乐华娱乐集团
YH Entertainment Group

Incorporated in Bermuda with limited liability

Stock Code : 2306

* For identification purpose only

2022
Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ms. DU Hua *(Chairlady and Chief Executive Officer)*
Mr. SUN Yiding
Mr. SUN Le

Non-executive Directors

Ms. YAO Lu
Mr. MENG Qingguang
Ms. ZHAO Wenjie

Independent Non-executive Directors

Mr. FAN Hui
Mr. LU Tao
Mr. HUANG Jiuling

AUDIT COMMITTEE

Mr. FAN Hui *(Chairman)*
Mr. LU Tao
Mr. HUANG Jiuling

REMUNERATION COMMITTEE

Mr. LU Tao *(Chairman)*
Mr. SUN Yiding
Mr. HUANG Jiuling

NOMINATION COMMITTEE

Ms. DU Hua *(Chairlady)*
Mr. LU Tao
Mr. FAN Hui

JOINT COMPANY SECRETARIES

Mr. ZHANG Wensheng
Mr. CHUNG Ming Fai

AUTHORIZED REPRESENTATIVES

Mr. SUN Yiding
Mr. CHUNG Ming Fai

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG SHARE REGISTRAR

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Wan Chai
Hong Kong

PRINCIPAL BANKS

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Chaoyang District
Beijing, PRC

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AUDITOR

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STOCK CODE

2306

COMPANY'S WEBSITE

www.yuehuamusic.com

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 continuingly 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 (密室大逃脱第四季)."

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	
	(RMB in thousands, except for percentages)				
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	**980,254**	**100.0%**	1,290,449	100.0%	(24.0%)

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. For the year ended December 31, 2022, we received over 14,000 applications to our trainee program around the globe and entered into a trainee contract with 11 trainee candidates, with a highly selective acceptance rate of lower than 0.1%. 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 table below sets forth the number of contracts we entered into for the period indicated to arrange our managed artists to perform in various types of entertainment content.

	For the Year Ended December 31,	
	2022	2021
	(RMB in thousands)	
Movies	**11**	9
Drama series	**30**	30
Variety programs	**110**	99

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 existing 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 report, "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 "Love Actually (人間至味是清歡)," "Being a Hero (冰雨火)" and "Double Love (墨白)," 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	%	
	(RMB in thousands, except for percentages)				
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 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
	(RMB in thousands, except for percentages)			
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	**363,086**	**37.0%**	601,959	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 existing 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	%	
	(RMB in thousands, except for percentages)				
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	%	
	(RMB in thousands, except for percentages)				
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%	40.0%
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%	52.2%
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
	(RMB in thousands)	
Government subsidies	**314**	14,281
Tax credit of input tax additional deduction	**3,009**	3,519
Rental income from investment properties	**578**	620
Total	**3,901**	18,420

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
	(RMB in thousands)	
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**	–
Total	**10,044**	(5,889)

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
	(RMB in thousands, except for percentages)	
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. The debt instrument has been fully redeemed in March 2023.

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. Both parties have reached an agreement to settle the contract dispute in April 2023. The plaintiff has applied to court for removing the preservation.

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 33.3% 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 th—e contracts of endorsement deals secured in 2021 as revenue and (ii) a decrease in the number of contracts newly secured in 2022.

Capital Structure

On February 12, 2023, the Over-allotment Option described in the Prospectus has been partially exercised in respect of an aggregate of 1,821,000 Shares, representing approximately 1.52% of the total number of the offer shares initially available under the Global Offering before any exercise of the Over-allotment Option. The over-allotment shares were allotted and issued by the Company at HK$4.08 per Share on February 15, 2023. Immediately after the completion of the issue and allotment of the over-allotment shares, the Company had 871,881,000 ordinary shares of US$0.0001 each. There has been no movement in the issued Shares of the Company since then. For details, please refer to the announcement of the Company dated February 12, 2023.

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 report.

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 report, as of December 31, 2022, we did not have other future 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**	19.0%
Artist training	**33**	16.5%
Artist promotion	**27**	13.5%
Music and Pan-entertainment Business	**56**	28.0%
Administration	**46**	23.0%
Total	**200**	**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 report, there were no other significant events that might affect our Group since December 31, 2022.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

As of the date of this report, the Board comprises nine Directors, of which three are executive Directors, three are non-executive Directors and three are independent non-executive Directors. The following table sets forth information regarding our Directors.

Name	Age	Position	Time of appointment as a Director
Executive Directors			
Ms. DU Hua (杜華)[1]	41	Executive Director, Chairlady of the Board and Chief Executive Officer	June 2021
Mr. SUN Yiding (孫一丁)[1]	55	Executive Director and President	June 2021
Mr. SUN Le (孫樂)	42	Executive Director and Vice President	June 2021
Non-executive Directors			
Ms. YAO Lu (姚璐)	44	Non-executive Director	January 2022
Mr. MENG Qingguang (孟慶光)	39	Non-executive Director	January 2022
Ms. ZHAO Wenjie (趙文婕)	40	Non-executive Director	January 2022
Independent non-executive Directors			
Mr. FAN Hui (范輝)	45	Independent Non-executive Director	January 2023
Mr. LU Tao (呂濤)	57	Independent Non-executive Director	January 2023
Mr. HUANG Jiuling (黃九嶺)	51	Independent Non-executive Director	January 2023

Notes:

(1) Ms. Du and Mr. Sun are cohabiting as spouses.

EXECUTIVE DIRECTORS

Ms. DU Hua (杜華), aged 41, is our founder, executive Director, the chairlady of the Board and the chief executive officer. Ms. Du was appointed as our Director on June 10, 2021, and re-designated as our executive Director on March 3, 2022. Ms. Du is primarily responsible for the overall strategic planning and business direction and day-to-day management of our Group. She also holds directorship in a number of our subsidiaries[1].

Prior to founding Yuehua Limited in July 2009, Ms. Du worked at Huayou Digital Media Technology Co., Ltd. (華友數碼傳媒科技有限公司) and its affiliates, an internet service provider, from August 2004 to July 2009.

Ms. Du received a diploma majoring in English from North China Institute of Science and Technology (華北科技學院) in the PRC in July 2003 and completed the EMBA Program at Cheung Kong Graduate School of Business (長江商學院) in the PRC in September 2015.

Mr. SUN Yiding (孫一丁), aged 55, is our executive Director and President, primarily responsible for the operation and management of our Group. Mr. Sun joined the Group in May 2015. Mr. Sun was appointed as our Director on June 10, 2021, and re-designated as our executive Director on March 3, 2022.

Mr. Sun served as a director and chief executive officer of RISE Education Cayman Ltd, an educational services provider, whose shares are listed on the Nasdaq Global Market (ticker symbol: REDU), from October 2013 to January 2022 and October 2013 to January 2020, respectively. Mr. Sun served as the general manager in GYMBOGLOBAL (CHINA) TRADING CO., LTD (金寶貝（中國）商貿有限公司), from September 2011 to August 2013. Mr. Sun also consecutively served as general manager of Jinan Gome, deputy general manager of headquarter procurement center, general manager of headquarter operation center, vice president and general manager of northern China in Gome Electrical Appliances Co., Ltd (國美電器有限公司) and the executive director in Gome Retail Holdings Limited (國美零售控股有限公司) (formerly known as Gome Electrical Appliances Holding Limited (國美電器控股有限公司)), whose shares are listed on the Stock Exchange (stock code: 0493), from April 1999 to April 2011.

Mr. Sun received a bachelor's degree in engineering from East China University of Science and Technology (上海華東理工大學) (formerly known as East China Institute of Chemical Technology (華東化工學院)) in the PRC in July 1990 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in the PRC in October 2013.

Mr. SUN Le (孫樂) (with former name as Gao Xiang (高翔)), aged 42, is our executive Director and Vice President. Since joining our Group in November 2009, Mr. SUN Le has been primarily responsible for establishing and maintaining customer relationship and marketing positioning. Mr. SUN Le was appointed as our Director on June 10, 2021, and re-designated as our executive Director on March 3, 2022. Mr. SUN Le joined our Group in November 2009, and he also serves as the vice general manager of Tibet Yuehua and Tianjin Yuehua, being subsidiaries of the Company, from November 2009 to January 2022.

Mr. SUN Le received a diploma majoring in dance from Minzu University of China (中央民族大學) in the PRC in July 1998. Mr. SUN Le obtained the qualification as a performance agent issued by China Association of Performing Arts (中國演出行業協會) in the PRC in August 2017. Mr. SUN Le is the individual member of the 7th council of China Association of Performing Arts and the director of the first council of Artist Agent Alliance of China Association of Performing Arts.

1 Yuehua Limited, Yuehua Investment, Tibet Yuehua, Hainan Yuehua, Tianjin Chufa, Tianjin Yihua, Tianjin Yuehua, Yuehua Hk and Yue Hua HONG KONG.

NON-EXECUTIVE DIRECTORS

Ms. YAO Lu (姚璐), aged 44, is our non-executive Director, primarily responsible for providing professional advice, opinion, and guidance to our Board. Ms. Yao was appointed as our Director on January 28, 2022, and re-designated as our non-executive Director on March 3, 2022. Ms. Yao had been a director of Yuehua Limited, being our subsidiary, from April 2020 to January 2022.

Ms. Yao has been serving as the strategic development director of Huarenwenhua Co., Ltd. (華人文化有限責任公司) since November 2014.

Ms. Yao received a bachelor's degree in arts from Shanghai International Studies University (上海外國語大學) in the PRC in July 2001 and completed the SJTU-USC advanced business administration postgraduate degree program in collaboration with the University of the Sunshine Coast, Queensland Australia and obtained a master degree of business administration from the University of the Sunshine Coast in September 2007.

Mr. MENG Qingguang (孟慶光), aged 39, is our non-executive Director, primarily responsible for providing professional advice, opinion, and guidance to our Board. Mr. Meng was appointed as our Director on January 28, 2022, and re-designated as our non-executive Director on March 3, 2022. Mr. Meng had been a director of Yuehua Limited, being our subsidiary, from November 2020 to January 2022.

Mr. Meng has been serving at the affiliate of Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), with its American depositary shares, each representing eight ordinary shares, listed on the New York Stock Exchange (stock symbol: BABA), and its ordinary shares listed on the Main Board of the Stock Exchange (stock code: 9988), since March 2013 and he is currently a senior producer at studio UP of Youku. Mr. Meng consecutively worked at Beijing 3C Media Co., Ltd. (北京世熙傳媒文化有限公司) from November 2012 to March 2013 and Beijing Enlight Media Co., Ltd. (北京光線傳媒股份有限公司), whose shares are listed on Shenzhen Stock Exchange (stock code: 300251) from July 2008 to October 2012.

Mr. Meng received a bachelor's degree in arts from Shandong University (山東大學) in the PRC in July 2006.

Ms. ZHAO Wenjie (趙文婕), aged 40, is our non-executive Director, primarily responsible for providing professional advice, opinion, and guidance to our Board. Ms. Zhao was appointed as our Director on January 28, 2022, and re-designated as our non-executive Director on March 3, 2022. Ms. Zhao had been a director of Yuehua Limited, being our subsidiary, from February 2021 to January 2022.

Ms. Zhao has been working at the affiliate of Beijing Quantum Jump Technology Co., Ltd. (北京量子躍動科技有限公司) since July 2014.

Ms. Zhao received a bachelor's degree in management from Wuhan University (武漢大學) in the PRC in July 2004 and a master's degree in literature from Peking University (北京大學) in the PRC in June 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FAN Hui (范輝), aged 45, has been our independent non-executive Director since January 19, 2023, primarily responsible for supervising and providing independent opinion and judgment to the Board.

Mr. Fan has been serving as an independent director of Aura International Education Technology Co., Ltd. (北京光環國際教育科技股份有限公司), a company listed on the National Equities Exchange And Quotations (the "**NEEQ**") (stock code: 838504) since February 2022, Xuzhou Zm-besta Heavy Steel Structure Co., Ltd. (徐州中煤百甲重鋼科技股份有限公司), a company listed on the Beijing Stock Exchange (stock code: 835857) since September 2021, and Noble Family Wine and Liquor Co., Ltd. (名品世家酒業連鎖股份有限公司), a company listed on the NEEQ (stock code: 835961) since June 2020.

Mr. Fan has been working as an executive director of Beijing Quanfang Huitong Investment Management Co., Ltd. (北京全方匯通投資管理有限公司) since July 2018 and a supervisor of and the chief risk officer of Econowledge Capital Co., Ltd. (易科縱橫投資管理（北京）有限公司) since December 2015. Prior to that, Mr. Fan consecutively served as a vice president and the director of the investment decision committee at Capital East Coast International (東海岸國際投資（北京）有限公司) from December 2012 to November 2015 and worked at JD Capital Co., Ltd. (昆吾九鼎投資管理有限公司) from May 2010 to November 2012. Mr. Fan served as a senior manager at Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch (德勤華永會計師事務所（特殊普通合夥）北京分所) from June 2005 to April 2010 and an auditor at Pan-China Certified Public Accounts LLP (天健會計師事務所（特殊普通合夥)) from January 2001 to May 2005.

Mr. Fan received a bachelor's degree in economics from Central University of Finance and Economics (中央財經大學) in the PRC in July 2000 and completed postgraduate courses in accounting at Beijing Technology and Business University (北京工商大學) in the PRC in October 2003. Mr. Fan is a non-practicing member of the Beijing Institute of Certified Public Accountants.

Mr. Fan possesses appropriate professional accounting or related financial management expertise required under Rule 3.10(2) of the Listing Rules and confirms that he has gained such expertise through his experiences.

Mr. LU Tao (呂濤), aged 57, has been our independent non-executive Director since January 19, 2023, primarily responsible for supervising and providing independent opinion and judgment to the Board. Mr. Lu had been an independent director of our Company's subsidiary, Yuehua Limited, from February 2021 to November 2021.

Mr. Lu consecutively worked at Beijing branch of Dongda Pinkong Industries Co., Ltd (東大品控實業有限公司北京分公司) from March 2017 to October 2017 and Dongda Pinzheng Holdings Co., Ltd. (東大品證控股有限公司), a catering company, from December 2016 to February 2017. Mr. Lu served as a regional sales and marketing director of Hebei Kangda Co., Ltd. (河北康達有限公司), a company principally engaged in pesticides manufacture business, from August 2012 to September 2014; member of sales department from December 2002 to March 2011 and associate sales director from April 2011 to June 2012 of Shanghai Johnson Ltd (上海莊臣有限公司); regional sales manager of Shanghai Pillsbury Frozen Foods Co., Ltd, Beijing Branch (上海品食樂冷凍食品有限公司北京分公司) from January 2000 to December 2001.

Mr. Lu received a bachelor's degree majoring in business economics from Anhui University of Finance and Economics (安徽財經大學) (formerly known as Anhui Commerce Institute (安徽財貿學院)) in the PRC in July 1987 and a master's degree in business administration from China Europe International Business School (中歐國際工商管理學院) in the PRC in July 2008.

Mr. HUANG Jiuling (黃九嶺), aged 51, has been our independent non-executive Director since January 19, 2023, primarily responsible for providing independent opinion and judgment to the Board. Mr. Huang had been an independent director of our Company's subsidiary, Yuehua Limited, from February 2021 to November 2021.

Mr. Huang has been working at Chaoshang ASEAN Investment Fund Management Co., Ltd. (潮商東盟投資基金管理有限公司) since October 2020, responsible for the general management of the company. Mr. Huang consecutively served as the president of Beijing Banyan Investment Management Co., Ltd. (北京榕樹投資管理有限公司) from May 2009 to September 2020; president and vice president of Beijing Century Huarong Investment Management Co., Ltd. (北京世紀華融投資管理有限公司) from June 2004 to April 2009 and from July 2000 to May 2004, respectively.

Mr. Huang received a bachelor's degree in economics and a master's degree in business administration from Renmin University of China (中國人民大學) in the PRC in July 1994 and June 2001, respectively.

SENIOR MANAGEMENT

Ms. DU Hua (杜華), aged 41, is the chairlady of our Board, executive Director and chief executive officer of our Company. For details of her biography, see "–Directors – Executive Directors".

Mr. SUN Yiding (孫一丁), aged 55, is the executive Director and president of our Company. For details of his biography, see "– Directors – Executive Directors".

Mr. SUN Le (孫樂) (former name: Gao Xiang (高翔)), aged 42, is the executive Director and vice president of our Company. For details of his biography, see "– Directors – Executive Directors".

Mr. ZHANG Wensheng (張文勝), aged 55, is our chief financial officer and joined our Group in June 2020. Mr. Zhang is primarily responsible for overseeing the financial operation, risk management and investor relations.

Prior to join our Company in June 2020, Mr. Zhang worked at Gome Electrical Appliances Co., Ltd (國美電器有限公司) and its subsidiaries from March 2000 to April 2019.

Mr. Zhang received a bachelor's degree in economics from Tianjin University of Finance and Economics (天津財經大學) (formerly known as Tianjin Finance and Economics Institute (天津財經學院)) in the PRC in July 1990.

Mr. LEE Sang Kyu, aged 39, is our general manager of Korean business and joined our Group in September 2010. Mr. Lee is primarily responsible for overall operation and development of our Korean business.

Mr. Lee joined our Group as an artist manager in September 2010 and later served as the general manager of our Korean business from August 2016.

Mr. Lee received a bachelor's degree in arts from Communication University of China (中國傳媒大學) in July 2011.

JOINT COMPANY SECRETARIES

Mr. ZHANG Wensheng (張文勝), see "– Senior Management."

Mr. CHUNG Ming Fai (鍾明輝), is a joint company secretary of our Company. He has over 18 years of experience in corporate secretary, mergers and acquisitions, financial reporting and auditing. Since June 2022, Mr. Chung has been serving in the corporate secretarial department of SWCS Corporate Services Group (Hong Kong) Limited, and is mainly responsible for managing the company secretarial and compliance work for companies listed on the Stock Exchange.

Mr. Chung is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He obtained his bachelor's degree in commerce from the Australian National University in December 2003.

CHANGES TO DIRECTORS' INFORMATION

Save as disclosed herein, the Directors confirm that no information is required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

YH Entertainment Group and its subsidiaries (hereinafter referred to as "**YH Entertainment**," "**the Group**," "**we**," "**us**," or "**our**") are pleased to publish the first Environmental, Social and Governance Report (hereinafter referred to as the "**Report**") of the Group. We focus on the development of Environmental, Social and Governance (hereinafter referred to as the "**ESG**") of the Group. In the Report, we disclose to stakeholders and the public our ESG work, measures and various environmental and social key performance indicators (hereinafter referred to as the "**KPIs**"). We have formulated a sustainability policy, and we demonstrate the Group's ESG development direction in the future and commitments in the Report.

1.1 Reporting Standards

The Report is made in accordance with the mandatory disclosure requirements and "comply or explain" provisions in the Appendix 27 ESG Reporting Guide (hereinafter referred to as the "**Guide**") to the Listing Rules published by The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "**Stock Exchange**"). The Report is prepared in compliance with four reporting principles in the Guide.

- Materiality: The Report discloses the process of identifying and the criteria for the selection of material ESG issues, and describes the process of stakeholder engagement.

- Consistency: The Report uses consistent statistical methodologies for disclosing data. Changes (if any) are clearly explained in the Report.

- Quantitative: The Report explains its disclosure of the statistical standards, methodologies, assumptions and calculation tools used for ESG KPIs and relevant data, and the source of conversion factors.

- Balance: This is the first report of the Company. The Company will make relevant disclosure in subsequent reports if there is any changes to the statistical methodologies or KPIs used, or any other relevant factors affecting a meaningful comparison.

1.2 Scope of Reporting

The Report covers the period from January 1, to December 31, 2022 (hereinafter referred to as the "**Year**" or "**Reporting Period**"). The scope of social disclosure of the Report is consistent with that of the Annual Report, and its scope of environmental disclosure is headquarters of YH Entertainment in Beijing. For the governance work of the Group, please refer to the section headed "Corporate Governance Report" in this report.

1.3 Reporting Languages

The Report is published in both Chinese and English versions. In the event of any inconsistency, the Chinese version shall prevail.

1.4 Confirmation and Approval

After being confirmed by the management, the Report has been considered and approved by the Board of the Group on March 20, 2023.

1.5 Feedback on the Report

Your opinions on the Report are very important to us. If you have any enquiries or recommendations, please contact the Group via e-mail (ir@yuehuamusic.com).

1.6 Statement of the Board

YH Entertainment assumes its responsibilities in driving sustainability. The Group has established its ESG governance structure. The Board has also authorized the establishment of ESG committee, which is responsible for formulating and reviewing ESG-related strategies and monitoring ESG-related risks. The Board achieves ESG work results of the Group and supervises ESG matters through ESG committee, including formulating and reviewing materiality issues and prioritization. We have set directional environmental targets. We will continue to monitor and track the progress in achieving these targets. In the future, we will set further environmental targets and benchmark year based on the operation direction of the Group.

1.7 ESG Governance

YH Entertainment has established its ESG governance structure. The ESG governance structure consists of three levels, including decision-making level consisting of the Board, organization level led by senior management, and implementation level consisting of relevant departments. The organization level refers to our ESG committee led by our Executive Director and President. The ESG work is driven by various relevant departments in the Group, which will formulate more environmental and social measures. The duties and responsibilities of each level are set out below.

- Decision-making level: the Board

  ➢ As the top decision-making level, the Board takes full responsibility for issues on ESG and climate change, including setting ESG targets. The Board has established ESG committee to carry out governance work on ESG and climate change;

  ➢ The Board supervises the implementation of the Group's policies on ESG and climate change issues, and identifies, assesses and manages the effects of ESG matters;

  ➢ The Board considers and approves annual ESG report

- Organization level: ESG committee

  The ESG committee is led by Mr. SUN Yiding, Executive Director and President. The members of ESG committee are Mr. SUN Le (Executive Director and Vice President), Mr. FAN Hui, Mr. LU Tao, Mr. HUANG Jiuling (Independent Non-executive Directors) and Mr. ZHANG Wensheng (chief financial officer and company secretary).

  ➢ ESG committee is responsible for reviewing ESG targets, strategies and internal policies as authorized by the Board;

  ➢ Identifying ESG risks and opportunities, understanding and responding to stakeholders' opinions on ESG matters;

  ➢ Reviewing and supervising policies, plans, management approach, working targets and other aspects relating to ESG and climate change, preparing ESG report and regularly reporting to the Board

- Implementation level: ESG working group

  ➢ The implementation unit consists of Integrated Management Department, Internal Control and Management Department, etc. The relevant departments shall carry out relevant ESG work according to the management approach, strategies, plans, annual targets relating to ESG and climate change set by the Group;

  ➢ The relevant departments must comply with policies and regulations on ESG and climate change, and collect relevant KPIs data;

  ➢ Regularly report to ESG committee

1.8 Stakeholder Engagement

The Group values communication and exchanges with stakeholders. In order to facilitate the effective and lasting communication with stakeholders, we have identified stakeholders and established various communication channels to understand stakeholders' expectations and requirements. The Group will actively respond to stakeholders' opinions, and formulate and implement various sustainability policies and measures, so as to promote the sustainable development of the Group.

