible preferred shares (<i>RMB'000</i>)	(1,578,586)	40,481
Profit used to determine diluted earnings per share (<i>RMB'000</i>)	145,884	377,165
Weighted average number of ordinary shares in issue	463,200,000	463,200,000
Adjustment for convertible preferred shares	249,300,000	249,300,000
	712,500,000	712,500,000
Diluted earnings per share (<i>RMB</i>)	0.20	0.53

11 DIVIDENDS

The Board of Directors did not recommend the payment of final dividends for the year ended December 31, 2022.

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividends declared and settled by the Company to its ordinary shareholders	202,053	–
Interim dividends declared and paid by the Company to its ordinary shareholders	57,898	–
Dividends declared and paid by the Company to the holders of convertible preferred shares	139,369	–
	399,320	–

12 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	152,754	123,877
Less: allowance for impairment	<u>(22,814)</u>	<u>(17,044)</u>
Trade receivables – net	<u>129,940</u>	<u>106,833</u>
Deferred listing expenses	6,764	5,156
Other prepayments	<u>37,825</u>	<u>3,099</u>
Prepayments	<u>44,589</u>	<u>8,255</u>
Loans to third parties (a)	3,652	14,875
Loan to a related party (a)	–	7,000
Rental and other deposits	6,060	6,380
Interest income receivables	–	1,303
Other tax recoverables	9,858	11,961
Others	<u>68</u>	<u>1,938</u>
	19,638	43,457
Less: allowance for impairment	<u>(756)</u>	<u>(824)</u>
Other receivables – net	<u>18,882</u>	<u>42,633</u>
Total prepayments and other receivables	63,471	50,888
Less: Non-current deposits and prepayments	<u>(35,717)</u>	<u>(2,158)</u>
Current portion	<u><u>27,754</u></u>	<u><u>48,730</u></u>

(a) As at December 31, 2022 and 2021, loans to third parties and loan to a related party are unsecured and repayable on demand. Except for a loan amounting to approximately RMB10,000,000 which bear interest at 7% per annum as at December 31, 2021, and a loan amounting to approximately RMB7,000,000 which bear interest at China's one-year loan prime rate per annum as at December 31, 2021, the remaining loans are interest-free.

The Group normally allows nil to 30 days credit period to its customers. Aging analysis of trade receivables as at December 31, 2022 and 2021, based on date of recognition, is as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	76,307	96,786
3 to 6 months	28,559	7,293
6 months to 1 year	27,948	6,867
1 to 2 years	8,345	2,536
2 to 3 years	1,200	–
Over 3 years	<u>10,395</u>	<u>10,395</u>
	<u><u>152,754</u></u>	<u><u>123,877</u></u>

13 TRADE PAYABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	190,619	213,483

Aging analysis of trade payables as at December 31, 2022 and 2021, based on date of recognition is as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	99,287	113,355
3 to 6 months	86,535	76,079
6 months to 1 year	2,399	13,545
Over 1 year	2,398	10,504
	190,619	213,483

The carrying amounts of the trade payables approximate their fair values due to their short-term maturities.

14 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accrual for payroll, employee benefit and other expenses	24,887	30,665
Payables in respect of sharing in the receipts from movies and variety programs	8,703	19,780
VAT and surcharges payable	7,941	9,619
Payables in respect of investments in movies	–	33,204
Listing expenses payable and accrual	6,879	10,104
Others	1,286	5,960
	49,696	109,332

COMPLIANCE WITH THE CG CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all shareholders of the Company. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Shares of the Company were listed on the Main Board of the Stock Exchange on January 19, 2023. As the Shares were not yet listed on the Stock Exchange during the Reporting Period, the CG Code was not applicable to the Company during the Reporting Period.

From the Listing Date up to the date of this announcement, the Company has complied with all applicable code provisions set out in the CG Code, except for a deviation from the code provision C.2.1 of the CG Code, the roles of chairperson and chief executive officer of the Company are not separate and are both performed by Ms. DU Hua. The Board believes that vesting the roles of both chairperson and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairperson of the Board and the chief executive officer of the Company if and when it is appropriate taking into account the circumstances of the Group as a whole.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' dealings in the securities of the Company. As the Shares were not yet listed on the Stock Exchange during the Reporting Period, the Model Code was not applicable to the Company during the Reporting Period. Having made specific enquiry to all the Directors, each of the Directors has confirmed that he/she has strictly complied with the required standards set out in the Model Code throughout the period from the Listing Date to the date of this announcement.