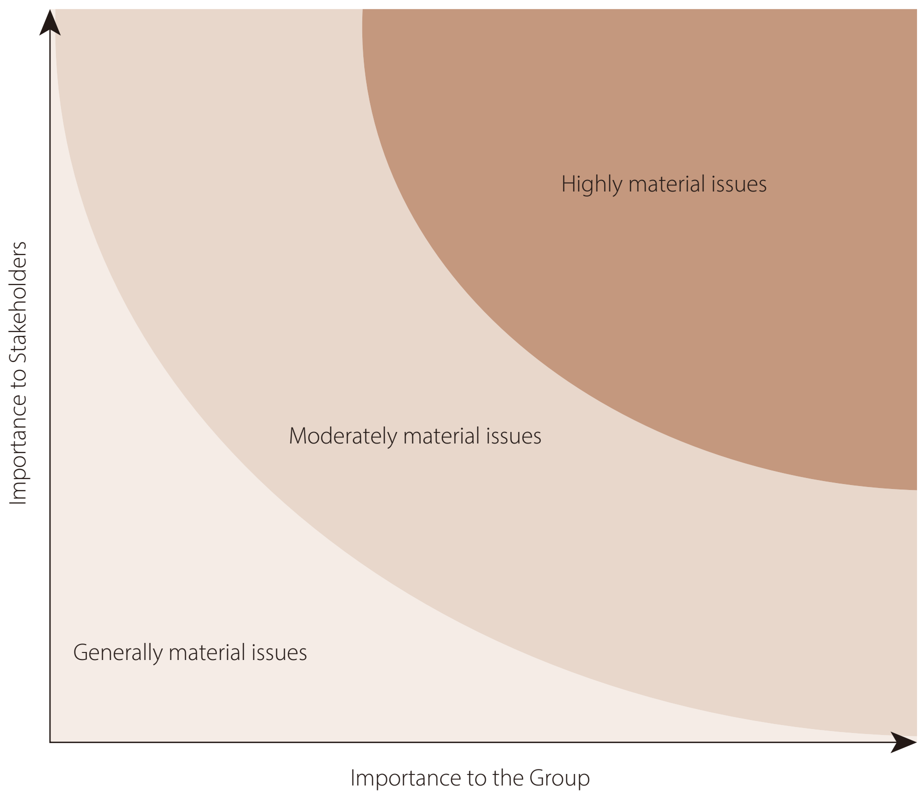
Significant stakeholders	Expectations and requirements	Communication channels
Fans and customers (content producers, advertisers, corporate customers, etc.)	• Users' experience	• Daily operation/communication; • Social media interactions; • Phone call; • Mailbox
Shareholders and investors	• Protection of rights and interests of shareholders and investors; • Prudent operation; • Financial results; • Long-term win-win cooperation relationship	• Regular disclosure of financial and operational information; • Company's website; • Corporate newsletter, such as letter/circular and meeting notice to shareholders; • Shareholder visiting activity; • Investor meeting; • Senior management meeting

Significant stakeholders	Expectations and requirements	Communication channels
Staff	• Employment compliance; • Occupational health and safety; • Staff training and development; • Compensation and welfare; • Favourable working environment; • Work and life balance; • Protection of staff rights and interests	• Channels for staff to express opinions (internal system, forms, suggestion boxes, etc.); • Work performance appraisal; • Business briefing; • Staff communication conference; • Staff training
Business partners	• Long-term win-win cooperation relationship	• Meeting; • Visit
Suppliers (managed artists)	• Compliance with contracts; • Long-term cooperation	• Meeting and communication
Government/regulatory body	• Compliance with laws and regulations; • Tax payment as legally required	• Visitor reception; • Implementation of policies and regulations; • Regular communication
Media	• Information transparency; • Financial results	• Press conference; • Press release; • Interviews of senior management
Community/non-governmental organizations	• Contributions to the Community	• Donations; • Community activities
Peers	• Win-win cooperation	• Strategic cooperation project

1.9 Materiality Assessment

The Group has built its materiality issue database by communicating with stakeholders, referring to the Guide, industrial materiality issue database of Sustainability Accounting Standards Board ("**SASB**") and peers' examples, and considering the operation situation of the Group. By conducting materiality assessment, the Group has identified 17 material issues and determined the materiality of each issue. There are 11 highly material issues, 4 moderately material issues and 2 generally material issues. The results of the materiality assessment have been considered and confirmed by the Board.

Materiality Matrix



Highly material issues	Moderately material issues	Generally material issues
– Greenhouse gas emissions – Waste management – Protection of employment rights and interests and welfare – Staff training and development – Staff health and safety – Employment criteria (such as equal opportunity and diversity) – Information security and privacy protection – Protection of intellectual property rights – Anti-corruption, anti-bribery – Community engagement and charity activities – Compliance operation	– Tackling climate change – Water resource management – Material usage and efficiency – Business ethics	– Energy management – Supplier management

2. COMPLIANCE OPERATION

2.1 Diversified Entertainment Products

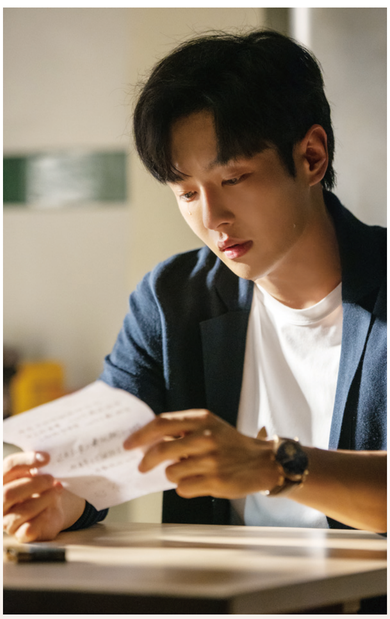
As audiences' demand for diversification and quality of entertainment is increasing, YH Entertainment has been actively developing diversified and high-quality entertainment experience, and promoting its various businesses including artist management, music production, pan-entertainment business, etc. As the largest artist management company in China, YH Entertainment provides artist management services for managed artists. We provide services for managed artists, and help artists to develop their careers towards different stages to perform their best, and provide entertainment or endorsements services for different content producers, advertising customers, media platforms, etc.

We provide performing and content services as well as music products for our customers, expand our entertainment businesses, and explore the feasibility to improve our variety entertainment business. We have established mutual cooperative and complementary relationships with artists and content producers. We help artists to build personal image and develop their performing careers. Meanwhile, the diversified characteristics and talents of artists also help us provide distinctive and high-quality performing, entertainment, music and advertising and endorsements services to customers.

During the Year, the Group has produced and operated various musical works for its managed artists, and participated in various film and television works, which attracted extensive attention and support.

Cover of Huang Minghao's solo album "VR"

Cover of BOYHOOD's single "Moonlight (心動月光)"



A still of movie "Almost Love (遇見你)"
(Li Wenhan's performance work)

Poster for TV series "Shining Just For You (星河長明)"
(Zhu Zhengting's performance work)

In addition, there were also the following works:

- Huang Xinchun's single "In The Room (房間裡)";
- NEVERLAND's single "Set Out (出發)";
- NEVERLAND's single "Judge (判傷愁)";
- BOYHOOD's album "LANDING";
- Bi Wenjun's solo album "Bself";
- Meng Meiqi's solo album "White Frequency (空白頻率)";
- Wang Yibo's single "Just Like Sunshine (像陽光那樣)";
- Wang Yibo's performance work "Being A Hero (冰雨火)";
- Bi Wenjun's performance work "Double Love (墨白)";
- Wang Jianing's performance work "Accidentally Meow On You (一不小心喵上你)".

2.2 Reputation and Quality Assurance

We have been operating our artist management work in compliance with relevant requirements under the Template Entertainment Content Service Contract (Trial) (《演員聘用合同示範文本（試行）》), Notice on Further Strengthening the Work Related to the Regulation of Online Information for Entertainment Artists (《關於進一步加強娛樂明星網上信息規範相關工作的通知》), Administrative Measures for Performance Brokerage Agencies in the Field of Radio, Television and Online Audiovisual Platforms (《廣播電視和網絡視聽領域經紀機構管理辦法》) and other rules. Any speech and behavior of artists will attract extensive attention from society. Therefore, we carry out due diligence and comprehensive analysis in the process of selecting artists and trainees. We select decent and law-abiding artists who have clear political stance, and have no negative publicity, illegal or criminal act or administrative penalty record. Our artists are required to demonstrate their high performing quality, excellent potential, as well as dream and desire for performing career. After completion of due diligence, the profile of qualified candidates shall be submitted to our management for assessment. Contracts will be signed upon receiving confirmation from our management. When signing contracts with minors, the Group shall obtain the consent and support from their guardians in advance. The guardians shall participate in the whole process of contract negotiation. Contracts shall be signed by the guardians. We arrange training for these trainees only during after-school time, and make sure their academic study to be undisturbed, so as to guarantee their rights to receive and complete compulsory education.

For character and quality management, we formulated the Systematized and Regulated Code of Conduct (《制度與規定行為準則》), which stated the requirements on artists' behaviors, work, trainings and personal routines. Our managed artists shall sign to undertake that they can meet the relevant requirements. Artists shall manage their sound personal images, and they are strictly prohibited from committing any act that is illegal, criminal or immoral. Artists shall coordinate as required to accomplish various interviews, arrangements for advertisements, shoots and relevant work within prescribed schedule, and they shall guarantee both quality and quantity of their work. Artists shall not privately contact fans, accept gifts from fans, or exchange contact information with fans without permission. If there is any violation of discipline, YH Entertainment may exercise its rights to take any necessary measures to handle the violation. Most of our artists made their debut after graduation from Yuehua trainee program, and the long-term cooperation relationships shall be conducive to ensuring artists' sound character and performing quality.

Music is another major product of the Group. We improve the quality of our music production by cooperating with quality musicians, content producers, etc. We assess and select counterparties based on their industry reputation, professionalization, marketing and other factors before we cooperate with them for various music production. We formulated measures on selection of suppliers for music production. Music producers include copyright companies, producers, professional music composers and lyricists. Suppliers shall provide their previous works for assessment and selection. Based on their previous production experiences, awards received and experiences in cooperating with artists, we grade our new suppliers to ensure the quality of our works.

In the process of producing new musical works, we collect lyrics and music compositions provided by music producers for confirmation. We will enter the production stage of music products after receiving confirmation. At this stage, we assess the quality of music compositions from two perspectives including data and artistic aesthetics. At the production stage, music director will discuss with producers on quality of music compositions, including intonation, beat, mood of songs and other professional items, and make necessary adjustment. The delivered audio works should be kept according to the required file standards to ensure quality requirements.

In addition to suppliers, we actively communicate with our customers to understand their requirements for our services. We welcome our customers' feedback. After receiving the comments and suggestions, the artist operation team will work closely with the artist promotion team and actively communicate with the relevant parties, so as to improve the weaknesses in the course of artist management. We also set up a public mailbox for collecting fans' feedback. We collect fans' requests and communicate with them at any time.

The Group is not involved in any product which is subject to recall for safety and health reasons. Our main businesses does not involve product recall, and we didn't receive any complaint on product. The Group's major suppliers are artists. We have regulated our artists' social risks, environmental risks relating to the identification of artists and practice to select and use more environment-friendly products and services. We will review the development of our businesses. We will formulate suppliers' risk management policies and green procurement policies for other suppliers in due course. In addition to artists, our suppliers also include suppliers of music copyright and pan-entertainment. In the Year, we have 2,785 suppliers in total, including 2,574 overseas suppliers and 211 domestic suppliers.

2.3 Honest Endorsements in Advertising

Providing artist endorsements in advertising to our customers is an important part of the Group's businesses. We cooperate with our artists to provide promotion for customers' products and services, so as to create value. We strictly comply with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Guidance on Further Regulating the Endorsement by Artists in Advertising Activities (《關於進一步規範明星廣告代言活動的指導意見》). In order to better manage relevant endorsements in advertising, we set up the Specific Process System (《專項流程制度》) and Endorsement Exhibition Withdraw System (《代言撤展制度》). We are prohibited from engaging in any false advertising. We require that our artists must use products or services in person, so as to ensure those products or services are real and effective. The project manager of endorsements shall provide the relevant evidences of use to our legal department for preservation.

Our endorsement and advertising contract has stipulated the duration of endorsements. Customers shall withdraw the exhibition of endorsements upon the expiration of duration. If a customer fails to withdraw the exhibition of endorsements according to contract, we will contact the customer for interpellation. If necessary, we will apply for right protection. The Group will enhance communication with fans. Our employees are prohibited from incitement of fans to spend money or incitement of fans' support behavior. In the event that our employees are aware of fans' relevant behavior, they shall communicate with them and dissuade them in time.

During the Year, the Group did not violate any regulations regarding endorsement and advertising.

2.4 Personal Privacy Protection

For the collection of personal data, we will review the authorization for collecting and handling of personal data. The personal data of artists, trainees and business partners shall only be used for business and training purposes. We manage our managed artists' fan club accounts on Weibo. We do not actively collect or maintain any personal information of the fans of our managed artists. In order to protect the personal privacy of artists, all employees must strictly execute the information management system of the Group, and shall not leak artists' any personal data and personal itinerary. Regardless of any account they use, they must check before posting messages, so as to prevent from appearance of any personal data, incorrect values or illegal content. In addition, our employees shall not post any information on our artists on personal social media platforms, and shall not privately contact fans.

During the Year, the Group did not violate any regulations regarding personal data.

2.5 Intellectual Property Rights System

The Group strictly complies with the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》). We have formulated the Intellectual Property Rights Management System (《知識產權管理制度》) to regulate our management in trademark rights, copyright and trade secrets and other intellectual property rights. We submit application to China National Intellectual Property Administration and National Copyright Administration for registration of intellectual property rights of artwork and trademarks of the Group. In the event that we entrust a third party to carry out design and development relating to intellectual property rights, we shall enter into a written contract which stipulates terms such as the ownership, allocation and protection of intellectual property rights. Without authorization, any person shall not transfer, sell, use or misappropriate the intellectual property rights of the Group in any way. In the event that our intellectual property rights are illegally used, our legal department will claim against the user for damages caused. If it constitutes a criminal act, we will report the case to judicial authority.

In addition, we formulated the Genuine Software Management System (《正版軟件管理制度》) to regulate the genuine software used by the Group. The Group is strictly prohibited from using any non-genuine software. For the usage of genuine software, our specially-assigned person will be responsible for its preservation, registration, backup and distribution. We regularly check the software used by the Group to ensure that all the software used is genuine software. In case there is illegally used software, we will uninstall it immediately. We will enhance the training on the usage of genuine software, and we value the conforming use of intellectual property rights.

As of December 31, 2022, the total number of intellectual property works of the Group is 436, including 31 copyright works and 405 trademarks.

2.6 Anti-Corruption, Anti-Bribery and Integrity Construction

The Group strictly complies with compliance requirements by abiding by the Anti-Money Laundering Law of the People's Republic of China, Anti-Terrorism Law of the People's Republic of China, Company Law of the People's Republic of China and other regulatory requirements to establish an integrity system. The Group has developed policies such as the Internal Audit System (《內部審計制度》), Anti-Money Laundering Management System (《反洗錢管理制度》) and Anti-Fraud, Anti-Corruption and Anti-Bribery Management System (《反舞弊、反腐敗和反賄賂管理制度》).

The Group forbids employees from illegally giving cash gifts or engaging in any form of bribery, or providing illegal preferential or economic benefits in the name of a donation, illegally misappropriating the Group's assets, evading taxes, etc. The Group elucidates the concept of integrity by providing trainings to employees, and encourages them to report illegal behaviors. Our management is responsible for establishing, improving and implementing anti-fraud procedures and controls for the Group, including risk assessment and prevention of fraud, corruption and bribery. Our management establishes internal control measures in high-risk areas such as financial reporting. The internal control management department is responsible for developing and implementing the Group's internal control system, and reviewing the authenticity and integrity of financial information. The internal control management department shall urge relevant departments to rectify the internal problems found in the examination process, and report to the management based on the severity of the case.

The Group's special integrity working group is responsible for establishing whistle-blowing channels. We have set up an email account for employees and third parties directly and indirectly cooperating with the Group to report non-compliance issues. The reported issues will be investigated by the special integrity working group in conjunction with various departments. If necessary, external experts will be invited to participate in the investigation. We will give feedback to the real-name whistleblower on the findings of investigation and report to the Board and Audit Committee.

During the Year, the Group did not violate any relevant laws and regulations regarding corruption, bribery and extortion. In addition, the Group recorded no legal case which was brought against the Group or its employees by reason of relevant practices during the Year. During the Year, 3 directors and domestic employees of the Group participated in the anti-corruption training. Its specific content was corporate compliance training on integrity.

3. TALENT MANAGEMENT

3.1 Talent Recruitment Measures

YH Entertainment strictly abides by the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Administrative Measures for Performance Brokerage Agencies in the Field of Radio, Television and Online Audiovisual Platforms（《廣播電視和網絡視聽領域經紀機構管理辦法》）and other regulatory requirements. We have formulated the Employee Handbook (《員工手冊》) to standardize the system and information in terms of employee recruitment, demission, attendance, remuneration, welfare, etc.

If there is a vacancy, we will fill the vacancy by external recruitment and internal re-allocation based on the principles of "open recruitment and merit-based employment" and "prioritization of internal personnel under equal conditions". We will prioritize internal re-allocation to create more development opportunities for employees. We will review the employee's personal data and verify the submitted identity certificate, credentials for educational background and working experience, etc. We will review applicants' personal data to prevent employment of child labor. Our recruitment follows the meritocracy principle, and shall not be affected by employees' gender, health condition, race, color, nationality, religious beliefs, etc. We shall enter into contracts with employees which stipulate probationary period and other terms. Employees have the right to terminate their contracts and shall send us a 30 days' notice before termination. Employees shall hand over their duties and relevant materials before demission. We will also have an interview with these employees to understand the reasons for resignation.

The Group prohibits any child labor and forced labor. The Group has established an attendance system which specifies the working hours. The Group does not encourage employees to work overtime. If overtime working is necessary, employees should submit an application for it through an online system in advance, and can only proceed with overtime working after receiving approval and confirmation from the management.

During the Year, the Group registered no legal case related to non-compliance with any law regarding compensation, equal opportunity, diversity, anti-discrimination as well as other treatment and benefits.

3.2 Protection of Staff Rights and Interests

Employees are entitled to statutory leave as required by the laws and regulations. We also offer our employees annual leave, marriage leave, maternity leave, paternity leave, bereavement leave, sick leave, casual leave, work-related injury leave and other benefits for them to apply for when needed.

We have established an employee remuneration system which specifies that remuneration consists of basic salary, bonus, various benefits, etc. Basic salary shall be determined based on the operating condition of the Company, the employment market, as well as employees' duties and responsibilities, capabilities and working experiences. In order to motivate employees' passion for work, we have formulated a bonus system. An employee shall be eligible to receive the bonus if he/she has made special contributions to the Group, proactively completed the assignment made by the Company, assisted in exploring major business opportunities, etc.

We will make adjustments to employees' remuneration in each year based on operating performance of the Group and commodity prices. Employees can also enjoy opportunities of special salary adjustment if they make contributions to the Group and deliver excellent working performance. In compliance with the requirements made by laws and regulations, we shall maintain "five categories of social insurance and one housing fund (五險一金)" for our employees. We also offer them various special subsidies and benefits, such as supplementary medical insurance, meal allowances, communication subsidies, holiday gifts, etc.

3.3 Occupational Health and Safety

The Group cares for employees' health. We offer our employees annual medical examination as a service to meet their needs. Management is accountable for maintaining a safe working environment for employees. We provide safety training for employees. The employees of the Group did not record any lost days due to work injury. There was no work-related fatality occurred in the Group in the past three years (including the Year).

In response to the outbreak of COVID-19 epidemic, the Group has formulated the Epidemic Prevention and Control Work Plan of the Company (《公司疫情防控工作方案》) and Contingency Plan for Epidemic Prevention of the Company (《公司防疫應急預案》) to work with government agencies on epidemic prevention and control. We specially assigned epidemic prevention personnel to rigorously oversee the information distribution, staff temperature measurement, disinfection records, formulated epidemic emergency plan and process, and kept a record of movement tracks of employees. We also adopted shift work to minimize employees' touch. If any employee suffers symptoms, he/she shall immediately report to the emergency response team, property management unit and community. The employee will be guided to the pre-set isolation room and directly taken to hospital for examination.

3.4 Corporate Culture Activities

In order to build up the corporate culture of YH Entertainment and enhance solidarity among our employees, we regularly organize various team-building activities to relieve employees' stress and strengthen their sense of belonging to the Company.

Team-building activity for mid-level and senior management staff of the Company

3.5 Staff Training and Promotion

The Group will provide a variety of trainings for its staff to assist them in career development, which will also enable the Group to stay competitive. We provide orientation training for new employees, staff quality training, job skill training and management personnel training to improve the capabilities of employees at all levels. Employees can also participate in external trainings. After being approved by our management, relevant training costs shall be borne by the Group if we confirm that the relevant trainings are related to the employees' positions.

We will conduct regular appraisal on employees' performance. The appraisal of an employee shall be carried out by his/her superior and the appraisal results shall be approved by the management. The employee shall submit the completed performance target plan to the superior in each appraisal year, and the superior meets with the employee to discuss the appraisal results and set targets for the following year, which shall be submitted to the superior for approval. For employees who fail to achieve their appraisal targets, we will help them by training and re-designation. For employees who demonstrate excellent performance and possess qualified skills, required knowledge and experiences for promotion, we will promote or adjust their positions.

In order to help new employees to understand the Company's history, corporate culture and relevant rules and regulations, we offer orientation training for new employees, which mainly includes administrative, legal and financial training. The training can help employees to carry out their work effectively and better integrate into the Company quickly. In addition, we will also provide employees with job-related professional knowledge training, such as organizing training on endorsements, advertising businesses, etc.

4. ENVIRONMENTAL PROTECTION

YH Entertainment values the environmental development. We strictly abide by the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》). We aim to minimize the impact of our daily operations on the environment by implementing a number of green office initiatives. In addition, we use the Group's and artists' media clout to promote a number of different issues including environmental protection and ecological conservation. For example, our artists including Han Geng, Wang Yibo, Meng Meiqi, acted as spokespersons and ambassadors for a number of different environmental issues, such as "WWF Earth Hour (WWF地球一小時)", "Guardians of the Earth Elected by the Radio EtherealSound (雲聽地球守護人)", "Love It Season of Tajijin "Today I Speak for It" (它基金愛它行動季「今天我為它發聲」)". We are committed to making our own contributions to the environmental protection and encourage more people to make joint efforts.

During the Year, the Group has set directional environmental targets. We will continue to comply with relevant environmental laws and regulations at our operating locations to maintain or lower greenhouse gas emission intensity, waste generation intensity, electricity consumption intensity and water consumption intensity. We will set quantitative targets and environmental base year in the future according to operating conditions and the development planning.

4.1 Energy Management

During the Year, the Group's electricity consumption was 220,324.00 kWh, representing an electricity consumption of 59.55 kWh per square meter and 1,468.83 kWh per employee. To optimize the use of resources, we will divide the office spaces into multiple lighting zones with separate lighting switches to turn off lighting where it is not needed, install motion sensors in less frequently used areas, and install energy efficient lamps. In terms of air conditioning, we regularly clean the air filter screens and steer clear of placing air conditioners in locations where the sun will be directly overhead to reduce energy consumption.

4.2 Water Resource Management

During the Year, the Group's water consumption was 913.00 cubic meters, representing a water consumption of 0.25 cubic meter per square meter and 6.09 cubic meters per employee. The Group sources water only from the municipal water supply services, and there is no difficulty in sourcing water. We will use fixtures with high water-saving performance such as taps and toilets, carry out routine leakage tests, repair water appliances that have leaks, and paste water-saving labels next to water facilities to remind employees to save water.

4.3 Waste Management

During the Year, the Group's paper consumption was 505.31 kg, representing a paper consumption of 3.37 kg per employee. The amount of non-hazardous waste produced was 3.96 tonnes, representing an amount of non-hazardous waste produced per employee of 0.03 tonne. We have formulated the Proposal for Reducing Paper Consumption (《節約用紙倡議書》), which emphasizes the principle of "avoid printing or photocopying if unnecessary (能不打印就不打印，能不複印就不複印)", and encourages double-sided printing with sensible layout to reduce paper consumption. Staff are also encouraged to reuse single-sided paper to cut down on waste. We will also conduct waste classification to reuse stationery such as envelopes and binders. We promote the use of reusable appliances while reducing the use of disposable and non-recyclable appliances. The Group is a non-manufacturing enterprise and does not involve in industrial hazardous waste emissions and does not generate significant hazardous waste, therefore it is not disclosed. The Group is not involved in the production of a large number of products or derivatives, and therefore does not consume a significant amount of packaging materials.

4.4 Emission Management

During the Year, the Group emitted 46.94 kg of nitrogen oxides, 0.08 kg of sulphur oxide and 4.50 kg of particulate matters. All of the Group's emissions come from vehicle use. To reduce pollutant emissions, we perform maintenance on the Company's vehicles and inflate tires on a regular basis, choose electric vehicles or hybrid vehicles, and avoid leaving vehicle engine idling.

4.5 Greenhouse Gas Emission Management

During the Year, the Group's greenhouse gas emissions were 142.61 tonnes, representing a greenhouse gas emission of 0.04 tonne per square meter and 0.95 tonne per employee.

Greenhouse gas emission	Unit	2022
Direct greenhouse gas emissions (Scope 1)	tonnes of CO_2e	**14.60**
Indirect greenhouse gas emissions (Scope 2)	tonnes of CO_2e	**128.01**
Total greenhouse gas emissions (Scope 1 and 2)	tonnes of CO_2e	**142.61**
Greenhouse gas emission intensity (per square meter) (Scope 1 and 2)	tonnes of CO_2e/m^2	**0.04**
Greenhouse gas emissions per employee (Scope 1 and 2)	tonnes of CO_2e/employee	**0.95**

4.6 Climate Change

Climate change is a major challenge for all businesses. The burden placed on a company is growing more significant as a result of the increasing impact of climate change on society. In order to achieve sustainable development, we identify the climate change related risks in our operations, evaluate the impacts of all risks on our operations, and devise countermeasures accordingly.

Types of risks	Risk level	Potential impacts	Countermeasures
Physical risk			
Extreme heat Water shortage	low low	Resource supply may be affected; Activities and operations are delayed or canceled due to extreme weather, causing an impact on artists and services	Monitoring the climate change for offline activities; develop contingency plans
Transition risk			
Development of global climate change policies and regulations	low	Damage to reputation; penalties imposed by regulatory authorities; investment amount limits	Keep abreast of the latest regulatory requirements of the government; requirements associated with dual carbon of "carbon peak and carbon neutrality (碳達峰碳中和)" are added to the employee training program
Stakeholders' concern about climate change issues	low	Damage to reputation; difficulty to obtain support from stakeholders and partners	Push forward energy conservation and emission reduction; increase the ESG report's disclosure of climate change and low-carbon operating practices
Endorsed products or performing works with environmental impacts or environmental awareness concerns	low	Damage to reputation; reduced cooperation	Review the relevant products and works and assess the risk

Types of opportunities	Opportunity description	How to get the opportunity
Climate change opportunity		
Public awareness of environmental protection	There is a rising demand for entertainment programs and endorsements that address environmental and climate change issues	Intensify collaboration with various charities to foster and improve the public perception of environmental protection

5. COMMUNITY ENGAGEMENT

During the Reporting Period, we actively participated in social welfare and fulfilled the corporate social responsibility. Amidst the acute epidemic condition in Shanghai in March 2022 when it was in urgent need of help, we made a donation of RMB200,000.00 to Fosun Foundation (復星基金會) as soon as we became aware of the condition there, in an effort to assist the Fosun Foundation in the local rescue work. The donations enabled Fosun Foundation to distribute a total of 15,680.00 community anti-epidemic support packs to 7 communities in Shanghai to aid the Shanghai community and volunteers in the fight against the epidemic. The community anti-epidemic support pack includes protective clothing, medical masks, isolation shoe covers, protective face shields, nitrile gloves, rapid antigen test kits and rations.

Community anti-epidemic support packs

APPENDIX I: SUSTAINABILITY DATA SUMMARY

Environmental Aspect	Unit	2022
Air pollutant emissions		
Nitrogen oxide	kg	**46.94**
Sulphur oxide	kg	**0.08**
Particulate matter	kg	**4.50**
Greenhouse gas emissions		
Direct greenhouse gas emissions (Scope 1)	tonnes of CO_2e	**14.60**
Indirect greenhouse gas emissions (Scope 2)	tonnes of CO_2e	**128.01**
Total greenhouse gas emissions (Scope 1 and 2)	tonnes of CO_2e	**142.61**
Greenhouse gas emission intensity (per square meter) (Scope 1 and 2)	tonnes of CO_2e/m^2	**0.04**
Greenhouse gas emissions per employee (Scope 1 and 2)	tonnes of CO_2e/employee	**0.95**
Energy consumption		
Purchased electricity consumption	kWh	**220,324.00**
Purchased electricity consumption intensity (per square meter)	kWh/m^2	**59.55**
Purchased electricity consumption per employee	kWh/employee	**1,468.83**
Petrol consumption	liter	**5,393.79**
Water consumption		
Total water consumption	m^3	**913.00**
Water consumption intensity (per square meter)	m^3/m^2	**0.25**
Water consumption per employee	m^3/employee	**6.09**
Paper consumption		
Total paper consumption	kg	**505.31**
Paper consumption intensity per employee	kg/employee	**3.37**
Waste generation		
Total non-hazardous waste produced	tonnes	**3.96**
Non-hazardous waste produced per employee	tonnes/employee	**0.03**

Social Aspect	Unit	2022
Number of employees		
Total number of employees	no. of people	**200**
Female employees	no. of people	**129**
Male employees	no. of people	**71**
Full-time junior employees	no. of people	**146**
Full-time mid-level employees	no. of people	**40**
Full-time senior employees	no. of people	**14**
Employees aged below 30	no. of people	**108**
Employees aged 31–50	no. of people	**88**
Employees aged above 50	no. of people	**4**
Employees in Northern China	no. of people	**144**
Employees in other region of China (including Hong Kong, Macau and Taiwan)	no. of people	**6**
Employees in Korea	no. of people	**50**
Employee Turnover[1]		
Total employee turnover rate	%	**34.00**
Turnover rate of female employees	%	**31.01**
Turnover rate of male employees	%	**39.44**
Turnover rate of employees aged below 30	%	**39.81**
Turnover rate of employees aged 31–50	%	**28.41**
Turnover rate of employees aged above 50	%	**0.00**
Turnover rate of employees in Northern China	%	**34.03**
Turnover rate of employees in Korea	%	**38.00**
Occupational Health and Safety		
Number of work-related fatalities occurred in each of the past three years (including the reporting year)	no. of people	**0**
Rate of work-related fatalities occurred in each of the past three years (including the reporting year)	%	**0.00**
Lost days due to work injury	day	**0**

1 The turnover rate by employee category is calculated as: number of departed employees in the category ÷ total number of employees in the category at the end of the period × 100%

Social Aspect	Unit	2022
Employee training		
Percentage of employees trained by gender[2]		
Male employees	%	**72.00**
Female employees	%	**28.00**
Percentage of employees trained by employee category[3]		
Full-time junior employees	%	**75.33**
Full-time mid-level employees	%	**20.67**
Full-time senior employees	%	**4.00**
Average training hours of employees by gender[4]		
Female employees	hour	**0.20**
Male employees	hour	**0.50**
Average training hours of employees by employee category[4]		
Full-time junior employees	hour	**0.20**
Full-time mid-level employees	hour	**0.70**
Full-time senior employees	hour	**3.60**

2 The percentage of employees trained by employee category is calculated as: number of employees trained in the category ÷ total number of employees trained × 100%

3 The Group did not maintain any related part-time/short-term staff record for the Year.

4 The average training hours of employees by employee category is calculated as: training hours of employees in the category ÷ total number of employees in the category

APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX

Indicators			Related Sections
Mandatory Disclosure Requirements			
A. Environmental Aspect			
A1. Emissions	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	4. ENVIRONMENTAL PROTECTION
	A1.1	The types of emissions and respective emission data.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and intensity.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
	A1.3	Total hazardous waste produced and intensity.	The Group is not involved in the generation of significant hazardous waste, therefore it is not disclosed.
	A1.4	Total non-hazardous waste produced and intensity.	4.3. Waste Management; APPENDIX I: SUSTAINABILITY DATA SUMMARY
	A1.5	Description of emission target(s) set and steps taken to achieve them.	4. ENVIRONMENTAL PROTECTION
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	4. ENVIRONMENTAL PROTECTION
A2. Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	4.1. Energy Management; 4.2. Water Resource Management
	A2.1	Direct and/or indirect energy consumption by type in total and intensity.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
	A2.2	Water consumption in total and intensity.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	4.1. Energy Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	4.2. Water Resource Management
	A2.5	Total packaging material used for finished products and with reference to per unit produced.	The Group is not involved in the production of a large number of products, and therefore does not consume a significant amount of packaging materials.

Indicators			Related Sections
A3. Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	4. ENVIRONMENTAL PROTECTION
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	4. ENVIRONMENTAL PROTECTION
A4. Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	4.6. Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	4.6. Climate Change
B. Social			
Employment and Labor Practices			
B1. Employment	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3. TALENT MANAGEMENT
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
	B1.2	Employee turnover rate by gender, age group and geographical region.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
B2. Health and Safety	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3.3. Occupational Health and Safety
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years (including the reporting year).	3.3. Occupational Health and Safety
	B2.2	Lost days due to work injury.	3.3. Occupational Health and Safety
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	3.3. Occupational Health and Safety

Indicators			Related Sections
B3. Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.5. Staff Training and Promotion
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	APPENDIX I: SUSTAINABILITY DATA SUMMARY
	B3.2	The average training hours completed per employee by gender and employee category.	APPENDIX I: SUSTAINABILITY DATA SUMMARY
B4. Labor Standards	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labor.	3. TALENT MANAGEMENT
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	3. TALENT MANAGEMENT
	B4.2	Description of steps taken to eliminate such practices when discovered.	3. TALENT MANAGEMENT
Operating Practices			
B5. Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	2.2. Reputation and Quality Assurance
	B5.1	Number of suppliers by geographical region.	2.2. Reputation and Quality Assurance
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	2.2. Reputation and Quality Assurance
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	2.2. Reputation and Quality Assurance
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Not applicable to the Group's core operations

Indicators			Related Sections
B6. Product Responsibility	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.3. Honest Endorsements in Advertising; 2.2. Reputation and Quality Assurance
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable to the Group's core operations
	B6.2	Number of products and service related complaints received and how they are dealt with.	2.2. Reputation and Quality Assurance
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	2.5. Intellectual Property Rights System
	B6.4	Description of quality assurance process and recall procedures.	Not applicable to the Group's core operations
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	2.4. Personal Privacy Protection
B7. Anti-corruption	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	2.6 Anti-Corruption, Anti-Bribery and Integrity Construction
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	2.6 Anti-Corruption, Anti-Bribery and Integrity Construction
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	2.6 Anti-Corruption, Anti-Bribery and Integrity Construction
	B7.3	Description of anti-corruption training provided to directors and staff.	2.6 Anti-Corruption, Anti-Bribery and Integrity Construction
B8. Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	5. COMMUNITY ENGAGEMENT
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	5. COMMUNITY ENGAGEMENT
	B8.2	Resources contributed (e.g. money or time) to the focus area.	5. COMMUNITY ENGAGEMENT

DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period. All references in this section "Directors' Report" to other sections in this report form part of this section.

GLOBAL OFFERING

On June 10, 2021, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. The Company's Shares were listed on the Main Board of the Stock Exchange on January 19, 2023.

PRINCIPAL ACTIVITIES

The Group primarily engage in artist management in China and its business covers the whole lifecycle of artist management, including artist training, artist operation and artist promotion. The Group's business model consists of the following three business lines: (i) artist management; (ii) music IP production and operation; and (iii) pan-entertainment business.

The Company is an investment holding company and the principal businesses of its principal subsidiaries are set out in Note 40 to the consolidated financial statements.

A list of the Company's principal subsidiaries as of December 31, 2022, together with, among others, their dates and places of incorporation and particulars of their issued share capital, are set out in Note 40 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the Group's business, an analysis of the Group's financial performance, events affecting the Group that have occurred subsequent to the end of the financial year, and an indication of likely future development in the Group's business, are set out in the section headed "Management Discussion and Analysis" of this report. A description of the principal risks and uncertainties faced by the Group, key relationship between the Group and its employees, customers and suppliers, the environmental policies of the Group and compliance with the relevant laws and regulations which have significant impact are set out below.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's results of operations are subject to various factors with the key risks summarized below:

- The Group's business depends significantly on its managed artists' reputation and the public's perception of its brand. Any negative publicity on its managed artists, the Company and management, business partners or industry, may harm the brand image of the Group, which could materially and adversely affect the Group's business, financial condition or results of operations;

- The Group generates a substantial portion of its revenue from its artist management business. If the Group fails to maintain the relationship with artists and trainees or enlarge the number of artists and trainees managed by the Group, its business, financial condition and results of operations could be materially and adversely affected;

- The Group's business is highly sensitive to public tastes and is dependent on its ability to secure and develop popular artists, and the Group may not be able to anticipate or respond effectively to changes in audience's preferences and market trends, which could materially and adversely affect its business, financial condition and results of operations;

- The Group's 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 its business, financial condition and results of operations; and

- If the Group fails to maintain the business relationship with its major customers or expand its customer base, its business, financial condition and results of operations could be materially and adversely affected.

Since the above is not an exhaustive list, investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

For more details of other risks and uncertainties by the Group, please refer to the section headed "Risk Factors" in the Prospectus.

ENVIRONMENT POLICIES AND PERFORMANCE

The Company steadfastly believes that corporate social responsibility and sustainable growth are instrumental to the continuing prosperity of its business. The Company is dedicated to integrating the principles for environmental, social and corporate governance ("**ESG**") with all aspects of its day-to-day business. The Company has adopted an ESG policy which sets forth the constitution and obligations of our ESG committee, ESG governance structure, ESG strategy formation procedures, and ESG risk management and monitoring. Pursuant to our ESG policy, our Board assumes the overall responsibility of overseeing the implementation of our ESG policy, identifying, assessing and managing the influence of important ESG matters, such as climate-related risks and opportunities, and setting goals in respect of ESG-related matters. The ESG committee, which is a sub-committee of the Board, is tasked with determining and reviewing our ESG target, strategy and internal policy, identifying ESG-related risks and opportunities, and reviewing and monitoring ESG practices.

For more details, please refer to the section headed "Environmental, Social and Governance Report" of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

RESULTS AND FINAL DIVIDENDS

The results of the Group for the year ended December 31, 2022 are set out in the consolidated financial statements of this report.

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group is committed to operating in a sustainable manner while balancing the interests of its various stakeholders including the substantial shareholders, employees, customers, and suppliers.

Shareholders

The Group recognizes the importance of protecting the interests of the Shareholders and of having effective communication with them. The Group believes regular communication with the Shareholders is a two-way process and have thrived to ensure the quality and effectiveness of information disclosure, maintain regular conversations with the Shareholders and listen carefully to the viewpoints and feedback from the Shareholders. This has been and will be done through general meetings, corporate communications, interim and annual reports, results announcements, and providing official e-mail address on company's website to collect inquiries or information from Shareholders.

Employees

The Group understands that employees play valuable roles during business operations, and the realization and enhancement of employees' values will facilitate the achievement of the Group's overall goals. The Group values the contribution of each employee in different roles and strive to provide a fair and balanced compensation scheme as well as a clear career path. The Group also supports the health and well-being of its employees by providing various benefits, such as annual health checkups and meal allowances.

Customers

The customers of the Group consist primarily of (i) domestic and international brands; (ii) content producers; and (iii) media platforms and music service providers that license music IPs from the Group. The Group is committed to providing high-quality services and products to its customers and enhance the loyalty of the customers by increasing the interaction with customers in order to understand the customer demands, which provide good development to the Group's overall performance in the long run.

For the year ended December 31, 2022, the Group's revenues attributable to the five largest customers were approximately RMB199.8 million, accounting for approximately 20.4% of the Group's total revenue.

Suppliers

The suppliers of the Group consisted primarily of (i) the Group's managed artists and entities controlled by them; (ii) media platforms; (iii) service providers who provide styling, personal security and photography services; and (iv) service providers who provide demos, music compositions and lyrics in connection with the Group's music IP production and operation. The Group has maintained solid and good relationships with its suppliers which ensures quality supply so as to provide high quality services and/or products to customers.

For the year ended December 31, 2022, the Group's purchases from its largest supplier were approximately RMB290.4 million, accounting for 47.1% of the Group's total purchases and the Group's purchases from its five largest suppliers were approximately RMB359.7 million, accounting for approximately 58.3% of the Group's total purchases.

To the best knowledge of the Directors, except for subsidiaries of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) and its fellow subsidiaries under common control of the same ultimate holding company of Alibaba Pictures Group Limited, as of the date of this report, all of the Group's five largest customers and suppliers during the Reporting Period were Independent Third Parties. To the best knowledge of the Directors, except for subsidiaries of Alibaba Pictures Group Limited and its fellow subsidiaries as disclosed above, none of the Directors, their close associates or any Shareholders who owned more than 5% of the issued share capital of the Company, had any interest in the five largest customers and suppliers of the Group during the Reporting Period.

FINANCIAL SUMMARY

A summary of the Group's financial results, assets and liabilities for the last four financial years are set out on page 179 of this report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2022 are set out in Note 26(a) to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group in 2022 are set out in Note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As of December 31, 2022, the Company had no distributable reserve.

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 report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reasons of their holding of securities in the Company.

BANK AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as of December 31, 2022 are set out in Note 30 to the consolidated financial statements.

DIRECTORS

The Directors from the Listing Date and up to the date of this report are:

Executive Directors

Ms. DU Hua *(Chairlady)*
Mr. SUN Yiding
Mr. SUN Le

Non-executive Directors

Ms. YAO Lu
Mr. MENG Qingguang
Ms. ZHAO Wenjie

Independent Non-executive Directors

Mr. FAN Hui
Mr. LU Tao
Mr. HUANG Jiuling

DIRECTORS' BIOGRAPHICAL DETAILS

Details of Directors are set out in "Directors and Senior Management" of this annual report. Up to the date of this report, the updated information has been disclosed in the section headed "Directors and Senior Management" pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" of this report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by the executive Director or as otherwise set out in the service contract.

Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year with effect from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the Company, or the non-executive or independent non-executive Director. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive Directors are not entitled to any remuneration.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any members of the Group (other than statutory compensation).

REMUNERATION POLICY

As of December 31, 2022, the Group had 200 employees. Total staff remuneration expenses including Directors' remuneration in 2022 amounted to RMB160.2 million. Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. On top of salary payments, other employee benefits primarily include social insurance and housing provident contributions made by the Group and performance-based compensation.

The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

Remuneration of Directors and Senior Management

For details of the Directors and the five highest paid individuals for the year ended December 31, 2022, please refer to Note 10 to the consolidated financial statements of this annual report. The annual remuneration range (including share-based compensation) for Directors and senior management members for the year ended December 31, 2022 is as follows:

Remuneration Range	Number of individuals
nil – RMB1,000,000	6
RMB1,000,001 – RMB5,000,000	3
Above RMB5,000,001	1

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent from the Listing Date to the date of this report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period and up to the Latest Practicable Date, Ms. Du Hua and Mr. Sun Yiding, our executive Directors, hold 51% and 49% equity interest in Horgos YueHua Picture Limited (霍爾果斯樂華影業有限公司)("**Horgos Yuehua**"), respectively. Horgos Yuehua is a limited liability company established in the PRC on January 6, 2016, which is principally engaged in production and investment of variety programs, movies and drama series. As distinguished from the business conducted by Horgos Yuehua, the Group's pan-entertainment business mainly includes commercial development of virtual artists, variety program format licensing and sales of artist-related merchandise. The variety program format licensing under the Group's pan-entertainment business refers to Yuehua Korea's sublicensing of the program format of a variety program to a leading online video platform in China, for which it receives licensing fees in return. As such, the variety program format licensing business under the pan-entertainment business is different from the variety program production business conducted by Horgos Yuehua. After the dismantlement of the contractual arrangements in respect of Horgos Yuehua on March 2022 as part of the Group's reorganization, the Group does not intend to engage in the businesses historically conducted by Horgos Yuehua due to its strategic focus on the Group's core business. Therefore, the Directors consider that Horgos Yuehua does not competes and is not likely to compete, directly or indirectly, with our business. For details of the dismantlement of the contractual arrangements with respect to Horgos Yuehua, see "History, Reorganization and Corporate Structure – Reorganization – VI. Dismantlement of Contractual Arrangements" in the Prospectus.

Save as disclosed above, and except for the interests in our Company and its subsidiaries, during the Reporting Period, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries under Rule 8.10 of the Listing Rules.

DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, none of the Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As the Company has not been listed on the Stock Exchange as of December 31, 2022, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors and chief executives of the Company as of December 31, 2022.

As of the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in the Shares or underlying Shares of the Company

Name of Director	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the Company(1)
Ms. DU Hua	Interest in controlled corporation(2)	Long position	376,350,000	43.17%
	Interest of spouse(3)		24,825,000	2.85%
Mr. SUN Yiding	Interest in controlled corporation(4)	Long position	24,825,000	2.85%
	Interest of spouse(3)		376,350,000	43.17%
Mr. SUN Le	Beneficial Owner(5)	Long position	3,225,000	0.37%

Notes:

(1) The percentage figures disclosed under "Approximate percentage of interest in the Company" are calculated based on the 871,881,000 Shares, being the number of total issued shares of the Company as of March 31, 2023.

(2) As of the Latest Practicable Date, DING GUOHUA LIMITED directly holds 376,350,000 Shares. DING GUOHUA LIMITED is owned as to 80% by HuaDingGuo Limited (an entity wholly owned by Ms. Du), and 20% by Xihaha International Holding Limited (an entity controlled by Ms. Du through a trust), respectively. Therefore, Ms. Du is deemed to be interested in the Shares directly held by DING GUOHUA LIMITED by virtue of the SFO.

(3) Ms. Du and Mr. Sun are cohabiting as spouse. Accordingly, for the purpose of the SFO, Ms. Du is deemed, or taken to be, interested in the Shares in which Mr. Sun is interested; and Mr. Sun is deemed, or taken to be, interested in the Shares in which Ms. Du is interested.

(4) As of the Latest Practicable Date, QINGDINGDANG LIMITED directly holds 24,825,000 Shares. QINGDINGDANG LIMITED is owned as to 99% by Dawei International Holding Limited (an entity controlled by Mr. Sun through a trust) and 1% by DingDangQing Limited (an entity wholly owned by Mr. Sun). Therefore, Mr. Sun is deemed to be interested in the Shares directly held by QINGDINGDANG LIMITED by virtue of the SFO.

(5) As of the Latest Practicable Date, Mr. SUN Le is interested in the 3,225,000 underlying Shares relating to the RSUs granted to him pursuant to the Share Incentive Plan.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As of December 31, 2022 and at any time during the Reporting Period, none of the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party to any arrangement through which the Directors may benefit by purchasing shares or debentures of the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As the Company has not been listed on the Stock Exchange as of December 31, 2022, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to any substantial shareholder of the Company as of December 31, 2022.

To the best knowledge of the Directors, as of the Latest Practicable Date, the persons (other than Director or chief executive of the Company) or corporations who had interest or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the Company[1]
CMC Sports Investment Limited	Beneficial owner[2]	Long position	106,875,000	12.26%
CMC Sports Acquisition Limited	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
CMC Sports Group Limited	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
CMC Inc.	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
GLRG Holdings Limited	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
Gold Pioneer Worldwide Limited	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
Brilliant Spark Holdings Limited	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
Mr. LI Ruigang	Interest in controlled corporation[2]	Long position	106,875,000	12.26%
Interform Construction Supplies Limited	Beneficial owner[3]	Long position	106,875,000	12.26%
SAC Enterprises Limited	Interest in controlled corporation[3]	Long position	106,875,000	12.26%
Alibaba Pictures Group Limited	Interest in controlled corporation[3]	Long position	106,875,000	12.26%
Ali CV Investment Holding Limited	Interest in controlled corporation[3]	Long position	106,875,000	12.26%
Alibaba Investment Holding Limited	Interest in controlled corporation[3]	Long position	106,875,000	12.26%
Alibaba Investment Limited	Interest in controlled corporation[3]	Long position	106,875,000	12.26%
Alibaba Group Holding Limited	Interest in controlled corporation[3]	Long position	106,875,000	12.26%

Notes:

(1) The percentage figures disclosed under "Approximate percentage of interest in the Company" are calculated based on the 871,881,000 Shares, being the number of total issued shares of the Company as of March 31, 2023.

(2) CMC Sports Investment Limited is wholly owned by CMC Sports Acquisition Limited, which is in turn wholly owned by CMC Sports Group Limited, then wholly owned by CMC Inc. (formerly known as CMC Holdings Limited). CMC Inc. is a non wholly-owned subsidiary of Gold Pioneer Worldwide Limited, which holds the interest in CMC Inc. directly and also held through its wholly-owned subsidiary, GLRG Holdings Limited. Gold Pioneer Worldwide Limited is wholly-owned by Brilliant Spark Holdings Limited, which is in turn wholly-owned and controlled by Mr. Li Ruigang. Therefore, each of CMC Sports Acquisition Limited, CMC Sports Group Limited, CMC Inc., Gold Pioneer Worldwide Limited, GLRG Holdings Limited, Brilliant Spark Holdings Limited and Mr. Li Ruigang is deemed to be interested in the Shares directly held by CMC Sports Investment Limited by virtue of the SFO.

(3) Interform Construction Supplies Limited is wholly owned by SAC Enterprises Limited, which is in turn wholly owned by Alibaba Pictures Group Limited, a non wholly-owned subsidiary of Ali CV Investment Holding Limited, which is wholly-owned by Alibaba Investment Limited. Alibaba Investment Limited is wholly-owned subsidiary of Alibaba Group Holding Limited. Therefore, each of SAC Enterprises Limited, Alibaba Pictures Group Limited, Ali CV Investment Holding Limited, Alibaba Investment Limited and Alibaba Group Holding Limited is deemed to be interested in the Shares directly held by Interform Construction Supplies Limited.

Save as disclosed above, as of the Latest Practicable Date, the Directors were not aware of any persons (who were not directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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 report, 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**	

PRE-IPO SHARE INCENTIVE PLAN

The Company approved and adopted the Share Incentive Plan on December 10, 2021 which enables the Group to grant awards to selected participants as incentives or rewards for their contribution to our Group. The Share Incentive Plan does not constitute a share scheme involving the issuance of new shares pursuant to the new Chapter 17 (effective on January 1, 2023) of the Listing Rules. The Company will comply with the new Chapter 17 of the Listing Rules in accordance with the transitional arrangements for existing share schemes.

Purpose

The purpose of the Share Incentive Plan is to enable the Group to grant awards to selected participants as incentives or rewards for their contribution to the Group, in particular, (i) to motivate them to optimize their performance and efficiency for the benefit of the Group; (ii) to attract and retain them whose contributions are or will be beneficial to the Group; and (iii) to encourage them to enhance cooperation and communication amongst team members for the growth of the Group.