SCOPE OF WORK OF THE COMPANY'S AUDITORS ON THE RESULTS ANNOUNCEMENT

The figures in respect of the consolidated financial statements of the Group and the related notes thereto for the year ended December 31, 2022 as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the consolidated financial statements of the Group for the year ended December 31, 2022. The work performed by the Company's auditor in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by the Company's auditor on this announcement.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee comprises three independent non-executive Directors, namely Mr. FAN Hui, Mr. LU Tao and Mr. HUANG Jiuling. Mr. FAN Hui, being the chairperson of the Audit Committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee has, together with the Board and the auditor of the Company, reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements of the Group for the year ended December 31, 2022. The Audit Committee considered that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Shares were not yet listed on the Stock Exchange. From the Listing Date up to the date of this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board has resolved not to recommend payment of a final dividend for the year ended December 31, 2022.

USE OF PROCEEDS

The Company issued 120,060,000 Shares at HK\$4.08 which were listed on the Main Board of the Stock Exchange on January 19, 2023 and issued 1,821,000 Shares at HK\$4.08 upon the partial exercise of the Over-allotment Option, which were listed on the Main Board of the Stock Exchange on February 15, 2023. As a result, the net proceeds from the Global Offering (following partial exercise of the Over-allotment Option) were approximately HK\$398.4 million after deducting underwriting commissions and other related expenses. There has been no change in the intended use of the net proceeds and the expected implementation timeline as previously disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus. From the Listing Date up to the date of this announcement, the Group has not used any part of the net proceeds.

The following table sets forth a summary of the intended use of net proceeds and their expected timeline of full utilization. Since the Company was listed on January 19, 2023, details of the utilization of net proceeds from the Global Offering was not available during the Reporting Period.

Purpose	Percentage of net proceeds from the Global Offering	Allocation of net proceeds from the Global Offering in the proportion as disclosed in the Prospectus (HK\$ million)	Expected timeline of full utilization
Continuing to invest in our artist operation	60.0%	239.0	
– purchase and renovation of an artist training center in China	45.0%	179.3	By the end of 2025
– artist operation and promotion in China	15.0%	59.7	By the end of 2024
Expanding our music IP library	15.0%	59.8	By the end of 2024
Expanding our pan-entertainment business	15.0%	59.8	By the end of 2024
Promote our artist performance in other countries	5.0%	19.9	By the end of 2024
Working capital and general corporate purposes	5.0%	19.9	By the end of 2024
Total	100%	398.4	

ANNUAL GENERAL MEETING

The AGM will be held on Friday, June 16, 2023. A notice convening the AGM will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Company at www.yuehuamusic.com and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, June 13, 2023 to Friday, June 16, 2023, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, during which period no share transfers will be registered. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, June 12, 2023.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Company at www.yuehuamusic.com. The annual report of the Company for the year ended December 31, 2022 containing all the information required by the Listing Rules will be published on the aforesaid websites and will be dispatched to the Shareholders in due course.

DEFINITIONS AND GLOSSARIES

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“AGM”	the annual general meeting of the Company
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairlady”	the chairlady of the Board

“China” or the “PRC”	the People’s Republic of China, but for the purpose of this announcement and for geographical reference only, references herein to “China” and the “PRC” do not apply to Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, China
“Company”, “our Company”, “the Company” or “YH Entertainment”	YH Entertainment Group (乐华娱乐集团), an exempted company incorporated in Cayman Islands with limited liability on June 10, 2021
“COVID-19”	Coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
“Directors”	director(s) of the Company
“Global Offering”	has the meaning ascribed to it in the Prospectus
“Group,” “our Group,” “the Group,” “we,” “us,” or “our”	our Company and our subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” or “HKD”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Horgos Yuehua”	Horgos YueHua Picture Limited (霍尔果斯乐华影业有限公司), a limited liability company established in the PRC on January 6, 2016 and owned as to 51% and 49% by Ms. Du Hua and Mr. Sun Yiding, respectively, as of December 31, 2022
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on January 19, 2023

“Listing Date”	the date, namely January 19, 2023, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Model Code”	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Over-allotment Option”	has the meaning ascribed to it in the Prospectus
“Prospectus”	the prospectus of the Company published on December 30, 2022
“Reporting Period”	the twelve-month period from January 1, 2022 to December 31, 2022
“RMB” or “Renminbi”	the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.0001 each
“Shareholder(s)”	holder(s) of the Shares
“Share Incentive Plan”	the share incentive plan that our Company adopted on December 10, 2021
“US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“%”	percentage

In this announcement, the terms “affiliate,” “associate,” “controlling shareholder” and “subsidiary” shall have the meanings given to such terms in the Listing Rules unless the context otherwise requires.

By order of the Board
YH Entertainment Group
Ms. DU Hua
*Executive Director, Chairlady of the Board
and Chief Executive Officer*

Hong Kong, March 20, 2023

As of the date of this announcement, the Board comprises Ms. DU Hua, Mr. SUN Yiding and Mr. SUN Le as executive Directors, Ms. YAO Lu, Mr. MENG Qingguang and Ms. ZHAO Wenjie, as non-executive Directors, and Mr. FAN Hui, Mr. LU Tao and Mr. HUANG Jiuling as independent non-executive Directors.