Types of Awards

The Share Incentive Plan provides for awards of RSUs, Shares issued subject to forfeiture or repurchase by our Company until vested ("**Restricted Shares**"), and other share-based awards or rights (collectively, the "**Awards**").

Eligible Participants

The Board, in the context of the Share Incentive Plan, including any committee or person(s) duly authorized by the Board, may at its discretion, invite any person belonging to any of the following classes of eligible participants ("**Eligible Participants**"), to take up an Award to subscribe for Shares:

(i) any full-time executives, officers, managers or employees of the Company or any of our subsidiaries or controlled affiliates, or any entities designated by them, who had attained the requisite seniority and performance grade and/or targets as may be determined by the chief executive officer of the Company from time to time;

(ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of our subsidiaries or controlled affiliates, or any entities designated by them; or

(iii) any advisor, consultant, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner, strategic partner, service provider or other third parties who the chief executive officer considers, in its sole discretion, has contributed or will contribute to the Group.

Maximum Number of Shares

Unless otherwise duly approved by the Board, the total number of Shares underlying the Share Incentive Plan shall not exceed 5,790,000 (without taking into account the effect of Capitalization Issue), or 37,500,000 (taking into account the effect of Capitalization Issue), which represent approximately 4.3% of the total issued Shares as of date of this report.

Under the Share Incentive Plan, there is no specific limit on the maximum number of shares which may be granted to a single eligible participant.

An aggregate of 5,790,000 outstanding RSUs in respect of all 37,500,000 Shares (taking into account the effect of Capitalization Issue) available under the Share Incentive Plan had been granted to eligible participants prior to Listing, therefore, no further RSUs are available for grant under the Share Incentive Plan after Listing.

Performance Target

The participant may be required to achieve any performance targets as the Board may specify before the relevant Awards can be vested, exercised or settled upon the grant of an Award to an Eligible Participant.

Consideration for RSU

The price to be paid upon the vesting and settlement of RSUs granted to each grantee shall be HKD0.1 per RSU, as set out in the offer for the grant entered into between the Company and the respective grantee (the "**Grant Letter**").

Conditions of Issuance of Shares

The Eligible Participant who accepts the offer for the grant of an Award must not have committed any breach of the Share Incentive Plan and any ancillary documents that he or she has entered into with our Company in respect of the Award. The grantee must not have violated any provision of the articles of association or constitutional documents of the relevant member of our Group, or otherwise impaired the interests of our Group. The Board may, at its absolute discretion, fix any other performance targets that must be achieved and any other conditions that must be fulfilled before any Award can be vested or settled. If the conditions set out above in this clause are not satisfied, the RSUs and/or Restricted Shares shall automatically lapse on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion.

Vesting Schedule and Vesting Period

Pursuant to the terms of the Share Incentive Plan and the Grant Letter, and subject to the vesting conditions contained therein, the RSUs granted to each grantee shall be vested in four equal tranches as follows:

Vesting date	RSUs to be vested
6 months from the Listing Date	25% of the total RSUs granted to the grantee
18 months from the Listing Date	25% of the total RSUs granted to the grantee
30 months from the Listing Date	25% of the total RSUs granted to the grantee
42 months from the Listing Date	25% of the total RSUs granted to the grantee

Lock-up Period

In connection with any underwritten public offering by our Company of its equity securities, the grantee shall not, for a period of 180 days following the date of completion of the applicable offering, directly or indirectly, sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Shares acquired under the Share Incentive Plan without the prior written consent of our Company or our underwriters.

Termination

The Company may by resolution in general meeting or the Board may at any time terminate the operation of the Share Incentive Plan and in such event no further Award shall be offered but the provisions of the Share Incentive Plan shall remain in force to the extent necessary to give effect to any outstanding Awards granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Incentive Plan. Outstanding Awards granted prior to such termination but not yet exercised, settled or released at the time of termination shall continue to be valid and exercisable or releasable in accordance with the Share Incentive Plan.

Remaining Life

The Share Incentive Plan will be valid and effective for a period of 10 years, commencing from December 10, 2021, unless terminated by resolution in general meeting or the Board pursuant to the Share Incentive Plan. As of December 31, 2022, the remaining life of the Share Incentive Plan was approximately 9 years.

All the Shares underlying the Share Incentive Plan have been allotted and issued and are held by ARK Trust (Hong Kong) Limited and LIGHTSTONE TRUST (HONG KONG) LIMITED, being special purpose vehicles established as nominees to hold in trust. The Shares underlying the Share Incentive Plan do not count towards the public float. Pursuant to the Share Incentive Plan and the trust deeds constituting the ARK Trust and Lightstone Trust (the "**Trust Deeds**"), the Share Incentive Plan and the two trusts will be subject to the administration of the chief executive officer of the Company (the "**Administrator**") and the Administrator shall have the sole and absolute discretion to determine whether or not a grantee shall have rights to any dividends from any Shares prior to the vesting of the RSUs. In addition, pursuant to the Share Incentive Plan and the Trust Deeds, the RSUs upon release will not carry any voting rights until completion of the registration of the grantee (or any other person) as the holder and the respective trustee shall not exercise any of the voting rights attached to Shares held upon trust unless directed by authorized representative appointed by the Administrator.

Details of the RSUs granted under the Share Incentive Plan during the Reporting Period are set out as follows:

Name/ Category of the grantees	Date of grant	Number of RSUs						Price to be paid upon the vesting and settlement of RSUs (HKD)	Fair value of the RSUs at the date of grant[(2)] (RMB)
		Outstanding as of January 1, 2022	Granted during the Reporting Period	Vested during the Reporting Period[(1)]	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as of December 31, 2022		
Director(s) of the Company									
Mr. SUN Le	December 10, 2021	500,000	–	–	–	–	500,000	50,000	49.72
Four highest paid employees during 2022[(3)]									
	December 10, 2021	412,500	–	–	–	–	412,500	41,250	49.72
	March 4, 2022	–	600,000	–	–	–	600,000	60,000	50.18
Other grantees (excluding the director and the four highest paid employees during 2022)									
	December 10, 2021	630,000	–	–	–	–	630,000	63,000	49.72
	March 4, 2022	–	2,994,750	–	–	–	2,994,750	299,475	50.18
	December 20, 2022	–	652,750	–	–	–	652,750	65,275	21.73

Notes:

(1) As no RSUs were vested during the Reporting Period, the weighted average closing price of the Shares immediately before the dates on which the RSUs were vested is not available. For the year ended December 31, 2022, RSUs to subscribe for a total of 4,247,500 Shares were granted under the Share Incentive Plan. Taking into account the effect of Capitalization Issue, RSUs granted during the Reporting Period represent the right to subscribe for 27,525,000 Shares, representing approximately 5.9% of the weighted average number of issued Shares of the Company during the Reporting Period.

(2) For accounting standard and policy adopted for such fair value measurement, please refer to Note 2.20 to the consolidated financial statements.

(3) One of the five highest paid employees for the year ended December 31, 2022 is Mr. Sun Le, our executive Director. The details regarding the RSUs granted to him are disclosed under "Director(s) of the Company" section of the above table.

For more details of the Share Incentive Plan, please refer to "D. Share Incentive Plan" of Appendix V to the Prospectus and Note 2.20 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

During the Reporting Period and up to the date of this report, the Company did not enter into any equity-linked agreements which would or might result in the issue of Shares by the Company, or require the Company to enter into any agreements which would or might result in the issue of Shares by the Company.

CONNECTED TRANSACTIONS

We have in the past conducted certain transactions with entities that become our connected persons (as defined under Chapter 14A of the Listing Rules) upon Listing. Such transactions continue after Listing and therefore constitute our continuing connected transactions under the Listing Rules.

The following party with whom we have entered into transactions are regarded as connected person under the Listing Rules:

Connected person	Connected relationship
Youku Information Technology (Beijing) Co., Ltd. (優酷信息技術（北京）有限公司) ("**Youku Information Technology**")	Youku Information Technology is a consolidated affiliated entity of Beijing Youku Technology Co., Ltd. (北京優酷科技有限公司), a company wholly owned by Alibaba Investment Limited, which is in turn wholly owned by Alibaba Group Holding Limited. Interform Construction Supplies Limited is an indirect wholly-owned subsidiary of Alibaba Pictures Group Limited. Accordingly, Youku Information Technology and Interform Construction Supplies Limited are fellow subsidiaries of Alibaba Group Holding Limited. Therefore, Youku Information Technology is an associate of Interform Construction Supplies Limited, one of the substantial shareholders of the Company.

As the Company was not a listed company during the year ended December 31, 2022, the annual review and reporting requirements under Chapter 14A of the Listing Rules were therefore not applicable to the Company for the year ended December 31, 2022.

Below set out the details of the non-exempt continuing connected transaction entered into by the Company.

Partially-exempt Continuing Connected Transaction

Business Cooperation Framework Agreement

Principal terms

On August 16, 2022, Yuehua Limited (for itself and on behalf of its subsidiaries) and Youku Information Technology entered into a business cooperation framework agreement (the "**Business Cooperation Framework Agreement**"), pursuant to which Yuehua Limited shall procure suitable managed artists to perform relevant engagements with Youku Information Technology, including but not limited to entering into endorsement deals for the promotion of Youku membership, performing in variety programs, movies and drama series and other commercial activities.

Separate underlying agreements will be entered into between the parties to set out the detailed terms, including details of engagements, promotion fee, milestone payment schedules and other rights and obligations of the parties, based on the principles and within the parameters provided under the Business Cooperation Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

The initial term of the Business Cooperation Framework Agreement will commence on the Listing Date and expire on December 31, 2023, and such term would be renewed for a term of no more than three years subject to the parties' negotiation and applicable laws and regulations.

Reasons for and benefits of the transactions

Youku is one of the leading online video platforms in China and has great demand for engaging our artists. Our managed artists could in turn benefit from platform-based resources of Youku and gain more public exposure. Through market-oriented cooperation with various business units of Youku Information Technology, we can further enhance the reputation and social influence of our artists, which would bring greater value to our Group. In addition, the terms offered by our Group to Youku Information Technology under the existing underlying agreements are no more favorable than those offered to our other customers which are Independent Third Parties, and we will charge Youku Information Technology service fees with reference to the prevailing market price that is no less than those offered to our other independent customers, hence our services provided to Youku Information Technology are profitable and are in the interests of our Group and the Shareholders as a whole. As such, our services provided to Youku Information Technology under the Business Cooperation Framework Agreement are in the ordinary and usual course of our business and on normal commercial terms.

Pricing policy

The fees we charge Youku Information Technology shall be determined after arm's length negotiation between the parties with reference to various related commercial factors, including (i) the forms of promotion activities and promotion period; (ii) the popularity of artists; (iii) the prevailing market rates of engagement fees for attending the same and similar functions by artists of the same ranking; (iv) the quality and impacts of the relevant engagements; and (v) the workload and duration of the relevant engagements. The aforesaid pricing policies are no more favorable than those available to our other customers which are Independent Third Parties.

Historical transaction amounts and annual cap

For the year ended December 31, 2022, the aggregate fees paid by Youku Information Technology to us for cooperation with us were approximately RMB37.3 million.

The proposed annual cap for the service fees payable by Youku Information Technology to our Group pursuant to the Business Cooperation Framework Agreement for the year ending December 31, 2023 is RMB40.0 million.

Listing Rules implications

As the highest applicable percentage ratio (other than the profit ratio) under the Listing Rules in respect of this transaction is expected to be, on an annual basis, more than 0.1% but less than 5%, such transaction constitutes continuing connected transaction of the Company and is subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, for the year ended December 31, 2022, the Company had no connected transactions or continuing connected transactions which were required to be disclosed under the Listing Rules. In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules (as amended from time to time).

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Neither contract of significance made between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries, nor contract of significance made for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DONATIONS

During the Reporting Period, the Group made charitable and other donations in an aggregate amount of RMB0.2 million to Fosun Foundation (上海復星公益基金會) in support of the people in Shanghai fighting against the COVID-19 resurgence in March 2022.

PERMITTED INDEMNITY PROVISION

In accordance with Article 44 of the Articles of Association, the Directors and other officers shall be indemnified and secured harmless out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or wilful default.

The Company has maintained directors' liability insurance to protect the Directors against any potential losses arising from his/her actual or alleged misconduct.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 62 to 75 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25.0% of the Company's total issued Shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public since the Listing Date and up to the Latest Practicable Date.

AUDIT COMMITTEE

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.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by PricewaterhouseCoopers, certified public accountants. The auditor of the Company has not changed since the Listing Date. PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment as auditor of the Company at the AGM. A resolution for their reappointment as auditor of the Company and to authorize the Board to fix the remuneration of auditor will be proposed at the forthcoming AGM.

By order of the Board
Ms. DU Hua
Chairlady and Chief Executive Officer
Hong Kong, March 20, 2023

CORPORATE GOVERNANCE REPORT

The Company is committed to good corporate governance practices in order to safeguard the interests of the Shareholders.

The Board is pleased to present the corporate governance report of the Company for the Reporting Period.

CORPORATE STRATEGY AND CULTURE

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

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

Since our establishment, fulfilling corporate social responsibility has been our core value and a cornerstone of our long-term growth. Creating positive social impact has become part of our corporate culture and has helped us created a positive brand image. Inspired by our corporate culture, our managed artists also have a strong sense of social responsibility and endeavor to make contributions to society through their performing art careers.

CORPORATE GOVERNANCE PRACTICES

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 report, 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.

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' and Relevant Employees (as defined in the Model Code) 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 report.

THE BOARD

Board Composition

As of the date of this report, the Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors as follows:

Executive Directors

Ms. DU Hua[(1)] *(Chairlady and chief executive officer)*
Mr. SUN Yiding[(1)]
Mr. SUN Le

Non-executive Directors

Ms. YAO Lu
Mr. MENG Qingguang
Ms. ZHAO Wenjie

Independent Non-executive Directors

Mr. FAN Hui
Mr. LU Tao
Mr. HUANG Jiuling

Note:

(1) Ms. DU Hua and Mr. SUN Yiding are cohabiting as spouses.

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

Code provision C.2.1 of the CG Code stipulates that the roles of Chairperson and Chief Executive Officer should be separate and not to be performed by the same individual.

Ms. DU Hua is currently serving as the Chairperson of the Board as well as the chief executive officer of the Company. As Ms. Du is the founder of our Group and the overall strategic planning and business direction and day-to-day management of our Group. 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.

BOARD INDEPENDENCE

Pursuant to code provision B.1.4 under part 2 of the CG Code, the Board established mechanism(s) to ensure independent views and input are available to the Board, in particular, (i) independent non-executive Directors are encouraged to actively participate in the Board meetings; (ii) the number of independent non-executive Directors must comply with the requirement under the Listing Rules; and (iii) the independent non-executive Directors shall devote sufficient time to discharge their duties as a Director. Furthermore, the Directors may access external independent professional advice to assist their performance of duties at the expense of the Company. Going forward, the Board will review the implementation and effectiveness of such mechanism(s) on an annual basis.

Independent non-executive Directors play a significant role in the Board by virtue of their independent judgement and their views carry significant weight in the Board's decisions. They are experienced professionals in areas such as financial accounting and financial management. Their extensive experiences significantly contribute to enhancing the decision-making of the Board and achieving a sustainable and balanced development of the Group. In particular, they bring impartial views and opinions on issues of the Company's strategy, performance and control, and take the lead in solution where potential conflicts of interests arise. The Board believes that its culture of openness and debate facilitates the effective contribution of executive Directors, non-executive Directors and independent non-executive Directors, in particular, to the Board and ensures constructive relationship among executive Directors, non-executive Directors and independent non-executive Directors.

During the period from the Listing Date and up to the date of this report, the Board has met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board, with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Director has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The major powers and functions of the Board include, but are not limited to, convening the general meetings, presenting reports to the general meetings, implementing the resolutions passed at the general meetings, determining the operational plans and investment plans of the Group, determining the annual financial budgets and final accounts of the Group, determining the fundamental management systems of the Group, formulating profit distribution plans and loss recovery plans of the Group, and exercising other powers and functions as conferred by the Articles of Association.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Board take decisions objectively in the best interest of the Company and the Shareholders as a whole.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation of the Group and management of the Company are delegated to the management of the Company. The Board and the management have clearly defined their authorities and responsibilities under various internal control and check and balance mechanisms. The Board does not delegate matters to the Board committee(s), executive Directors or the management to an extent that would significantly hinder or reduce the ability of the Board as a whole to perform its functions.

The Company has arranged appropriate insurance cover to protect Directors from possible legal action against them.

Continuous Professional Development of Directors

The Company is responsible for arranging and funding suitable training for the Directors.

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

The Directors confirmed that they have complied with code provision C.1.4 under part 2 of the CG Code on directors' training and all Directors have participated in appropriate continuous professional development to develop and refresh their knowledge and skills. During the Reporting Period and prior to the Listing, all the Directors attended training session conducted by the Company's legal adviser on directors' duties, responsibilities and obligations under the Listing Rules, SFO and other relevant laws and regulations. During the period from the Listing Date and up to the date of this report, the Directors have also participated in the following professional development activities:

Name of Directors	Continuing Professional Development Involved (Note)
Executive Directors	
Ms. DU Hua	(a) & (b)
Mr. SUN Yiding	(a) & (b)
Mr. SUN Le	(a) & (b)
Non-executive Directors	
Ms. YAO Lu	(a) & (b)
Mr. MENG Qingguang	(a) & (b)
Ms. ZHAO Wenjie	(a) & (b)
Independent Non-executive Directors	
Mr. FAN Hui	(a) & (b)
Mr. LU Tao	(a) & (b)
Mr. HUANG Jiuling	(a) & (b)

Notes:

(a) Participating in the training offered by the law firm and related to the Company's business

(b) Reading materials on a variety of topics, including corporate governance issues, Directors' duties, Listing Rules and other relevant laws

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with our Company with an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by the executive Director or as otherwise set out in the service contract.

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for a term of one year with effect from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the Company, or the non-executive or independent non-executive Director. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive Directors are not entitled to any remuneration.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

In accordance with Article 26.3 of the Articles of Association, the Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after such Director's appointment and shall then be eligible for re-election at that meeting.

In accordance with Article 26.4 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Accordingly, Mr. FAN Hui, Mr. LU Tao and Mr. HUANG Jiuling shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-election.

Accordingly, Mr. SUN Yiding and Mr. SUN Le shall retire by rotation at the AGM and, being eligible, will offer themselves for re-election.

Details of the Directors to be re-elected at the AGM will be set out in the circular to be despatched to the Shareholders in due course.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

BOARD, COMMITTEE MEETINGS AND GENERAL MEETINGS

The Board shall meet regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. Four regular Board meetings should be held in each year at approximately quarterly intervals. Directors may participate in meetings either in person or through electronic means of communication. All Directors are given not less than fourteen days' notice for regular Board meetings. For other Board and Board committee meetings, reasonable notice will be given.

As the Company was listed on the Main Board of the Stock Exchange on January 19, 2023, during the Reporting Period, we did not hold any Board meetings or Board committee meetings. Hence, there was no attendance record of the Directors available during the Reporting Period. Nevertheless, the Board has been in regular communication upon the Company's Listing and, going forward, will continue to meet regularly to update themselves the Company's affairs. No general meeting was held during the year ended December 31, 2022. On March 20, 2023, a Board meeting was held to approve, among others, the annual results of the Group for the year ended December 31, 2022 and to review the operation and compliance matters of the Company. All the Directors attended the Board meeting on March 20, 2023.

BOARD COMMITTEES

The Company has established three Board committees, namely the Audit Committee, the Remuneration Committee, and the Nomination Committee. Each of the Board committees is established with specific written terms of reference which deal clearly with their powers and duties. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to assist the Board in reviewing compliance, accounting policies, financial reporting procedures and risk management and internal control systems; supervising the implementation of the internal audit system; advising on the appointment or replacement of external auditors; and liaising between the internal audit department and external auditors.

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 committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

As the Shares of the Company were listed on the Main Board of the Stock Exchange on January 19, 2023, no Audit Committee meeting was held during the Reporting Period. From the Listing Date and up to the date of this report, the Audit Committee held two meetings, during which the Audit Committee reviewed, among other things, the annual result announcement of the Group for the year ended December 31, 2022 and believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The Audit Committee has reviewed all material internal control rules, including the financial and operational and compliance controls, as well as risk management of the Group in 2022. The Audit Committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations.

The Audit Committee has reviewed the remuneration of the auditors for 2022 and recommended the Board to re-appoint PricewaterhouseCoopers, as the external auditor of the Company for 2023, subject to the approval of Shareholders at the forthcoming AGM. The following is the attendance of each member during such time:

Name of Directors	Attendance/Number of Meetings Held
Mr. FAN Hui *(Chairperson)*	2/2
Mr. LU Tao	2/2
Mr. HUANG Jiuling	2/2

Remuneration Committee

The Company has established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary duties of the Remuneration Committee include, without limitation, the following: (i) making recommendations to the Board on our Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) determining the delegated responsibility, the remuneration packages of individual executive Directors and senior management, or alternatively, making recommendations to the Board on such remuneration packages; (iii) ensuring that the performance-related elements of remuneration form a significant proportion of the total remuneration package of executive Directors and are designed to align their interests with those of Shareholders and to give our Directors incentives to perform at the highest levels; and (iv) reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

The Remuneration Committee comprises one executive Director, namely Mr. SUN Yiding, and two independent non-executive Directors, namely Mr. LU Tao and Mr. HUANG Jiuling. Mr. LU Tao is the chairperson of the committee.

As the Shares of the Company were listed on the Main Board of the Stock Exchange on January 19, 2023, no Remuneration Committee meeting was held during the Reporting Period. From the Listing Date and up to the date of this report, the Remuneration Committee held one meeting, during which the Remuneration Committee reviewed, among other things, the remuneration policy and structure of the Company, the remuneration packages of Directors and senior management and other related matters of the Company. The following is the attendance of each member during such time:

Name of Directors	Attendance/Number of Meetings Held
Mr. LU Tao *(Chairman)*	1/1
Mr. SUN Yiding	1/1
Mr. HUANG Jiuling	1/1

Nomination Committee

The Company has established the Nomination Committee in compliance with the CG Code. The primary duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Nomination Committee comprises one executive Director, namely Ms. Du, and two independent non-executive Directors, namely Mr. FAN Hui and Mr. LU Tao. Ms. Du is the chairperson of the Nomination Committee.

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board in accordance with the board diversity policy adopted by the Company. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence (for appointment of independent non-executive Directors), and Board diversity aspects, where appropriate, before making recommendation to the Board.

As the Shares of the Company were listed on the Main Board of the Stock Exchange on January 19, 2023, no Nomination Committee meeting was held during the Reporting Period. From the Listing Date and up to the date of this report, the Nomination Committee held one meeting, during which the Nomination Committee reviewed, among other things, the structure, number, composition and diversity of the Board, assessed the independence of the independent non-executive Directors to determine their eligibility and discussed the re-appointment of directors and succession planning for directors. Please refer to relevant disclosures under the subsection of this Corporate Governance Report headed "Confirmation of Independence by Independent Non-executive Directors". The following is the attendance of each member during such time:

Name of Directors	Attendance/Number of Meetings Held
Ms. DU Hua *(Chairlady)*	1/1
Mr. LU Tao	1/1
Mr. FAN Hui	1/1

Corporate Governance Functions

The Board recognizes that corporate governance should be the collective responsibility of the Directors and has delegated the corporate governance duties to the Audit Committee which includes:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and
- to review the Company's compliance with the code and disclosure in the corporate governance report of the Company.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") in order to enhance the effectiveness of our Board and to maintain high standard of corporate governance. The Board Diversity Policy sets out the criteria in selecting candidates to our Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, publicity and marketing, content development, investment and financing, accounting and financial management. They obtained degrees in various majors including business administration, international journalism, marketing, accounting, business economics and statistics. We have three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of our Board. Our Board Diversity Policy is well implemented as evidenced by the fact that there are both male and female Directors ranging from 39 years old to 57 years old with different backgrounds and experiences. The Company currently has three female Directors and has a female chairlady and chief executive officer. The Company will endeavor to at least maintain one female representation on the Board and take opportunities to increase the proportion of female members over time as and when suitable candidates are identified. The Company also plans to promote gender diversity when recruiting staff at the mid to senior level so that the Company will have a pipeline of female senior management and potential successors to the Board. At present, the Nomination Committee considered that the Board is sufficiently diverse. The Nomination Committee will review the Board Diversity Policy on an annual basis, to ensure its effectiveness.

As of December 31, 2022, as set out in Appendix I "Sustainability Data Summary" to the ESG Report as contained in this report, among the 200 employees (including senior management) of the Group, the percentages of male employees and female employees are 35.5% and 64.5%, respectively. The Board considers that the Group's workforce (including senior management) is sufficiently diverse in terms of gender. The Company is committed to creating a fair, unbiased, equal and diversified recruitment and working environment. Information about the diversity, including the gender diversity, in the workforce during the Reporting Period are set out in Appendix I "Sustainability Data Summary" to the ESG Report contained in this report.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services for the year ended December 31, 2022 amounted to RMB1.8 million, the auditor did not provide non-audit services to the Company.

JOINT COMPANY SECRETARIES

The joint company secretaries of the Company are Mr. ZHANG Wensheng and Mr. CHUNG Ming Fai.

Mr. ZHANG Wensheng is also the chief financial officer of the Company. Mr. CHUNG Ming Fai is a vice president of Company Secretarial Department of SWCS Corporate Services Group (Hong Kong) Limited (a company secretarial service provider).

Mr. CHUNG Ming Fai's primary corporate contact person at the Company is Mr. ZHANG Wensheng. The biographical details of Mr. ZHANG Wensheng and Mr. CHUNG Ming Fai are set out under the section headed "Directors and Senior Management" in this report. Since the Company was listed on the Stock Exchange on January 19, 2023, Rule 3.29 of the Listing Rules was not applicable to the Company for year ended December 31, 2022.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Company for the year ended December 31, 2022. A statement from the auditor about its reporting responsibilities on the consolidated financial statements is set out under the section headed "Independent Auditor's Report" in this report. In preparing the consolidated financial statements for the year ended December 31, 2022, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has established a risk management and internal control system in accordance with the requirements of paragraph D.2 under part 2 of the CG Code. The system aims to manage rather than eliminate the risk of failure to achieve business objectives, promote effective and efficient operations, reasonably ensure the reliability of financial reports and comply with applicable laws and regulations and protect the assets of the Group. The Board can only give reasonable but not absolute assurance that there will be no material misrepresentation or loss.

Operational Risk Management

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

As risk management is essential to our growth and success, we have implemented detailed policies and procedures that we believe are appropriate for our business operation. To monitor the ongoing implementation of our risk management policies, we have adopted and will adopt robust measures in various aspects of our business operation, such as financial reporting, human resources, intellectual property and information system. We are committed to building and maintaining an effective risk management approach that strictly abides by legal and compliance requirements to facilitate our business growth.

Regulatory Compliance Risk Management

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

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

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

- We have adopted the compliance management policies, under which a compliance team is responsible for identifying, assessing and controlling the compliance risks and also monitoring our daily operation and our employees' behaviors.

- Our internal teams also work together to help our managed artists and their related entities stay informed of the latest regulations.

- We have adopted internal control policies to manage the amounts of artists' remuneration and monitor the remuneration cost ratios. We require our artist operation team to evaluate and review the amounts of artists' remuneration and the corresponding remuneration cost ratios in the movies, drama series and variety shows we produce, invest in or our managed artists participate in, and to timely report anomalies to the management.

- We provide trainings to our senior management on the listing rules, disclosure management, corporate governance, changes in laws, regulations and policies. We also provide trainings to our employees on the evolving regulatory requirements and inform all employees of changes in laws and regulations, including the recent regulatory development in the entertainment industry in China.

- We also provide relevant materials and trainings to our managed artists on regulatory changes and monitor their behaviors when necessary.

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

Financial Reporting Risk Management

We have put in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, financial statements preparation policies, treasury management policies, and finance seal management policies. We have designed and maintained consistent procedures for implementation of accounting policies and our finance department reviews our management accounts based on such procedures.

Intellectual Property Rights Risk Management

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

Human Resources Risk Management, Anti-Corruption and Whistleblowing Policy

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

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

Artists' Conduct Risk Management

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

- We will conduct background search on artists before we enter into artist management contract with them.

- Our contracts with customers include that the customer shall not arrange any works for our managed artists which are in breach of any laws, regulations, public orders and/or customs nor any works that will infringe the artists' reputation, privacy, or involve in controversial political stance.

- Our artist promotion team is tasked with monitoring public opinion of our managed artists and giving proper advice on the information and public image the artists conveyed to the public, including the contents published by artists in their Weibo accounts and other social media accounts.

- We carefully select business projects for our managed artists, and review the contracts we enter into with our customers to ensure that they do not contain anything that is prohibited under the Notices, such as content designed to incite fans to spend money irrationally.

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

- We have set up the official social media accounts for followers of our managed artists on Weibo, which enable us to communicate the regulatory changes to followers and help them act responsibly on the internet.

- We pay close attention and regularly check with the announcements or other publications circulated by relevant administrative authorities and the "Warning List (警示名單)" circulated by China Association of Performing Arts (CAPA).

- We circulate the updated laws, regulations and policies in relation to the entertainment industry, including the personal speech and behavior, maximum wage order and taxation management, to each of managed artists or their related entities from time to time. For example, in relation to taxation management, we provide them with advice when they have tax-related questions, and inquire about the tax compliance status of our artists and their related entities from time to time and remind them to fulfill their tax obligations.

Inside Information

We have put in place appropriate internal control procedures and guidelines to avoid improper handling of inside information which may constitute insider trading or breach of any other statutory duty. At any time, access to inside information is limited to the relevant personnel (i.e. the Directors, senior management and relevant employees of the Company) and as the situation requires until it is disclosed or released in accordance with applicable laws and regulations. Directors, senior management and relevant employees of the Company who are in possession of potential inside information and/or inside information are required to take reasonable steps to ensure that adequate safeguards are in place to ensure the strict confidentiality of inside information and that recipients understand their responsibility to keep the information confidential.

To ensure adequate attention to whistleblowing, the Company has established a reporting mechanism to handle and discuss internal whistleblowing of financial reporting, risk management, internal control or other matters. Major internal control deficiencies or whistleblowing issues will be submitted to the Audit Committee for fair and independent investigation and follow-up action.

Effectiveness of Risk Management and Internal Control

The Board is responsible for the risk management and internal control measures and reviewing their effectiveness, and is also responsible for reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, to promote effective and efficient operations, to ensure reliable financial reporting and compliance with applicable laws and regulations, as well as to safeguard the Group's assets and Shareholders' interests.

The Group's risk management and internal control measures focus primarily on (i) financial reporting risk management; (ii) information system risk management; (iii) human resources risk management; and (iv) other general risk management.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Group also has an internal audit function, which conducts objective evaluation on the effectiveness of the Company's risk management and internal control systems and reports the results to the Audit Committee on, at least, an annual basis.

We evaluate and check the effectiveness of our risk management and internal control systems through channels such as the management, business units in the risk management system, audit and inspection teams of the Group, external auditors, external compliance advisor and legal advisor to improve risk response measures.

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group from the Listing Date up to the date of this report and will continuously monitor and review the effectiveness of its operation on an annual basis. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial functions to be adequate. The Board is of the view that there has been no deficiency in material risk control nor any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group as of the Latest Practicable Date and the current risk management and internal control measures effectively and adequately cover the existing businesses of the Group, and will continue to be optimized in line with the business development of the Group.

DIVIDEND POLICY

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 differs 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.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted the Articles of Association on December 26, 2022, which came into effect from the Listing Date. Save as the above mentioned, there is no significant change in the Articles of Association during the Reporting Period. The latest Articles of Association were published on the website of the Stock Exchange on January 18, 2023.

COMMUNICATION WITH SHAREHOLDERS

The Group recognizes the importance of protecting the interests of the Shareholders and of having effective communication with them. The Group believes regular communication with the Shareholders is a two-way process and has thrived to ensure the quality and effectiveness of information disclosure, maintain regular conversations with the Shareholders and listen carefully to the viewpoints and feedback from the Shareholders.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at http://www.yuehuamusic.com/ where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. The Company has established several channels to communicate with the Shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at http://www.yuehuamusic.com/;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website at http://www.yuehuamusic.com/;

(iv) AGMs and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong branch share registrar of the Company serves the Shareholders in respect of Share registration, dividend payment and related matters.

The Company has reviewed the implementation and effectiveness of the Shareholders' communication policy from the Listing Date up to the date of this report. The Board is of the view that the Shareholders' communication policy of the Company has facilitated sufficient shareholders' communication and considered the policy is effective and adequate.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting and putting forward proposals

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to the Articles of Association, the Directors may call general meetings, and they shall on a members' requisition forthwith proceed to convene an extraordinary general meeting of the Company. A members' requisition is a requisition of one or more members holding at the date of deposit of the requisition not less than 10% of the voting rights, on a one vote per share basis, of the issued Shares which as at that date carry the right to vote at general meetings of the Company. The members' requisition must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionist(s) and deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. If there are no Directors as at the date of the deposit of the members' requisition or if the Directors do not within 21 days from the date of the deposit of the members' requisition duly proceed to convene a general meeting to be held within a further 21 days, the requisitionists, or any of them representing more than one-half of the total voting rights of all the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said 21 day period. A general meeting convened by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures are set out above. As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company at Room 150, Building 119, No. 27 West Dawang Road, Chaoyang District, Beijing, PRC (Attention: Department of Investor Relations).

The Company will not normally deal with verbal or anonymous enquiries. The Company will arrange designated persons to respond to the relevant written enquiries in a timely manner.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of YH Entertainment Group
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of YH Entertainment Group (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 80 to 178, comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to revenue recognition of artist management services.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of artist management services Refer to Notes 2.22(a) and 6 to the consolidated financial statements. The Group's revenue is primarily from the provision of artist management services which amounted to approximately RMB851.6 million for the year ended December 31, 2022, representing approximately 86.9% of the Group's total revenues for the year. The Group provides artist management services to 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 contract period of the endorsement deals or scheduled production period of the movies, drama series and variety programs, or at the point in time when the artists attend those events and performances. We focused on this area due to the magnitude of the revenue from artist management services and significant audit resources were spent on auditing this area.	Our procedures in relation to the revenue recognition of artist management services included: • We obtained an understanding of management's internal control and process over the revenue recognition of artist management services and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty, complexity and subjectivity; • We understood, evaluated and tested the internal controls, on a sample basis, in respect of the revenue recognition of artist management services provided by the Group; • We obtained, on a sample basis, the Group's artist management service contracts with customers and assessed the appropriateness of the Group's revenue recognition policies based on the key terms and conditions of the service contracts, including the identification of performance obligations and the timing for which control of the services is transferred, with reference to the requirements of the prevailing accounting standards; and • We tested, on a sample basis, revenue transactions by comparing the key terms and conditions of the underlying contracts, inspecting applicable evidences, such as media and news coverage, that support the occurrence of commercial activities and entertainment content services and settlements from customers, and also recalculating the revenue amount, in order to assess the accuracy of the revenue recognised and whether the recognition was made in the appropriate financial period. Based on the procedures performed, we found the revenue recognition of artist management services tested to be supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tong Yu Keung.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, March 20, 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
Revenue	6	**980,254**	1,290,449
Cost of revenue	7	**(617,168)**	(688,490)
Gross profit		**363,086**	601,959
Selling and marketing expenses	7	**(37,611)**	(34,523)
General and administrative expenses	7	**(119,494)**	(71,530)
Net impairment losses on financial assets	3.1(b)	**(7,715)**	(3,296)
Other income	8	**3,901**	18,420
Other gains/(losses), net	9	**10,044**	(5,889)
Operating profit		**212,211**	505,141
Finance income	11	**6,597**	5,215
Finance costs	11	**(6,306)**	(42,749)
Finance income/(costs), net		**291**	(37,534)
Share of losses of investments accounted for using the equity method	19	**(3,062)**	(6,568)
Fair value changes of convertible preferred shares	34	**1,581,992**	–
Profit before income tax		**1,791,432**	461,039
Income tax expense	12	**(66,247)**	(125,707)
Profit for the year		**1,725,185**	335,332
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Currency translation differences		**(870)**	(6,642)
Items that will not be reclassified to profit or loss			
Currency translation differences		**(119,333)**	–
Total comprehensive income for the year		**1,604,982**	328,690

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the year ended 31 December 2022

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
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)	14		
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

The notes on pages 87 to 178 are integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	As at December 31, 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**103,001**	103,645
Right-of-use assets	17	**10,581**	12,221
Investment properties	16	**14,353**	14,112
Intangible assets	18	**4,426**	5,843
Investments accounted for using the equity method	19	**15,078**	39,076
Financial assets at fair value through profit or loss	21	**45,546**	2,800
Prepayments and other receivables	23	**35,717**	2,158
Deferred income tax assets	29	**4,248**	3,103
		232,950	182,958
Current assets			
Inventories	22	**1,522**	1,132
Trade receivables	23	**129,940**	106,833
Prepayments and other receivables	23	**27,754**	48,730
Amounts due from shareholders	1.2(e)&26(a)	**–**	344,600
Financial assets at fair value through profit or loss	21	**290,265**	448,085
Investments measured at amortized cost	24	**87,280**	–
Restricted cash	25	**23,900**	–
Cash and cash equivalents	25	**528,660**	546,559
		1,089,321	1,495,939
Total assets		**1,322,271**	1,678,897
EQUITY			
Share capital	26(a)	**50**	–
Combined capital	26(b)	**–**	110,046
Treasury shares	26(a)	**(4)**	–
Reserves	27	**(2,507,993)**	(459,873)
Retained earnings	28	**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,	
	Note	2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	**66,276**	–
Lease liabilities	17	**5,841**	5,066
Redemption liabilities	33	**–**	488,202
Financial liabilities at fair value through profit or loss	34	**774,964**	–
Contract liabilities	6	**30,636**	52,851
		877,717	546,119
Current liabilities			
Borrowings	30	**–**	64,322
Trade payables	31	**190,619**	213,483
Other payables and accruals	32	**49,696**	109,332
Redemption liabilities	33	**–**	123,274
Financial liabilities at fair value through profit or loss	34	**128,884**	–
Contract liabilities	6	**129,596**	187,234
Current income tax liabilities		**60,358**	110,432
Lease liabilities	17	**2,254**	5,143
		561,407	813,220
Total liabilities		**1,439,124**	1,359,339
Total equity and liabilities		**1,322,271**	1,678,897

The notes on pages 87 to 178 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 80 to 178 were approved for issue by the Board of Directors on March 20, 2023 and were signed on its behalf.

Du Hua
Executive Director

Zhang Wensheng
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Note	Share capital RMB'000	Combined capital RMB'000	Treasury shares RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company							
As at January 1, 2022		–	110,046	–	(459,873)	662,351	312,524	7,034	319,558
Profit for the year		–	–	–	–	1,724,470	1,724,470	715	1,725,185
Currency translation differences		–	–	–	(120,000)	–	(120,000)	(203)	(120,203)
Total comprehensive (loss)/income for the year		–	–	–	(120,000)	1,724,470	1,604,470	512	1,604,982
Transactions with owners:									
Equity settled share-based payments	39	–	–	–	91,113	–	91,113	–	91,113
Deemed distribution to the shareholders of the Company	1.2(g) (i)& 35(d)	–	–	–	565	–	565	–	565
Reorganization-exchange redemption liabilities with convertible preferred shares	33&34	–	–	–	(1,869,521)	–	(1,869,521)	–	(1,869,521)
Reclassification of combined capital to share capital and other reserves upon the completion of the reorganization	1.2	46	(110,046)	–	110,000	–	–	–	–
Issuance of ordinary shares by the Company	26(a)	4	–	–	–	–	4	–	4
Treasury shares	26(a)	–	–	(4)	–	–	(4)	–	(4)
Dividends to the shareholders of the Company	13	–	–	–	(259,951)	–	(259,951)	–	(259,951)
Acquisition of non-controlling interests of a subsidiary		–	–	–	(326)	–	(326)	(1,999)	(2,325)
Liquidation of non-wholly owned subsidiaries		–	–	–	–	–	–	(1,274)	(1,274)
Total transactions with owners of the Company		50	(110,046)	(4)	(1,928,120)	–	(2,038,120)	(3,273)	(2,041,393)
As at December 31, 2022		50	–	(4)	(2,507,993)	2,386,821	(121,126)	4,273	(116,853)

	Note	Attributable to owners of the Company						
		Share capital	Combined capital	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2021		–	110,046	(455,287)	325,673	(19,568)	6,109	(13,459)
Profit for the year		–	–	–	336,684	336,684	(1,352)	335,332
Currency translation differences		–	–	(6,706)	–	(6,706)	64	(6,642)
Total comprehensive income/(loss) for the year		–	–	(6,706)	336,684	329,978	(1,288)	328,690
Transactions with owners:								
Appropriation for statutory surplus reserve		–	–	6	(6)	–	–	–
Issuance of shares by the Company	26(a)	–	–	46	–	46	–	46
Equity settled share-based payments	39	–	–	2,068	–	2,068	–	2,068
Liquidation of a non-wholly owned subsidiary		–	–	–	–	–	(375)	(375)
Capital injection by non-controlling interests	(a)	–	–	–	–	–	2,588	2,588
Total transactions with owners of the Company		–	–	2,120	(6)	2,114	2,213	4,327
As at December 31, 2021		–	110,046	(459,873)	662,351	312,524	7,034	319,558

(a) The amount represented capital injection from independent minority shareholders for non-wholly owned subsidiaries upon their incorporation.

The notes on pages 87 to 178 are integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	35(a)	**115,073**	598,530
Income taxes paid		**(115,334)**	(90,630)
Net cash (used in)/generated from operating activities		**(261)**	507,900
Cash flows from investing activities			
Purchases of property, plant and equipment		**(3,925)**	(12,364)
Purchase of intangible assets		**(490)**	–
Proceeds from disposal of property, plant and equipment		**265**	51
Payments for financial assets at fair value through profit or loss		**(780,418)**	(1,456,418)
Payment for investments measured at amortized cost		**(89,327)**	–
Proceeds from disposals of financial assets at fair value through profit or loss		**912,569**	1,208,281
Payments for investments accounted for using the equity method		**(16,300)**	–
Proceeds from disposal of investments accounted for using the equity method		**–**	5,500
Advance of loans to third parties		**(3,811)**	(9,236)
Repayment from loans to third parties and a related party		**21,875**	1,029
Interest received from bank deposits and other loans		**7,900**	4,455
Net cash generated from/(used in) investing activities		**48,338**	(258,702)
Cash flows from financing activities			
Interest paid for borrowings		**(2,511)**	(1,853)
Payment for lease liabilities – principal and interest		**(6,163)**	(4,279)
Capital injection by non-controlling interests		**–**	2,588
Deemed distribution paid to the shareholders of the Company	35(d)	**(15,298)**	–
Dividends paid by the Company to the holders of convertible preferred shares	13	**(139,369)**	–
Dividends paid by the Company to its ordinary shareholders	13	**(57,898)**	–
Effect of reorganization in respect of the acquisition of a company comprising the Group	1.2(e) (i) &(ii)	**(402,250)**	(344,554)
Proceeds from issuance of convertible preferred shares by the Company to reflect the onshore shareholding structure as part of reorganization	1.2(f) (i) &34	**544,751**	–
Payment for listing expenses		**(1,557)**	(5,156)
Liquidation of non-wholly owned subsidiaries		**(1,274)**	–
Acquisition of non-controlling interests of a subsidiary		**(2,325)**	–
Net cash used in financing activities		**(83,894)**	(353,254)
Net decrease in cash and cash equivalents		**(35,817)**	(104,056)
Cash and cash equivalents at beginning of the year		**546,559**	651,924
Effect of exchange rate changes on cash and cash equivalents		**17,918**	(1,309)
Cash and cash equivalents at the end of the year		**528,660**	546,559

The notes on pages 87 to 178 are integral parts of these consolidated financial statements.

1 GENERAL INFORMATION, REORGANIZATION, BASIS OF PRESENTATION AND BASIS OF PREPARATION

1.1 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 "**Stock Exchange**"). 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.

1.2 Reorganization

Prior to incorporation of the Company and the completion of the reorganization as described below (the "**Reorganization**"), the Listing Business was mainly carried by Yuehua Limited, a limited liability company in the PRC, and its subsidiaries (the "**Operating Entities**").

In preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization to incorporate the Company as the holding company of the companies which now comprise the Group to conduct the Listing Business.

The Reorganization involved the following steps:

(a) Incorporation of the Company and its offshore subsidiaries

(i) On June 10, 2021, the Company was incorporated in the Cayman Islands as an exempted company with limited liability and the ultimate holding company of the Group, as part of the Reorganization. Upon incorporation, the authorized share capital of the Company was USD50,000 divided into 500,000,000 ordinary shares with a par value of USD0.0001 each. On the same day, 58,108,105, 3,827,984, 6,624,279, 200,000, 29,000, and 2,721,497 ordinary shares were allotted and issued to DING GUOHUA LIMITED, QINGDINGDANG LIMITED, Bloom Joy Capital Profit Limited, Changyang Limited, UPXF GROUP LIMITED and POWER JOY PLUS LIMITED, respectively, all of which were owned by the then equity owners of Yuehua Limited.

(ii) On June 22, 2021, YH Entertainment Group (BVI) Limited ("**Yuehua BVI**") was incorporated in BVI with the Company being its sole shareholder.

(iii) On July 6, 2021, YH Entertainment Group (HK) Limited ("**Yuehua HK**") was incorporated as a limited liability company in Hong Kong with Yuehua BVI being its sole shareholder.

1 GENERAL INFORMATION, REORGANIZATION, BASIS OF PRESENTATION AND BASIS OF PREPARATION *(continued)*

1.2 Reorganization *(continued)*

(b) Conversion of Yuehua Limited into a sino-foreign joint venture company

(i) On August 30, 2021, Mr. WANG Huan transferred an aggregate of RMB1,100,000 registered capital, which represents 1.00% of the then registered capital of Yuehua Limited, to Joinstar Asia (HK) Limited ("**Joinstar HK**"). Joinstar HK is wholly owned by Joinstar Asia Limited, a BVI incorporated company, which is in turn wholly owned by Mr. Nick Ning Yang, an independent third party. Following such share transfer, Yuehua Limited was converted from a domestic company into a sino-foreign joint venture company.

(c) Entering into contractual arrangement in respect of Horgos Yuehua Picture Limited

(i) On August 30, 2021, as part of the Reorganization, Yuehua Limited disposed all of its shares in Horgos Yuehua Picture Limited ("**Horgos Yuehua**"), a then wholly owned subsidiary incorporated in the PRC and engaged in variety program production businesses, movies and made-to-order web drama series production businesses, in which foreign investors are prohibited from holding any equity interests under the Special Management Measures (Negative List) for the Access of Foreign Investment (2021 Version) (外商投資准入特別管理措施(負面清單) (2021年版)), to Ms. Du and Mr. SUN Yiding (the "**Registered Shareholders**"). On the same date, Yuehua Limited adopted a series of contractual arrangements (collectively the "**Contractual Arrangements**") with Horgos Yuehua and its Registered Shareholders, pursuant to which the Yuehua Limited is able to effectively control, recognize and receive substantially all the economic benefits of the business and operations of Horgos Yuehua to the extent permitted by the PRC laws and regulations.

(ii) Accordingly, Horgos Yuehua is treated as a structured entity controlled by the Group. Further details of the Contractual Arrangements are set out in Note 2.2.1 below.

(d) Establishment of Tianjin Yuehua Investment Co., Ltd.

(i) On September 24, 2021, Tianjin Yuehua Investment Co., Ltd. (天津樂華投資有限公司, "**Yuehua Investment**") was incorporated as a limited liability company in the PRC with Yuehua HK being its sole shareholder.

(e) Acquisition of Yuehua Limited and transactions with certain institutional and individual investors

(i) On December 30, 2021, Ms. Du, Mr. WANG Huan, Mr. FANG Shaojun, Mr. XIAO Fei, Huarenwenhua Co., Ltd. (華人文化有限責任公司) ("**CMC**"), Tibet Huaguoguo Culture Technology Co., Ltd. (西藏華果果文化科技有限公司), and Shanghai Kunling Network Technology Partnership (Limited Partnership) (上海坤伶網絡科技合夥企業(有限合夥)), transferred 79.01% of Yuehua Limited's registered capital to Yuehua Investment at total consideration amounting to approximately RMB 344,554,000. The consideration was fully settled in December 2021.

(ii) On January 30, 2022, Zhejiang Dongyang Alibaba Pictures Co., Ltd. (浙江東陽阿里巴巴影業有限公司) ("**Dongyang Alibaba Pictures**") and Beijing Quantum Jump Technology Co., Ltd. (北京量子躍動科技有限公司) ("**Quantum Jump**") transferred an aggregate of 19.99% of Yuehua Limited's registered capital to Yuehua Investment at total consideration amounting to approximately RMB 402,250,000. The consideration was fully settled in February 2022.

1 GENERAL INFORMATION, REORGANIZATION, BASIS OF PRESENTATION AND BASIS OF PREPARATION *(continued)*

1.2 Reorganization *(continued)*

(e) Acquisition of Yuehua Limited and transactions with certain institutional and individual investors *(continued)*

(iii) On January 30, 2022, Mr. Nick Ning Yang transferred all of his 100% equity interest in Joinstar Asia Limited to Yuehua BVI.

(iv) Subsequently after the aforementioned transfers, Yuehua Limited was owned as to 99.00% and 1.00% by Yuehua Investment and Joinstar HK, both of which were wholly owned subsidiaries of the Company.

(v) Pursuant to the reorganization framework agreement ("**Reorganization Framework Agreement**") entered into among the Company, Yuehua Limited, Ms. DU, Mr. WANG Huan, Mr. FANG Shaojun, Mr. XIAO Fei, Mr. Nick Ning Yang, Joinstar Asia Limited, CMC, Quantum Jump and Dongyang Alibaba Pictures on November 30, 2021, the Group retains the contractual right to receive refund of all considerations paid, including the aforementioned RMB 344,554,000 paid in step 1.2(e)(i), as long as the reorganization (which includes the steps from 1.2(a) to (f) under the Reorganization Framework Agreement) is not yet fully completed.

As the Group's reorganization was not fully completed as at December 31, 2021, the aforementioned RMB 344,544,000 consideration paid out by the Group in step 1.2(e)(i) as part of the reorganization was presented as amounts due from shareholders that existed as at December 31, 2021.

These amounts due from shareholders were subsequently settled in March 2022 as detailed in step 1.2(f).

(f) Issuance of shares by the Company to reflect the onshore shareholding structure

(i) On January 28, 2022, the Company issued 1,100,000 ordinary Shares, to DIAMOND HAMMOCK LIMITED, a BVI incorporated company wholly owned by Mr. Nick Ning Yang. On the same day, 1,100,000 ordinary Shares of the Company held by Bloom Joy Capital Profit Limited (which was wholly owned by Mr. WANG Huan) were canceled to mirror the share transfer in step 1.2(b)(i) as part of the Reorganization.

(ii) On January 28, 2022, the offshore affiliates of CMC, Quantum Jump and Dongyang Alibaba Pictures entered into a share subscription agreement with the Company for the subscription of 16,500,135 Series A-1 Preferred Shares, 5,489,000 Series A-2 Preferred Shares and 16,500,000 Series A-3 Preferred Shares, respectively. The consideration was settled in February and March 2022.

(iii) On March 4, 2022, pursuant to a written resolution of the Company, DING GUOHUA LIMITED, QINGDINGDANG LIMITED, Bloom Joy Capital Profit Limited, Changyang Limited, UPXF GROUP LIMITED and POWER JOY PLUS LIMITED made capital contribution as share premium into the Company. The consideration was settled in March 2022.

(iv) The total considerations settled to the Group from the aforementioned subscriptions and capital contributions in steps 1.2(f)(i) to (iii) approximate the considerations paid by the Group in steps 1.2(e)(i) to (iii).

1 GENERAL INFORMATION, REORGANIZATION, BASIS OF PRESENTATION AND BASIS OF PREPARATION *(continued)*

1.2 Reorganization *(continued)*

(g) Dismantlement of contractual arrangements in respect of Horgos Yuehua

(i) On March 4, 2022, the Group structurally dismantled the Contractual arrangements in respect of Horgos Yuehua as part of the Reorganization. In connection with such dismantlement, a deemed distribution was approved by the Board and the shareholders of the Company, pursuant to which all the shareholders of the Company (other than ARK Trust (Hong Kong) Limited and Lightstone Trust (Hong Kong) Limited, both of which are trustees for the administration of the 2021 share incentive plan of the Company as detailed in Notes 38 are entitled to equity interest in Horgos Yuehua in proportion to their respective shareholding in the Company upon the completion of the Reorganization. Both Horgos Yuehua and the Company are under the control of the same ultimate controlling shareholder, being Ms. Du. Hence, this deemed distribution was accounted for as an equity transaction (i.e. distribution to owners) in the Group's consolidated statements of changes in equity, resulting in a credit of approximately RMB 565,000 to total equity with no impact to profit or loss.

Overall, transactions from steps 1.2(a) to (g) above were considered multiple steps of one transaction which formed a recapitalization of the Listing Business with no changes in management of the Listing Business and the ultimate owners of the Listing Business remain the same.

Moreover, as the Group's reorganization was not fully completed as at December 31, 2021, the Group's consolidated financial statements for the year ended December 31, 2021 was presented under combined basis.

1.3 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 New and amended standards and interpretations

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Subsidiary controlled through contractual arrangements

As described in Note 1.2, Yuehua Limited has entered into the Contractual Arrangements with Horgos Yuehua and its Registered Shareholders on August 30, 2021, which enable the Yuehua Limited and the Group to:

- Exercise effective control over Horgos Yuehua;
- Exercise equity holders' voting rights of Horgos Yuehua;
- Receive substantially all of the economic interests and returns generated by Horgos Yuehua in consideration for the technical support, consulting and other services provided exclusively by the Yuehua Limited, at the Yuehua Limited's discretion;
- Obtain an irrevocable and exclusive right to purchase all equity interests in Horgos Yuehua from its Registered Shareholders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the Registered Shareholders of Horgos Yuehua shall return the amount of purchase consideration they have received to the Yuehua Limited. At the Yuehua Limited's request, the Registered Shareholders of Horgos Yuehua will promptly and unconditionally transfer their respective equity interests of Horgos Yuehua to the Yuehua Limited (or its designee within the Group) after Yuehua Limited exercises its purchase right; and
- Obtain pledges over the entire equity interests in Horgos Yuehua from its Registered Shareholders to secure, among others, performance of their obligations under the Contractual Arrangements.

The Group does not have any equity interests in Horgos Yuehua from August 30, 2021 onwards. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with Horgos Yuehua and has the ability to affect those returns through its power over Horgos Yuehua and is considered to control it. Consequently, the Company regards Horgos Yuehua as a controlled structure entity and continues to combine the financial position and results of operations of it in the consolidated financial statements of the Group from August 30, 2021 onwards until March 4, 2022, when the Group dismantled the Contractual Arrangements as part of the Reorganization as detailed in Note 1.2(g).

Nevertheless, there are still uncertainties regarding the interpretation and application of current and future PRC laws and regulations. The Directors of the Group, based on the advice of its legal counsel, consider that the use of Contractual Arrangements does not constitute a breach of relevant laws and regulations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(b) Business Combination

Except for the Reorganization, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amounts of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the comprehensive income.

Inter-company transactions, balances and realized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries comprising the Group have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amounts of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amounts recognized in profit or loss. The fair value is the initial carrying amounts for the purposes of subsequently accounting for the retained interest as an associate, or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRS.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates

Investments in associates are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investments is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of profit or loss of the investee and the share of OCI of the investee after the date of acquisition. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investments. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income or loss is reclassified to consolidated statements of comprehensive income or loss where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated statements of comprehensive income or loss, and its share of post-acquisition movements in other comprehensive income or loss is recognized in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "Share of losses of investments accounted for using the equity method" in the consolidated statements of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated statements of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**Functional Currency**"). The Functional Currency of the Company is HKD. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group has determined RMB as its presentation currency and presented its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of comprehensive income, within finance costs. All other foreign exchange gains and losses impacting profit or loss are presented in the consolidated statements of comprehensive income within "Other gains/(losses), net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss ("**FVPL**"), are recognized in the consolidated statements of financial position as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial assets at fair value through OCI ("**FVOCI**"), are included in OCI.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognized in OCI.

On consolidation, exchange differences arising from the translation of any net investments in foreign entities are recognized in OCI.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 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 the 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).

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

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property is carried at cost, including the related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Investment properties of the Group include building and freehold land. Depreciation for building is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 40 years. Freehold land is not depreciated. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Intangible assets

(a) 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.

(b) Music copyrights

The 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 the 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 the Group, being straight line over their license periods, being generally 5 to 10 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.

(c) 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 film 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 film rights of completed production, which are stated at cost less accumulated amortization and impairment losses. The cost of film rights is expensed on first public exhibition.

2.9 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI 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 OCI. For investments in debt instruments, this will depend on the business model in which the investments is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investments at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the 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 the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

(c) Measurement *(continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the 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 gains/(losses), 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 OCI, 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 OCI is reclassified from equity to profit or loss and recognized in "Other gains/(losses), 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 gains/(losses), 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 gains/(losses), net" in the period in which it arises.

Equity instruments

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

Changes in the fair value of financial assets at FVPL are recognized in "Other gains/(losses), 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

(d) Impairment

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

- Cash and cash equivalents
- Restricted cash
- Amounts due from shareholders
- Trade receivables
- Other receivables
- Investments measured at amortized cost

While the Group's cash and cash equivalents and restricted cash 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, the Group has assessed the expected credit losses of these balances and the identified impairment loss was immaterial.

For trade receivables, the 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 and investments measured at amortized cost are 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

(e) Derecognition

Financial assets

The 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, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the 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 the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the 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.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when the 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.

2.11 Inventories

Inventories consist primarily of artist-related merchandise and other materials for sale, and are stated at the lower of cost, using the weighted average method, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Trade and other receivables

Trade receivables are amounts due from customers for service performed or inventories sold in the ordinary course of business. If collection of trade receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. Other receivables are recognized initially at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 23 for further information about the Group's accounting for trade and other receivables and Note 3.1(b)(ii) for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents include cash at bank, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued and other reserve (for consideration paid beyond the nominal value of each share). Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.18 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.

(a) 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 the 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.

(b) 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 the 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 OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each year. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government- supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2.20 Share-based benefits

The fair value of the employee service received in exchange for the grant of equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- Including any market performance conditions (e.g., the entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (e.g., profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (e.g., the requirement for employees to save or holdings shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized in profit or loss over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

The grant by the Company of its equity instruments to the employees of its subsidiaries is treated as a capital contribution in the separate financial statements of the Company. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Share-based benefits *(continued)*

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancelation of some or all the equity instruments granted).

At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.22 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 the 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 the Group performs; or
- does not create an asset with an alternative use to the Group and the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue recognition *(continued)*

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The 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, the Group presents the contract in the statements of financial position as a contract assets or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

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

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

(a) Artist management

The 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 the Group's role as a principal or agent in the provision of artist management services, the Group considers individually or in combination, that (a) the 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) the 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) the Group has discretion in establishing the contract price for these business activities with the corporate customers and has ability to negotiate the service terms and pricing separately with the artists and third-party vendors who provide training and styling services. Thus, the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue recognition *(continued)*

(b) Music IP production and operation

The Group generates revenue from sub-licensing music copyrights to third parties' online platforms. Under these arrangements, the 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 the 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 the Group primarily relies on self-produced copyrights of the 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), the 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), the Group charged its customers on a minimum guarantee plus revenue-sharing basis. The 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 the Group's performance obligations are satisfied over time over the license period, the 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 the Group received the quarterly or semi-annual usage reports from the online platforms operators.

Since the 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, the 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.

(c) Pan-entertainment business

The Group provides entertainment business 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Leases

The 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 the 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 the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the 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 the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

2.24 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to expenses are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the expenses that they are intended to compensate.

2.26 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

2.27 Redemption liabilities

Redemption liabilities arise from preferential rights granted by the Group which permit the holders to request the Group to purchase the equity instruments held by them for cash when certain conditions are met. As the Group does not have the unconditional right to avoid delivering cash or another financial assets under the preferential rights, a financial liability is recognized at the present value of the estimated future cash outflows on exercise of the preferential rights. Subsequently, if the Group revises its estimates of payments, the Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and adjust the carrying amount of the financial liabilities to reflect actual or revised estimated cash outflows in the consolidated balance sheet through profit or loss. In the event that these preferential rights remain unexercised upon expiry, the liabilities are derecognized with a corresponding adjustment to equity.

The redemption liabilities are classified as current liabilities unless these preferential rights can only be exercised 12 months after the end of the reporting period, in that case they are classified as non-current liabilities.

2.28 Convertible preferred shares

The Group issued convertible preferred shares which give options to holders a right for redemption into cash after specified timing or a right for conversion into ordinary shares of the Company. The convertible preferred shares will be automatically converted into ordinary shares upon occurrence of certain events outside the control of the Company.

The Group designates convertible preferred shares as financial liabilities at FVTPL. Convertible preferred shares are classified as non-current liabilities or current liabilities depending on whether the convertible preferred shares holders can demand the Company to redeem the convertible preferred shares for cash within 12 months after the end of the reporting period or not. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the convertible preferred shares are carried at fair value with changes in fair value recognized in the consolidated statements of comprehensive income. The component of fair value changes relating to the Company's own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in the statement of comprehensive income, but are transferred to retained earnings when realized.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) 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 Group entities' functional currency. The functional currency of the Company is HKD whereas functional currency of the subsidiaries operate in the PRC is RMB. The Group has not entered into any derivative instruments to hedge its foreign exchange exposures.

The 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, 2022 and 2021, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the profit before income tax for the years ended December 31, 2022 and 2021 would have been approximately RMB14,000 and RMB279,000 lower/higher.

The functional currency of the Company is HKD, which is exposed to foreign currency risk with respect to the Company's monetary assets and liabilities denominated in RMB. For the year ended December 31, 2022, if RMB had strengthened/weakened by 5% against HKD with all other variables held constant, the profit before income tax for the year ended December 31, 2022 would have been approximately RMB10,777,000 higher/lower. For the year ended December 31, 2021, the Company's balances of foreign currency that is not the functional currency are immaterial and the foreign exchange risk of the Group is not significant. For balances denominated in USD are reasonably stable with the Hong Kong dollars under the Linked Exchange Rate System, the directors are of the opinion that the Company does not have significant foreign exchange risk, the exposure to fluctuation in exchange rates will only arise from the translation to the presentation currency of the Group.

(ii) Fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group has no significant interest-bearing assets. Hence, the directors of the Company 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.

As at December 31, 2022 and 2021, the Group's interest-bearing borrowings at floating rates were as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Borrowings at floating rates	**66,276**	64,322

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Fair value interest rate risk (continued)

As at December 31, 2022 and 2021, if the interest rates on borrowings at floating rates has been 50 basis points higher with all variables held constant, profit before income tax for the years then ended would have been approximately RMB331,000 and RMB322,000, lower/higher, respectively, mainly as a result of higher/lower interest expenses from borrowings.

(b) Credit risk

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

(i) Risk management

For cash and cash equivalents and restricted cash, management manages the credit risk by placing deposits in high quality financial institutions and other institutions with sound credit ratings.

For trade and other receivables, the Group has policies in place to ensure that sales of product and service are made to customers with an appropriate credit history. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The carrying amounts of cash and cash equivalents, amounts due from shareholders, as well as trade and other receivables represent the Group's maximum exposure to credit risk in relation to the assets.

(ii) Impairment of financial assets

The Group has below types of assets subject to IFRS 9's expected credit loss model:

- Cash and cash equivalents
- Restricted cash
- Amounts due from shareholders
- Trade receivables
- Other receivables
- Investments measured at amortized cost

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) ***Impairment of financial assets*** *(continued)*

Cash and cash equivalents and restricted cash

While the Group's cash and cash equivalents and restricted cash are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as they were with sound credit ratings.

Amounts due from shareholders

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

Trade receivables

The Group applies 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 share credit risk characteristics and the days past due.

The expected loss rates are based on the aging profiles of trade receivables and the corresponding historical credit losses expected. These historical loss rates are then adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. The Group has identified the "business climate index" of the PRC in which it primarily provides its services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

On such basis, the loss allowance as at December 31, 2022 and 2021 was determined as follows for trade receivables:

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	Over 3 years	Total
As at December 31, 2022							
Expected loss rate	3.61%	8.11%	13.22%	35.39%	58.33%	100.00%	14.94%
Gross carrying amount (RMB'000)	76,307	28,559	27,948	8,345	1,200	10,395	152,754
Loss allowance provision (RMB'000)	2,757	2,315	3,694	2,953	700	10,395	22,814
As at December 31, 2021							
Expected loss rate	4.37%	9.42%	12.15%	35.49%	–	100.00%	13.76%
Gross carrying amount (RMB'000)	96,786	7,293	6,867	2,536	–	10,395	123,877
Loss allowance provision (RMB'000)	4,228	687	834	900	–	10,395	17,044

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets *(continued)*

Trade receivables (continued)

The movement of loss allowances for trade receivables for the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**17,044**	14,219
Impairment provision	**5,747**	2,876
Currency translation difference	**23**	(51)
At the end of the year	**22,814**	17,044

Other receivables and investments measured at amortized cost

Other receivables primarily comprise balances resulted from the Group's principal activities with various business partners primarily in the PRC entertainment industry. Investments measured at amortized cost comprises investments in a debt instrument. The impairment loss of these financial assets carried at amortized cost is measured based on the twelve months expected credit loss. The Directors consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations; and
- significant changes in the expected performance and behavior of the borrowers, including changes in the payment status of borrowers in the group and changes in the operating results of the borrowers.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. Under such case, the other receivables and investments measured at amortized cost are classified as stage 2 and subject to lifetime expected losses provision. When the other receivables and investments measured at amortized cost became past due for more than 90 days, they are treated as credit-impaired and therefore classified as stage 3.

A default on a financial asset is when the counterparty fails to make contractual payments when they fall due.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets *(continued)*

Other receivables and investments measured at amortized cost (continued)

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorizes a receivable for write off when a debtor fails to make contractual payments more than three years past due. Where other receivables and investments measured at amortized cost have been written off, the Company continues to engage in follow-up actions such as enforcement activities to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

Management uses three categories for other receivables and investments measured at amortized cost which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit rating companies including Moody's.

A summary of the assumptions underpinning the Group's expected credit loss model on other receivables and investments measured at amortized cost is as follows:

Category	The Group's definition of category	Basis for recognition of expected credit loss provision
Stage 1	Other receivables and investments measured at amortized cost whose credit risk is in line with original expectations and/or past due for less than 30 days.	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Stage 2	Other receivables and investments measured at amortized cost for which a significant increase has occurred compared to original expectations; A significant increase in credit risk is presumed if interest and/or principal repayments are past due for more than 30 days but less than 90 days.	Lifetime expected losses
Stage 3	Interest and/or principal repayments are more than 90 days past due or it becomes probable a customer will enter bankruptcy.	Lifetime expected losses
Write-off	Interest and/or principal repayments are more than three years past due and there is no reasonable expectation of recovery.	Asset is written off

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets *(continued)*

Other receivables and investments measured at amortized cost (continued)

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward-looking macroeconomic data. The Group provides for credit losses against other receivables and investments measured at amortized cost as follows:

As at December 31, 2022

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Gross carrying amount				
Loans to third parties and a related party	3,652	–	–	3,652
Rental and other deposits	6,060	–	–	6,060
Investments measured at amortized cost	89,327	–	–	89,327
Others	68	–	–	68
	99,107	–	–	99,107

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance				
Loans to third parties and a related party	328	–	–	328
Rental and other deposits	423	–	–	423
Investments measured at amortized cost	2,047	–	–	2,047
Others	5	–	–	5
	2,803	–	–	2,803
Expected credit loss rate	2.83%	–	–	2.83%

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) ***Impairment of financial assets*** *(continued)*

Other receivables and investments measured at amortized cost (continued)

As at December 31, 2021

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Gross carrying amount				
Loans to third parties	21,875	–	–	21,875
Rental and other deposits	6,380	–	–	6,380
Others	3,241	–	–	3,241
	31,496	–	–	31,496

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance				
Loans to third parties	599	–	–	599
Rental and other deposits	175	–	–	175
Others	50	–	–	50
	824	–	–	824
Expected credit loss rate	2.62%	–	–	2.62%

The loss allowances for other receivables and investments measured at amortized costs as at December 31, 2022 and 2021, reconcile to the opening loss allowances as follows:

	Year ended December 31,	
	2022 **RMB'000**	2021 RMB'000
At the beginning of the year	**824**	417
Impairment provision	**1,968**	420
Currency translation difference	**11**	(13)
At the end of the year	**2,803**	824

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the senior management to finance the Group's operations and mitigate the effects of fluctuations in cash.

The table below analyzes the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At December 31, 2022				
Borrowings	**3,437**	**3,446**	**68,542**	**75,425**
Trade payables	**190,619**	**–**	**–**	**190,619**
Other payables and accruals (excluding salary and staff welfare payables and taxes payable)	**16,868**	**–**	**–**	**16,868**
Lease liabilities	**3,574**	**2,971**	**2,881**	**9,426**
Financial liabilities at FVPL	**132,013**	**591,035**	**–**	**723,048**
	346,511	**597,452**	**71,423**	**1,015,386**
At December 31, 2021				
Borrowings	65,641	–	–	65,641
Trade payables	213,483	–	–	213,483
Other payables and accruals (excluding salary and staff welfare payables and tax payable)	69,048	–	–	69,048
Lease liabilities	5,967	2,369	2,094	10,430
Redemption liabilities	132,013	–	591,035	723,048
	486,152	2,369	593,129	1,081,650

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including borrowings and lease liabilities but excluding redemption liabilities and financial liabilities at fair value through profit or loss) less cash and cash equivalents and restricted cash. Total capital is calculated as total equity (excluding reserve components attributable to redemption liabilities), as shown in the statement of financial position, plus net debt. As at December 31, 2022 and 2021, the Group has a net cash position.

3.3 Fair value estimation

3.3.1 Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The tables below analyze the Group's financial instruments carried at fair value as at December 31, 2021 and 2022 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- 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).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

3.3.1 Fair value hierarchy *(continued)*

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2022				
Financial assets at FVPL				
Investments in wealth management products (Note 21(a))	–	–	290,265	290,265
Investments in unlisted equity securities (Note 21(c))	–	–	30,831	30,831
Investments in a listed equity security (Note 21(d))	–	14,715	–	14,715
	–	14,715	321,096	335,811
Financial liabilities at FVPL				
Convertible preferred shares (Note 34)	–	–	903,848	903,848

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2021				
Financial assets at FVPL				
Investments in wealth management products (Note 21(a))	–	–	446,265	446,265
Investments in movies, drama series and variety programs (Note 21(b))	–	–	1,820	1,820
Investments in unlisted equity securities (Note 21(c))	–	–	2,800	2,800
	–	–	450,885	450,885

There was no transfer of fair value hierarchy levels during the years ended December 31, 2022 and 2021.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

3.3.2 Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments;
- The discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- The latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There were no changes to valuation techniques during the years ended December 31, 2022 and 2021.

All of the resulting fair value estimates are included in level 3, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

3.3.3 Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including investments in wealth management products, investments in movies, drama series and variety programs, and investments in unlisted equity securities for the years ended December 31, 2022 and 2021.

	Financial assets at FVPL			
	Investments in wealth management products RMB'000	Investments in movies, drama series and variety programs RMB'000	Investments in unlisted equity securities RMB'000	Total RMB'000
As at January 1, 2022	**446,265**	**1,820**	**2,800**	**450,885**
Additions	**741,000**	**–**	**27,419**	**768,419**
Disposals	**(909,949)**	**(1,820)**	**(800)**	**(912,569)**
Fair value gains	**12,949**	**–**	**–**	**12,949**
Currency translation differences	**–**	**–**	**1,412**	**1,412**
As at December 31, 2022	**290,265**	**–**	**30,831**	**321,096**
As at January 1, 2021	194,420	20,293	800	215,513
Additions	1,416,000	38,418	2,000	1,456,418
Disposals	(1,185,049)	(23,232)	–	(1,208,281)
Fair value gains/(losses)	20,894	(33,659)	–	(12,765)
As at December 31, 2021	446,265	1,820	2,800	450,885

For movements of convertible preferred shares during the year ended December 31, 2022, please refer to Note 34.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

3.3.4 Valuation process, inputs and relationships to fair value

The 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 the Group's level 3 instruments.

The valuation of the level 3 instruments mainly included financial assets being investments in wealth management products (Note 21(a)), investments in movies, drama series and variety programs (Note 21(b)), investments in unlisted equity securities (Note 21(c)) and convertible preferred shares (Note 34). 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 and market approach 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. The Group used discounted cash flows approach to determine the fair value of the financial product as at year end.

The investments in movies, drama series and variety programs mainly represent the investments in certain movies and drama series and variety programs. The Group used discounted cash flows approach to evaluate the fair value of the investments in movies, drama series and variety programs as at each year end.

The unlisted investments represent the investments in certain privately owned companies. The Group used discounted cash flows approach to evaluate the fair value of the unlisted investments as at each year end. Besides, management is of the view that there are no material changes in fair value of the unlisted investments during the year ended December 31, 2022, unless there is available information about latest round of financing.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

3.3.4 Valuation process, inputs and relationships to fair value *(continued)*

The following table summarizes the information about the significant unobservable inputs used in the level 3 fair value measurement of investments in wealth management products and movies, drama series and variety programs:

Description	Fair value at December 31, 2022 RMB'000	Fair value at December 31, 2021 RMB'000	Key inputs and relationships of unobservable inputs to fair value
Investments in unlisted equity securities	**30,831**	2,800	Expected future cash flows are discounted at rates that reflects the internal rate of return of the underlying investments. The higher internal rate of return, the lower the fair value
Investments in wealth management products	**290,265**	446,265	As at December 31, 2022 and 2021, the expected rates of return range from 1.80% to 3.95%, 2.60% to 3.95%, respectively. The higher the expected rate of return, the higher the fair value.
Investments in movies, drama series and variety programs	**–**	1,820	Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at rates that reflects the internal rate of return of the underlying investments. The higher internal rate of return, the lower the fair value.
Total	**321,096**	450,885	

For the significant unobservable inputs and their relationships to the fair value of convertible preferred shares, please refer to Note 34.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

3.3.4 Valuation process, inputs and relationships to fair value *(continued)*

If the fair values of financial assets at FVPL held by the Group had been 10% higher/lower, the profit before income tax for the years ended December 31, 2022 and 2021 would have been approximately RMB32,110,000 and RMB45,089,000 higher/lower, respectively.

If the fair values of financial liabilities at FVPL held by the Group had been 10% higher/lower, the profit for the year ended December 31, 2022 would have been approximately RMB90,385,000 lower/higher, respectively.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2022 and 2021.

The carrying amount of the Group's other financial assets, including cash and cash equivalents, restricted cash, trade receivables, other receivables, investments measured at amortized cost and the Group's financial liabilities, including trade payables, other payables and accruals and lease liabilities, approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Estimation of the fair value of certain financial assets and financial liabilities

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see Note 3.3.

(b) Measurement of the expected credit losses

The measurement of the expected credit losses for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit loss is further detailed in Notes 3.1(b).

A number of judgments are also required in applying the accounting requirements for measuring expected credit loss, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit loss; and
- Establishing the number and relative weightings for forward-looking scenarios and the associated expected credit loss.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(c) Current and deferred income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

The Group considers whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing, by assuming taxation authority will examine those amounts and will have full knowledge of all relevant information. When the Group concludes that it is probable that a particular tax treatment is accepted, the Group determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. If the Group concludes that it is not probable that a particular tax treatment is accepted, the Group uses the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Group assesses its judgments and estimates if facts and circumstances change.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(d) Estimation of redemption liabilities

The Group granted preferential rights to certain shareholders of Group that they have the right to request the Group to purchase the equity interests in Yuehua Limited held by them when certain conditions are met. The Group initially recognize the financial liabilities at the present value of the estimated future cash outflows under the redemption arrangement and subsequently carried at amortized cost. If the Group revises its estimates of payments in subsequent periods, the Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and adjust the carrying amount of the financial liabilities to reflect actual or revised estimated cash outflows in the consolidated balance sheet. The adjustment to the carrying amounts will be recognized in profit or loss.

(e) Recognition of share-based payment expenses

As disclosed in Note 39, the Group issued restricted share units to certain employees under a share incentive scheme which resulted in the recognition of share-based payment expenses. Significant estimates on key assumptions are required to be made by management in determining the fair value of the issued shares on grant date, including discount rate and discount for lack of control.

5 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. Please refer to Note 2.22 for detail of accounting policies on revenue recognition.

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
	RMB'000	RMB'000
Mainland China	**41,831**	68,841
Korea	**105,608**	108,856
	147,439	177,697

6 REVENUES

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

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

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

6 REVENUES *(continued)*

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.

7 EXPENSES BY NATURE

	Year ended December 31,	
	2022 **RMB'000**	2021 RMB'000
Revenue sharing for artist management business	**431,820**	529,193
Equity settled share-based payments (Note 39)	**91,113**	2,068
Employee benefits expenses other than equity settled share-based payments (Note 10)	**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 (Note 15)	**6,848**	4,353
Depreciation of right-of-use assets (Note 17)	**5,321**	7,251
Amortization of intangible assets (Note 18)	**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 (Note 17)	**2,073**	2,939
Professional fees	**3,177**	2,002
Depreciation of investment properties (Note 16)	**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

8 OTHER INCOME

	Year ended December 31,	
	2022 **RMB'000**	2021 RMB'000
Tax credit of input tax additional deduction	**3,009**	3,519
Government subsidies	**314**	14,281
Rental income from investment properties (Note 16)	**578**	620
	3,901	18,420

9 OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value gains from wealth management products (Note 21(a))	**12,949**	20,894
Net exchange (losses)/gains	**(5,424)**	1,556
Fair value gains from a listed equity security (Note 21(d))	**2,716**	–
Net (losses)/gains on disposal of property, plant and equipment	**(218)**	41
Fair value losses on movies, drama series and variety programs (Note 21(b))	**–**	(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
	10,044	(5,889)

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS AND EXCLUDING EQUITY SETTLED SHARE-BASED PAYMENTS)

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and bonuses	**56,918**	56,483
Welfare, medical and other expenses	**7,685**	7,561
Contributions to pension plans	**4,463**	3,775
	69,066	67,819

(a) Pension costs – defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes partnerships which are calculated on fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees.

As at December 31, 2022 and 2021, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions.

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS AND EXCLUDING EQUITY SETTLED SHARE-BASED PAYMENTS) *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 1 director for the year ended December 31, 2022 (2021:2), and their emoluments are reflected in the analysis shown in Note 10(c). The emoluments payable to the remaining 4 individuals during the year ended December 31, 2022 (2021:3) are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Wages, salaries, and bonuses	**6,544**	6,369
Pension costs – defined contribution plans	**173**	70
Other social security costs, housing benefits and other employee benefits	**262**	538
Equity settled share-based payments	**27,178**	302
	34,157	7,279

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2022	2021
Emoluments bands:		
HKD2,000,000 to HKD3,000,000 (equivalent to approximately RMB1,725,400 to RMB2,588,100)	**–**	1
HKD3,000,000 to HKD4,000,000 (equivalent to approximately RMB2,588,100 to RMB3,450,800)	**–**	2
HKD4,000,000 to HKD5,000,000 (equivalent to approximately RMB3,450,800 to RMB4,313,500)	**1**	–
HKD5,000,000 to HKD6,000,000 (equivalent to approximately RMB4,313,500 to RMB5,176,200)	**1**	–
HKD6,000,000 to HKD7,000,000 (equivalent to approximately RMB5,176,200 to RMB6,038,900)	**–**	–
HKD7,000,000 to HKD8,000,000 (equivalent to approximately RMB6,038,900 to RMB6,901,600)	**–**	–
HKD8,000,000 to HKD9,000,000 (equivalent to approximately RMB6,901,600 to RMB7,764,300)	**2**	–
	4	3

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the years ended December 31, 2022 and 2021.

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS AND EXCLUDING EQUITY SETTLED SHARE-BASED PAYMENTS) *(continued)*

(c) Directors' and chief executive's emoluments

Remuneration of every director and the chief executive's is set out below:

	Director's fee RMB'000	Wages, salaries, and bonuses RMB'000	Pension cost-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Equity settled share-based payments RMB'000	Total RMB'000
For the year ended December 31, 2022						
Chairlady and executive director:						
Ms. Du	–	1,420	58	82	–	1,560
Executive directors:						
Mr. SUN Le	–	1,044	58	82	9,178	10,362
Mr. SUN Yiding	–	939	50	70	–	1,059
Non-executive directors:						
Ms. Yao Lu	–	–	–	–	–	–
Mr. Meng Qingguang	–	–	–	–	–	–
Ms. Zhao Wenjie	–	–	–	–	–	–
	–	3,403	166	234	9,178	12,981

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS AND EXCLUDING EQUITY SETTLED SHARE-BASED PAYMENTS) *(continued)*

(c) Directors' and chief executive's emoluments *(continued)*

	Director's fee RMB'000	Wages, salaries, and bonuses RMB'000	Pension cost-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Equity settled share-based payments RMB'000	Total RMB'000
For the year ended December 31, 2021						
Chairlady and executive director:						
Ms. DU	–	1,669	57	81	–	1,807
Executive director:						
Mr. SUN Le	–	1,469	57	79	670	2,275
Mr. SUN Yiding	300	–	–	–	–	300
	300	3,138	114	160	670	4,382

Ms. Du, Mr. SUN Le and Mr. SUN Yiding were appointed as directors of the Company on June 10, 2021, and were re-designated as the executive directors of the Company on March 3, 2022. They were also directors of certain subsidiaries of the Company and/or employees of the Group during the years ended December 31, 2022 and 2021, and the Group paid emoluments to them in their capacity as the directors of these subsidiaries and/or employees of the Group before their appointment as executive directors of the Company.

Ms. YAO Lu, Mr. MENG Qingguang and Ms. ZHAO Wenjie were appointed as the directors of the Company on January 28, 2022 and were re-designated as the non-executive directors of the Company on March 3, 2022. During the years ended December 31, 2022 and 2021, they received nil directors' remuneration in the capacity of directors.

During the year ended December 31, 2022, no Director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office; and no Director waived or has agreed to waive any remuneration.

(d) Directors' retirement and termination benefits

No retirement or termination benefits have been paid to the Company's directors during the years ended December 31, 2022 and 2021.

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS AND EXCLUDING EQUITY SETTLED SHARE-BASED PAYMENTS) *(continued)*

(e) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available Directors' services subsisted at the end of each reporting period or at any time during the years ended December 31, 2022 and 2021.

(f) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in Note 37, no loans, quasi-loans or other dealings are entered into in favor of directors, controlled bodies corporate by and connected entities with such directors during the years ended December 31, 2022 and 2021.

(g) Directors' material interests in transactions, arrangements or contract

Save as disclosed in Note 37, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during the years ended December 31, 2022 and 2021.

11 FINANCE INCOME/(COSTS), NET

	Year ended December 31,	
	2022 **RMB'000**	2021 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
	6,597	5,215
Finance costs		
– Interest expenses on bank borrowings	**(2,511)**	(1,853)
– Interest expenses on lease liabilities	**(389)**	(415)
– Interest expenses on redemption liabilities (Note 33)	**(3,406)**	(40,481)
	(6,306)	(42,749)
Finance income/(costs) – net	**291**	(37,534)

12 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 (Note 29)	**(1,112)**	(344)
Income tax expense	**66,247**	125,707

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to subsidiaries comprising the Group as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Profit before income tax expense	**1,791,432**	461,039
Add: share of losses of investments accounted for using the equity method	**3,062**	6,568
	1,794,494	467,607
Tax calculated at the applicable tax rates of respective subsidiaries	**45,080**	99,784
Expenses not deductible for tax purposes	**20,086**	18,118
Tax losses and temporary differences not recognised for deferred tax assets	**1,081**	7,805
Income tax expense	**66,247**	125,707

(a) Cayman Islands

Under the current laws of the Cayman Islands, entities incorporated in the Cayman Islands are not subject to tax on income or capital gain. In addition, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

(b) Hong Kong Profits Tax

Hong Kong profits tax has been provided for at the rate of 8.25% on the estimated assessable profits up to HKD2,000,000; and 16.5% on any part of the estimated assessable profits over HKD2,000,000 during the years ended December 31, 2022 and 2021.

12 INCOME TAX EXPENSE *(continued)*

(c) PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the 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 CIT rate is 25% during the years ended December 31, 2022 and 2021.

As stipulated in Zang Zheng Fa 2018 No.25, Zang Zheng Fa 2021 No. 9 and Zang Zheng Fa 2022 No. 11, 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. Tibet Yuehua Culture Communication Co., Ltd., a subsidiary established in Tibet, was entitled to such CIT benefit during the periods from January 1, 2018 to December 31, 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.

(d) Korea corporate income Tax

Korea corporate income tax has been provided at the rates of 11% on the first KRW200,000,000 (equivalent to approximately RMB1,047,000 and RMB1,124,000 during the years ended December 31, 2022 and 2021) of the tax base, 22% up to KRW20,000,000,000 (equivalent to approximately RMB104,652,000 and RMB112,372,000 during the years ended December 31, 2022 and 2021), 24.2% for amounts up to KRW300,000,000,000 (equivalent to approximately RMB1,569,777,000 and RMB1,685,583,000 during the years ended December 31, 2022 and 2021) and 27.5% over KRW300,000,000,000 (equivalent to approximately RMB1,569,777,000 and RMB1,685,583,000 during the years ended December 31, 2022 and 2021) on the estimated assessable profits of the Group's operations in Korea during the years ended December 31, 2022 and 2021.

13 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
	RMB'000	RMB'000
Interim dividends declared and settled by the Company to its ordinary shareholders (Note 35(c))	**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	–

14 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) as set out in Note 26 and also taking into account the capitalization issue that took place in January 2023 as set out in Note 42, 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 and the number of convertible preferred shares used for such purpose have been retrospectively adjusted for the effects of the issue of shares in connection with the capitalization 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 (Note 26)	**463,200,000**	463,200,000
Basic earnings per share (RMB)	**3.72**	0.73

(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 (Note 34), which were deemed to have been allotted and issued on January 1, 2021 as if the Company had been incorporated by then, and taking into account the capitalization issue that took place in January 2023. For restricted shares granted as detailed in Note 39, 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 (RMB'000)	**1,724,470**	336,684
Adjustment for interest expenses on redemption liabilities (Note 33) and fair value changes of convertible preferred shares (Note 34) (RMB'000)	**(1,578,586)**	40,481
Profit used to determine diluted earnings per share (RMB'000)	**145,884**	377,165
Weighted average number of ordinary shares in issue (Note 26)	**463,200,000**	463,200,000
Adjustment for convertible preferred shares (Note 34)	**249,300,000**	249,300,000
	712,500,000	712,500,000
Diluted earnings per share (RMB)	**0.20**	0.53

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Building RMB'000	Furniture and office equipment RMB'000	Computer equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2021							
Cost	82,614	16,159	951	1,956	2,002	6,476	110,158
Accumulated depreciation	–	(539)	(737)	(958)	(696)	(780)	(3,710)
Net book amount	82,614	15,620	214	998	1,306	5,696	106,448
Year ended December 31, 2021							
Opening net book amount	82,614	15,620	214	998	1,306	5,696	106,448
Additions	–	–	936	2,101	1,874	7,453	12,364
Depreciation charge	–	(379)	(60)	(487)	(598)	(2,829)	(4,353)
Disposal	–	–	(1)	(9)	–	–	(10)
Currency translation differences	(8,772)	(1,641)	(20)	(80)	(23)	(268)	(10,804)
Closing net book amount	73,842	13,600	1,069	2,523	2,559	10,052	103,645
At December 31, 2021							
Cost	73,842	14,443	1,786	3,807	3,846	13,547	111,271
Accumulated depreciation	–	(843)	(717)	(1,284)	(1,287)	(3,495)	(7,626)
Net book amount	73,842	13,600	1,069	2,523	2,559	10,052	103,645

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Freehold land RMB'000	Building RMB'000	Furniture and office equipment RMB'000	Computer equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2022							
Cost	73,842	14,443	1,786	3,807	3,846	13,547	111,271
Accumulated depreciation	–	(843)	(717)	(1,284)	(1,287)	(3,495)	(7,626)
Net book amount	73,842	13,600	1,069	2,523	2,559	10,052	103,645
Year ended December 31, 2022							
Opening net book amount	73,842	13,600	1,069	2,523	2,559	10,052	103,645
Additions	–	–	65	1,013	240	2,607	3,925
Depreciation charge	–	(372)	(342)	(937)	(736)	(4,461)	(6,848)
Disposal	–	–	–	(248)	–	(235)	(483)
Currency translation differences	2,243	413	5	30	13	58	2,762
Closing net book amount	76,085	13,641	797	2,381	2,076	8,021	103,001
At December 31, 2022							
Cost	76,085	14,882	1,877	4,528	4,102	16,252	117,726
Accumulated depreciation	–	(1,241)	(1,080)	(2,147)	(2,026)	(8,231)	(14,725)
Net book amount	76,085	13,641	797	2,381	2,076	8,021	103,001

Depreciation of the Group's property, plant and equipment has been recognized as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Cost of revenue	**2,098**	1,436
Selling and marketing expenses	**2,776**	1,113
General and administrative expenses	**1,974**	1,804
	6,848	4,353

16 INVESTMENT PROPERTIES

	Building RMB'000	Freehold land RMB'000	Total RMB'000
Year ended December 31, 2021			
Opening net book amount	7,903	8,090	15,993
Depreciation charge	(192)	–	(192)
Currency translation differences	(830)	(859)	(1,689)
Closing net book amount	6,881	7,231	14,112
At December 31, 2021			
Cost	7,307	7,231	14,538
Accumulated amortization	(426)	–	(426)
Net book amount	6,881	7,231	14,112
Year ended December 31, 2022			
Opening net book amount	**6,881**	**7,231**	**14,112**
Depreciation charge	**(188)**	**–**	**(188)**
Currency translation differences	**209**	**220**	**429**
Closing net book amount	**6,902**	**7,451**	**14,353**
At December 31, 2022			
Cost	**7,530**	**7,451**	**14,981**
Accumulated amortization	**(628)**	**–**	**(628)**
Net book amount	**6,902**	**7,451**	**14,353**

Depreciation of the Group's investment properties has been recognized as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
General and administrative expenses	**188**	192

The valuation of the investment properties as at December 31, 2022 and 2021 (including the related freehold land in Korea with net book value of approximately RMB7,231,000 and RMB7,451,000 respectively) were RMB16,580,000 and RMB14,533,000 respectively, which was determined by the directors of the Company on an open market value basis using the sales comparison approach.

17 LEASES

(a) Amounts recognized in the statements of financial position

The statements of financial position show the following amounts relating to leases:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Right-of-use assets		
– Buildings	**7,713**	9,451
– Motor vehicles	**2,868**	2,770
	10,581	12,221
Lease liabilities		
– Current	**2,254**	5,143
– Non-current	**5,841**	5,066
	8,095	10,209

(b) Right-of-use assets

	Building RMB'000	**Motor vehicles** RMB'000	**Total** RMB'000
As at January 1, 2021	14,151	2,532	16,683
Additions	3,441	1,826	5,267
Depreciation charge	(6,237)	(1,014)	(7,251)
Disposal	(1,705)	(363)	(2,068)
Currency translation differences	(199)	(211)	(410)
At December 31, 2021	9,451	2,770	12,221
As at January 1, 2022	**9,451**	**2,770**	**12,221**
Additions	**3,658**	**1,122**	**4,780**
Depreciation charge	**(4,234)**	**(1,087)**	**(5,321)**
Disposal	**(1,174)**	**(21)**	**(1,195)**
Currency translation differences	**12**	**84**	**96**
At December 31, 2022	**7,713**	**2,868**	**10,581**

17 LEASES *(continued)*

(c) Amounts recognized in profit or loss

The consolidated statements of comprehensive income show the following amounts relating to leases:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
– Buildings	**4,234**	6,237
– Motor vehicles	**1,087**	1,014
Interest expense (included in finance costs) (Note 11)	**389**	415
Expense relating to short-term low-value leases (Note 7)	**2,073**	2,939

The Group leases certain offices and motor vehicles. Rental contracts for offices are typically made for fixed periods of 24 months to 60 months. Rental contracts for motor vehicles are typically made for fixed periods of 48 months to 60 months.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leased assets may not be used as security for borrowing purposes.

(d) Amounts recognized in profit or loss

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cash outflows from operating activities		
– Payments for short-term leases (*)	**2,073**	2,939
Cash outflows from financing activities		
– Payment of principal and interest element of lease liabilities	**6,163**	4,279

* Payments for short-term leases were not shown separately, but included in the line of "profit before income tax" in respect of the net cash generated from operations which were presented in Note 35(a) using the indirect method.

(e) Variable lease payments

No variable payment terms are contained in the leases.

(f) Extension and termination options

Lease payments to be made under reasonably certain extension options are included in the measurement. No termination options are included in building leases across the Group.

(g) Residual value guarantees

No residual value guarantees are provided in relation to leases.

18 INTANGIBLE ASSETS

	Software RMB'000	Music copyrights RMB'000	Film rights – completed production RMB'000	Total RMB'000
At January 1, 2021				
Cost	106	12,348	30,838	43,292
Accumulated amortization	(90)	(4,695)	(30,838)	(35,623)
Net book amount	16	7,653	–	7,669
Year ended December 31, 2021				
Opening net book amount	16	7,653	–	7,669
Amortization charge	(5)	(1,821)	–	(1,826)
Closing net book amount	11	5,832	–	5,843
At December 31, 2021				
Cost	106	12,348	30,838	43,292
Accumulated amortization	(95)	(6,516)	(30,838)	(37,449)
Net book amount	11	5,832	–	5,843
Year ended December 31, 2022				
Opening net book amount	**11**	**5,832**	**–**	**5,843**
Additions	**490**	**–**	**–**	**490**
Amortization charge	**(86)**	**(1,821)**	**–**	**(1,907)**
Closing net book amount	**415**	**4,011**	**–**	**4,426**
At December 31, 2022				
Cost	**596**	**12,348**	**30,838**	**43,782**
Accumulated amortization	**(181)**	**(8,337)**	**(30,838)**	**(39,356)**
Net book amount	**415**	**4,011**	**–**	**4,426**

18 INTANGIBLE ASSETS *(continued)*

Depreciation of the Group's intangible assets has been recognized as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cost of revenue	**1,821**	1,821
General and administrative expenses	**86**	5
	1,907	1,826

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**39,076**	46,081
Additions	**16,300**	–
Disposals	**(37,236)**	(3,434)
Share of losses of investments accounted for using the equity method	**(3,062)**	(6,568)
Deemed disposal gain from an associate (Note a)	**–**	3,011
Currency translation differences	**–**	(14)
At the end of the year	**15,078**	39,076

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

As at December 31, 2022 and 2021, the associates of the Group, which were accounted for using equity method, were as follows:

Company Name	Date of Incorporation	Principal activities and place of operation	Registered capital	Percentage of ownership interest attributable to the group As at December 31, 2022	2021
Beijing Tianhao Shengshi Entertainment Culture Co., Ltd. (北京天浩盛世娛樂文化有限公司, "**Beijing Tianhao**") (Note a)	December 24, 2014	PRC; Cultural and artistic communication	RMB42,439,000	–	19.50%
Zhejiang Shengtenghui Brand Management Co., Ltd.(浙江盛騰輝品牌管理有限公司, "**Zhejiang Shengtenghui**")	November 19, 2018	PRC; Business management and marketing	RMB11,660,000	20.00%	20.00%
Starsugar (Beijing) Technology Co., Ltd. (思蓬抒格(北京)科技有限公司, "**Starsugar**")	January 23, 2019	PRC; Technical and cultural service	RMB1,111,000	37.24%	37.24%
Hangzhou Agile Groups Network Technology Co., Ltd.(杭州小群網絡科技有限公司, "**Hangzhou Agile**") (Note b)	November 6, 2019	PRC; Food sales and technical service	RMB5,749,000	7.72%	9.08%
Candy (Shanghai) Cosmetics Co., Ltd. (糖果(上海)化妝品有限公司, "**Candy Cosmetics**") (Note c)	May 21, 2020	PRC; Cosmetic sales and biotechnical service	RMB11,696,000	10.00%	–
Beijing Wuyin Digital Technology Co., Ltd. (北京吾音數字科技有限公司, "**Wuyin Digital**")	June 30, 2022	PRC; Technology promotion and application service	RMB15,000,000	20.00%	–
Hangzhou Xiaoguoyuan Network Information Technology Co., Ltd. (杭州小果元網絡信息技術有限公司, "**Xiaoguoyuan**")	April 26, 2022	PRC; Software and information technology services	RMB12,500,000	20.00%	–
Guangxi Huihua Food Technology Co., Ltd. (廣西惠華食品科技股份有限公司,"**Huihua**") (Note d)	May 21, 2020	PRC; Food sales and technical service	RMB10,000,000	8.00%	8.00%

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

The English names of the associates represent the best effort by the management of the Group in translating their Chinese names as they do not have official English names.

The Group determined that it does not have controlling interest in above investees, but rather possesses significant influence. The associates as listed above are private companies and there are no quoted market prices available for their shares. There is no contingent liabilities relating to the Group's interest in the associates.

Note (a): Deemed disposal gain of approximately RMB3,011,000 was recognized during the year ended December 31, 2021 with respect to the dilution of the Group's equity interest in Beijing Tianhao from 20% to 19.5% after new equity interests were issued by Beijing Tianhao to an independent third-party investor in December 2021. Management determined that the Group can exercise significant influence over Beijing Tianhao through the board representation, notwithstanding the shareholding is below 20%.

Pursuant to the dismantlement of contractual arrangements in respect of Horgos Yuehua and the deemed distribution which were accounted for as an equity transaction (i.e. distribution to owners), as detailed in Note 1.2(g) (i), the Group's investment in Beijing Tianhao held by Horgos Yuehua, together with other assets and liabilities of Horgos Yuehua, were fully derecognised and resulted in a total credit of approximately RMB565,000 to total equity with no impact to profit or loss. For details of the cash flow impact from this deemed distribution, please refer to Note 35(d).

Note (b): Management determined that the Group can exercise significant influence over Hangzhou Agile through the board representation, notwithstanding the shareholding is below 20%.

Note (c): Management determined that the Group can exercise significant influence over Candy Cosmetics through the board representation, notwithstanding the shareholding is below 20%.

Note (d): Management determined that the Group can exercise significant influence over Huihua through the board representation, notwithstanding the shareholding is below 20%.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

The following table reconciles the net assets of the Beijing Tianhao to the carrying amount of the Group's interest in the associates as at December 31, 2022 and 2021:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Reconciliation to carrying amount:		
Opening net assets as at beginning of the year	**56,245**	68,930
Loss for the year	**(5,443)**	(32,685)
Capital injection	**–**	20,000
Closing net assets as at end of the year	**50,802**	56,245
Percentage of interest	**19.50%**	19.50%
Interest in the associates	**9,906**	10,968
Goodwill	**27,330**	27,330
Disposal (Note a)	**(37,236)**	–
Carrying amount	**–**	38,298

With the assistance of valuation performed by a third-party independent valuer, and with reference to the latest round of financing by Beijing Tianhao with an independent third party investor towards the end of December 2021 which resulted in deemed disposal gain as detailed in Note a, the directors of the Company assessed that the recoverable amount of investment in Beijing Tianhao as at December 31, 2021 was higher than the respective carrying amount of investment, and accordingly considered that there were no impairment in the carrying values of the Group's investment in Beijing Tianhao.

In addition to the interests in Beijing Tianhao disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	**15,078**	778
Aggregate amounts of the Group's share of these associates' losses	**(2,001)**	(38)

20 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial assets		
Trade receivables (Note 23)	**129,940**	106,833
Prepayments and other receivables (excluding prepayments and other tax recoverables)	**9,024**	30,672
Investments measured at amortized cost	**87,280**	–
Amounts due from shareholders (Notes 1.2(e) and 26)	**–**	344,600
Restricted cash (Note 25)	**23,900**	–
Cash and cash equivalents (Note 25)	**528,660**	546,559
	778,804	1,028,664
Financial assets at FVPL (Note 21)	**335,811**	450,885
	1,114,615	1,479,549
Financial liabilities		
Financial liabilities at amortized cost		
Trade payables (Note 31)	**190,619**	213,483
Other payables and accruals (excluding accrued payroll and employee benefit expenses, VAT and surcharges payable)	**16,868**	69,048
Lease liabilities (Note 17)	**8,095**	10,209
Borrowings (Note 30)	**66,276**	64,322
Redemption liabilities (Note 33)	**–**	611,476
	281,858	968,538
Financial liabilities at FVPL (Note 34)	**903,848**	–
	1,185,706	968,538

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of each reporting year is the carrying amount of each class of financial assets mentioned above.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Current portion		
Investments in wealth management products (a)	**290,265**	446,265
Investments in movies, drama series, and variety programs (b)	**–**	1,820
	290,265	448,085
Non-current portion		
Investments in unlisted equity securities (c)	**30,831**	2,800
Investment in a listed equity security (d)	**14,715**	–
	45,546	2,800
	335,811	450,885

(a) Investments in wealth management products

Movements in investments in wealth management products were as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**446,265**	194,420
Additions	**741,000**	1,416,000
Disposals	**(909,949)**	(1,185,049)
Fair value changes (Note 9)	**12,949**	20,894
At the end of the year	**290,265**	446,265

The returns on all of these wealth management products are not guaranteed, and therefore the Group designated them as financial assets at FVPL. Changes in fair value of these financial assets are recognized in "other gains/(loss), net" in the consolidated statements of comprehensive income. For the fair value estimation, please refer to Note 3.3 for details.

As at December 31 2022 and 2021, all wealth management products mature within 1 year.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

(b) Investments in movies, drama series and variety programs

Movements in investments in movies, drama series and variety programs were as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**1,820**	20,293
Additions	**–**	38,418
Disposals	**(1,820)**	(23,232)
Fair value changes (Note 9)	**–**	(33,659)
At the end of the year	**–**	1,820

(c) Investments in unlisted equity securities

The Group's investments in unlisted equity securities included in financial assets at FVPL represent the investments in certain privately owned companies. For the fair value estimation, please refer to Note 3.3 for details.

Movements of investments in unlisted equity securities included in financial assets at FVPL were as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**2,800**	800
Additions	**27,419**	2,000
Disposals	**(800)**	–
Currency translation differences	**1,412**	–
At the end of the year	**30,831**	2,800

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

(d) Investment in a listed equity security

The Group's investment in a listed equity security included in financial assets at FVPL represent the investment in a certain public company. For the fair value estimation, please refer to Note 3.3 for details.

Movements of investment in a listed equity security included in financial assets at FVPL were as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**–**	–
Additions	**11,999**	–
Fair value changes (Note 9)	**2,716**	–
At the end of the year	**14,715**	–

22 INVENTORIES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Artist-related merchandises and other materials	**1,522**	1,132

No write-downs of inventories to net realizable value were charged to the consolidated statements of comprehensive income during the years ended December 31, 2022 and 2021.

23 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Trade receivables (a)	**152,754**	123,877
Less: allowance for impairment (Note 3.1)	**(22,814)**	(17,044)
Trade receivables – net	**129,940**	106,833
Deferred listing expenses	**6,764**	5,156
Other prepayments (b)	**37,825**	3,099
Prepayments	**44,589**	8,255
Loans to third parties (c)	**3,652**	14,875
Loan to a related party (c)	**–**	7,000
Rental and other deposits	**6,060**	6,380
Interest income receivables	**–**	1,303
Other tax recoverables	**9,858**	11,961
Others	**68**	1,938
	19,638	43,457
Less: allowance for impairment (Note 3.1)	**(756)**	(824)
Other receivables – net	**18,882**	42,633
Total prepayments and other receivables	**63,471**	50,888
Less: Non-current deposits and prepayments	**(35,717)**	(2,158)
Current portion	**27,754**	48,730

(a) Movements on the Group's allowance for impairment of trade receivables are disclosed in Note 3.1.

(b) As at December 31, 2022, other prepayments primarily represented prepayments for promotion services.

(c) 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.

23 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

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
	RMB'000	RMB'000
Aging		
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	**10,395**	10,395
	152,754	123,877

24 INVESTMENTS MEASURED AT AMORTIZED COST

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Investments in a debt instrument	**89,327**	–
Less: allowance for impairment (Note 3.1)	**(2,047)**	–
Investments in a debt instrument – net	**87,280**	–

As at December 31, 2022, the balance represented an unsecured bond from a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited. The bond bears interest at 6% per annum and matures on October 24, 2023. The debt instrument has been fully redeemed in March 2023.

25 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Cash at bank and on hand (a)	**552,560**	546,559
Less:		
Restricted cash (b)	**(23,900)**	–
Cash and cash equivalents	**528,660**	546,559
Maximum exposure to credit risk	**552,560**	546,559

(a) Cash at bank and on hand was denominated in the following currencies:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
RMB	**516,820**	508,594
USD	**25,507**	6,118
KRW	**10,153**	31,340
HKD	**79**	45
EUR	**1**	462
	552,560	546,559

(b) Restricted cash:

The balance represented cash at certain bank account that has been restricted for use as at December 31, 2022, as a result of asset preservation procedures arisen from certain contract dispute.

26 SHARE CAPITAL AND COMBINED CAPITAL

(a) Share capital

Authorised:

	Number of ordinary shares	Nominal value of ordinary shares USD
As at June 10, 2021 (incorporation date of the Company), December 31, 2021 and 2022 (a)	500,000,000	50,000

Issued:

	Number of shares	Nominal value USD	Share capital RMB'000	Treasury shares RMB'000	Total RMB'000
As at June 10, 2021 (incorporation date of the Company) (b)	71,510,865	7,151	46	–	46
Issuance of ordinary shares for restricted share unit scheme (c)	1,542,500	154	–*	–	–*
Less: Treasury shares for restricted share unit scheme (c)	(1,542,500)	(154)	–*	–	–*
As at December 31, 2021	71,510,865	7,151	46	–	46
As at January 1, 2022	**73,053,365**	**7,305**	**46**	**–**	**46**
Issuance of ordinary shares for Reorganization (Note 1.2f(i))	**1,100,000**	**110**	**–**	**–**	**–**
Cancellation of ordinary shares for Reorganization (Note 1.2f(i))	**(1,100,000)**	**(110)**	**–**	**–**	**–**
Issuance of ordinary shares for restricted share unit scheme (d)	**4,247,500**	**425**	**4**	**–**	**4**
Less: Treasury shares for restricted share unit scheme (d)	**(5,790,000)**	**(579)**	**–**	**(4)**	**(4)**
As at December 31, 2022	**71,510,865**	**7,151**	**50**	**(4)**	**46**

* The balance was rounded to the nearest thousand.

(a) The Company was incorporated in the Cayman Islands on June 10, 2021 with authorised share capital of USD50,000 divided into 500,000,000 shares of a par value of USD0.0001 each.

26 SHARE CAPITAL AND COMBINED CAPITAL *(continued)*

(a) Share capital *(continued)*

(b) On June 10, 2021, 71,510,865 ordinary shares were issued for approximately USD0.0001 pursuant to the Group's Reorganization as detailed in Note 1.2(a). As at December 31, 2021, total issued number and nominal value of ordinary share of the Company amounted to 71,510,865 share and USD7,151 (equivalent to approximately RMB46,000), respectively.

(c) On December 10, 2021, 1,542,500 ordinary shares were issued by the Company to ARK Trust (Hong Kong) Limited, a trustee for the administration the 2021 share incentive plan of the Company (Note 39) and therefore the ordinary shares issued were presented as treasury shares.

(d) On March 4, 2022, 4,247,500 ordinary shares were issued by the Company to LIGHTSTONE TRUST (HONG KONG) LIMITED, a trustee for the administration for the 2021 Share Incentive Plan of the Company (Note 39) and therefore the ordinary shares issued were presented as treasury shares.

(b) Combined capital

The Reorganization has not been completed as at December 31, 2021. Combined capital as at December 31, 2021 represented the combined capital of the companies now comprising the Group after the elimination of inter-company investments. The balance of combined capital of RMB110,046,000 was reclassified to share capital and other reserves upon the completion of the Reorganization (Note 1.2).

27 RESERVES

	Share premium and other reserves RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Share-based compensation reserve RMB'000	Total Reserves RMB'000
As at January 1, 2021	(495,813)	40,954	(428)	–	(455,287)
Appropriation for statutory surplus reserve (a)	–	6	–	–	6
Issuance of shares by the Company	46	–	–	–	46
Equity settled share-based payments (Note 39)	–	–	–	2,068	2,068
Currency translation differences	–	–	(6,706)	–	(6,706)
As at December 31, 2021	(495,767)	40,960	(7,134)	2,068	(459,873)
As at January 1, 2022	**(495,767)**	**40,960**	**(7,134)**	**2,068**	**(459,873)**
Reorganization – exchange redemption liabilities with convertible preferred shares (Note 32 & 33)	**(1,869,521)**	**–**	**–**	**–**	**(1,869,521)**
Reclassification of combined capital to share capital and other reserves upon the completion of Reorganization	**110,000**	**–**	**–**	**–**	**110,000**
Dividends settled to the ordinary shareholders of the Company (Note 13 & Note 35(b))	**(202,053)**	**–**	**–**	**–**	**(202,053)**
Dividends paid to the ordinary shareholders of the Company (Note 13)	**(57,898)**	**–**	**–**	**–**	**(57,898)**
Deemed distributions to the shareholders of the Company (Note 1.2(g) (i))	**565**	**–**	**–**	**–**	**565**
Equity settled share-based payments (Note 39)	**–**	**–**	**–**	**91,113**	**91,113**
Currency translation differences	**–**	**–**	**(120,000)**	**–**	**(120,000)**
Acquisition of non-controlling interests of a subsidiary	**(326)**	**–**	**–**	**–**	**(326)**
As at December 31, 2022	**(2,515,000)**	**40,960**	**(127,134)**	**93,181**	**(2,507,993)**

(a) Appropriation for statutory surplus reserve

In accordance with the PRC Company Law and the articles of association, the PRC subsidiaries of the Group are required to appropriate 10% of its profits after tax, as determined in accordance with Accounting Standards for Business Enterprises and other applicable regulations, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to shareholders. Apart from the statutory surplus reserve, discretionary surplus reserve can be appropriated according to the resolution of shareholders' meeting. The surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalized as the PRC subsidiary's capital provided that the amount of surplus reserve remaining after the capitalisation shall not be less than 25% of its capital.

28 RETAINED EARNINGS

Movements in retained earnings were as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**662,351**	325,673
Profit for the year	**1,724,470**	336,684
Appropriation for statutory surplus reserve (Note 27(a))	**–**	(6)
At the end of the year	**2,386,821**	662,351

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**2,080**	2,637
– Deferred income tax assets to be recovered within 12 months	**4,572**	3,183
Set-off of deferred income tax liabilities pursuant to set-off provision	**(2,404)**	(2,717)
Net deferred income tax assets	**4,248**	3,103
Deferred income tax liabilities:		
– Deferred income tax liability to be recovered after more than 12 months	**390**	380
– Deferred income tax liability to be recovered within 12 months	**2,014**	2,337
Set-off of deferred income tax assets pursuant to set-off provision	**(2,404)**	(2,717)
Net deferred income tax liabilities	**–**	–

29 DEFERRED INCOME TAX *(continued)*

The movement in deferred income tax assets and liabilities during the years ended December 31, 2022 and 2021, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	As at January 1, 2021 RMB'000	Credited/ (charged) to profit or loss RMB'000	Currency translation differences RMB'000	As at December 31, 2021 RMB'000
The balance comprises temporary differences attributable to:				
Deferred income tax assets				
– Impairment provisions	2,205	502	(18)	2,689
– Lease liabilities	3,447	(756)	(54)	2,637
– Others	782	(220)	(68)	494
	6,434	(474)	(140)	5,820
Deferred income tax liabilities				
– Right-of-use assets	3,592	(818)	(57)	2,717

	As at January 1, 2022 RMB'000	**Credited/ (charged) to profit or loss RMB'000**	**Currency translation differences RMB'000**	**As at December 31, 2022 RMB'000**
The balance comprises temporary differences attributable to:				
Deferred income tax assets				
– Impairment provisions	**2,689**	**1,088**	**9**	**3,786**
– Lease liabilities	**2,637**	**(630)**	**73**	**2,080**
– Others	**494**	**260**	**32**	**786**
	5,820	**718**	**114**	**6,652**
Deferred income tax liabilities				
– Right-of-use assets	**2,717**	**(394)**	**81**	**2,404**

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefits through the future taxable profits is probable. Management will continue to assess the recognition of deferred income tax assets in future reporting years. The Group did not recognize deferred income tax assets in respect of tax losses amounting to approximately RMB3,707,000 and RMB151,154,000 as at December 31, 2022 and 2021 in certain Group's subsidiaries, which can be carried forward to offset against future taxable income, all of which will expire within 5 years.

29 DEFERRED INCOME TAX *(continued)*

The PRC subsidiaries of the Group have undistributed earnings of approximately RMB825,810,000 and RMB867,635,000 as at December 31, 2022 and 2021 respectively, which, if paid out as dividends, would be subject to tax in the hands of the recipient. Assessable temporary differences exist, but no deferred tax liabilities have been recognized as the parent entity is able to control the timing of distributions of dividends from the PRC subsidiaries and is not expected to distribute these profits in the foreseeable future.

30 BORROWINGS

	As at December 31,	
	2022 **RMB'000**	2021 RMB'000
Current		
Bank borrowings	**–**	64,322
Non-current		
Bank borrowings	**66,276**	–
	66,276	64,322

As at December 31, 2022 and 2021, the Group's bank borrowing was denominated in KRW, and secured by certain property, plant and equipment amounting to RMB89,726,000 and RMB87,442,000, respectively, and investment properties amounting to RMB14,353,000 and RMB14,112,000, respectively, with floating interest rates of 2.76% to 5.23% and 2.14% to 2.76% per annum, respectively. As at December 31, 2021, the bank borrowing was repayable on September 30,2022. Pursuant to extension of loans during the year ended December 31, 2022, the repayment date of the bank borrowing was extended to August 29, 2025.

The repayment terms of the bank borrowings are as follows:

	As at December 31,	
	2022 **RMB'000**	2021 RMB'000
Within 1 year	**–**	64,322
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**66,276**	–
	66,276	64,322

31 TRADE PAYABLES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
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
	RMB'000	RMB'000
Aging		
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.

32 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
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

33 REDEMPTION LIABILITIES

Pursuant to a shareholders' agreement signed on November 16, 2020, certain shareholders of Yuehua Limited were granted preferential rights to require the 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.

The key terms of the preferential rights are summarized below:

- **Liquidation preferences**

  In the event of any liquidation, dissolution or winding up of Yuehua Limited, either voluntarily or involuntarily, certain preferred shareholders shall be entitled to receive the liquidation preference amount, prior and in preference to any distribution of any of the assets or surplus funds of Yuehua Limited to the remaining shareholders. The liquidation preference amount for each preferred shareholders is calculated as follows:

  The liquidation amount = the investment cost of respective preferred shareholders * (1 + 10%)N + all declared but unpaid dividends on such respective preferred shares

  N = The total days from the delivery date to the actual payment date of the settlement/365 days

  After distributing or paying in full the liquidation preference amount to all of the preferred shareholders, the remaining assets of the Company available for distribution to members, if any, shall be distributed to the holders of ordinary shares and the preferred shareholders on a pro rata basis, based on the number of ordinary shares then held by each shareholder on an as converted basis.

  A liquidation event means (i) any liquidation, dissolution or winding up, either voluntarily or involuntarily, of Yuehua Limited and (ii) any transaction involving (a) any sale, disposition, lease or conveyance by Yuehua Limited of all or substantially all of its assets (including the intangible assets that would cast significant influence on Yuehua Limited's operations); or (b) any merger or consolidation of Yuehua Limited with or into any other corporation or corporations or other entity or entities or any other corporate reorganization after which the holders of Yuehua Limited's voting shares prior to such transaction own or control less than a Majority (means more than 50% of votes of each class of shares or more than 50% of votes of the Directors) of the outstanding voting shares of the surviving corporation or other entity on account of shares held by them prior to the transaction; (c) the change of controlling shareholders of Yuehua Limited.

- **Redemption rights**

  The preferred shareholders have the rights to require Yuehua Limited to redeem the shares when the following events happen:

  (1) Yuehua Limited failed to complete qualified IPO on or prior to December 31, 2022, September 30, 2024 or October 31, 2024.

  (2) The controlling shareholder of Yuehua Limited has material integrity issues.

  (3) The controlling shareholder of Yuehua Limited has materially breached the shareholders' agreement signed on November 16, 2020.

  (4) The controlling shareholder of Yuehua Limited has materially breached applicable laws.

  (5) The controlling shareholder of Yuehua Limited hold less than 40% of shareholding of Yuehua Limited.

33 REDEMPTION LIABILITIES *(continued)*

- **Redemption rights** *(continued)*

The respective redemption amounts of the three preferred shareholders are, respectively, (i) higher of RMB150,000,000 or fair value of the shares then held by the preferred shareholders (with the overall valuation of Yuehua Limited and its subsidiaries capped at RMB2,100,000,000); (ii) RMB149,700,000; (iii) investment cost * (1 + higher of Loan Prime Rate at actual payment date of the settlement and Loan Prime Rate at November 16, 2020) * N

N: The total days from the delivery date to the actual payment date of the redemption/365 days

As a result of the aforementioned additional rights, the 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.

Upon the initial recognition of redemption liabilities amounting to approximately RMB567,086,000, the Group recognized a debit of approximately RMB567,086,000 to equity.

The redemption liabilities were subsequently carried at amortized cost and accreted to the redemption amounts as indicated in the shareholders' agreement. The accretion charges were recognized as interest expenses under "Finance costs, net".

Movement of the redemption liabilities is as follows:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	**611,476**	570,995
Interest expenses on redemption liabilities (Note 11)	**3,406**	40,481
Derecognition of redemption liabilities (Note 33)	**(614,882)**	–
At the end of the year	**–**	611,476

The statements of financial position show the following amounts relating to redemption liabilities:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Redemption liabilities		
– Current	**–**	123,274
– Non-current	**–**	488,202
	–	611,476

34 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On January 28, 2022, as part of the Group's Reorganization as detailed in Note 1.2(f) to reflect the onshore shareholding structure, the Company entered into a preferred share subscription agreement with the offshore affiliates of CMC, Quantum Jump and Dongyang Alibaba Pictures pursuant to which 16,500,135 Series A-1 Preferred Shares, 5,489,000 Series A-2 Preferred Shares and 16,500,000 Series A-3 Preferred Shares, respectively, at an issuance price of US$1.36, US$2.65, and US$3.59 per share, was subscribed for a total consideration of US$85,947,297 (approximately RMB544,751,000), which approximated the consideration paid by the Group to these institutional shareholders to acquire the shares (with preferred rights as explained in Note 34) of Yuehua Limited as detailed in Note 1.2 (e) (i) and (ii) and settled the amounts due from these institutional shareholders as part of the Reorganization.

On the same date, the aforementioned Series A-1, A-2 and A-3 Preferred Shares were issued and recognized at their initial fair value of RMB2,484,403,000, while the redemption liabilities with then carrying amount of RMB614,882,000 was derecognized, and the differences amounting to RMB1,869,521,000 was recognized in equity.

The key terms of the convertible preferred shares mirror those preferential rights described in Note 34, including but not limited to liquidation preferences and redemption rights. The additional term is the conversion right of which the key terms are summarised as below:

- **Conversion rights**

  Each Preferred Share may, at the option of the holder there of, be converted at any time after the date of issuance of such Preferred Shares into Ordinary Shares based on the applicable then-effective Conversion Price at an initial conversion ratio of 1:1 subject to: (i) adjustment for subdivision or consolidation of shares; (ii) adjustment for ordinary share dividends and distributions; (iii) adjustments for other dividends; (iv) adjustments for reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions; (v) adjustments for dilutive issuance (issuance of new securities below the conversion price).

  Each Series A-1, A-2 and A-3 Preferred Share shall automatically be converted into Ordinary Share based on the applicable then-effective Series A-1, A-2 and A-3 conversion price for such Series A-1, A-2 and A-3 Preferred Share in effect at the time immediately upon the closing of the IPO.

  The movements of the convertible preferred shares are set out as below:

	As at December 31, 2022 RMB'000
At the beginning of the year	**–**
Issuance of Series A-1, A-2 and A-3 Preferred Shares	**2,484,403**
Fair value changes	**(1,581,992)**
Dividends paid to the holders of Series A-1, A-2 and A-3 Preferred Shares (Note 13)	**(139,369)**
Currency translation differences	**140,806**
At the end of the year	**903,848**

34 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

The statements of financial position show the following amounts relating to convertible preferred shares:

	As at December 31, 2022 RMB'000
Convertible preferred shares	
– Current	**128,884**
– Non-current	**774,964**
	903,848

The current or non-current classification of these convertible preferred shares as at December 31, 2022 were based on the contractual redemption dates as set out in the share subscription agreement entered into between the Group and the shareholders.

The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the Series A-1, A-2, A-3 Preferred Shares. Key assumptions are set as below:

	As at December 31, 2022 RMB'000
Discount rate	**12.50%**
Risk-free interest rate	**4.46%**
Discount for lack of marketability	**2.50%**
Expected volatility	**39.42%**

In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Series A-1, A-2, A-3 Preferred Shares on each appraisal date.

Increasing/decreasing expected volatility by 5% would increase/decrease the fair value of Series A-1, A-2, A-3 Preferred Shares by approximately RMB92,639 and RMB92,662 respectively. Increasing/decreasing discount rate by 1% would decrease/increase the fair value by approximately RMB6,833,688 and RMB8,277,275 respectively.

35 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended December 31,	
	2022 **RMB'000**	2021 RMB'000
Profit before income tax	**1,791,432**	461,039
Adjustments for:		
– Share of losses of investments accounted for using the equity method	**3,062**	6,568
– Depreciation of property, plant and equipment	**6,848**	4,353
– Depreciation of investment properties	**188**	192
– Amortization of intangible assets	**1,907**	1,826
– Depreciation of right-of-use assets	**5,321**	7,251
– Net losses on disposal of right-of-use assets	**(21)**	18
– Net losses/(gains) on disposal of property, plant and equipment	**218**	(41)
– Gain on liquidation of a subsidiary	**–**	(218)
– Gain on disposal of associates	**–**	(2,068)
– Gain on deemed disposal of an associate	**–**	(3,011)
– Fair value (gains)/losses on financial assets at fair value through profit or loss	**(15,665)**	12,765
– Interest income on bank deposits and loans to third parties and a related party	**(6,597)**	(5,215)
– Interest expenses on lease liabilities	**389**	415
– Interest expenses on redemption liabilities	**3,406**	40,481
– Interest expenses on bank borrowings	**2,511**	1,853
– Net impairment losses on financial assets	**7,715**	3,296
– Equity settled share-based payments	**91,113**	2,068
– Fair value changes of convertible preferred shares	**(1,581,992)**	–
Operating cash flows before changes in working capital	**309,835**	531,572
Changes in working capital:		
– Inventories	**(390)**	(24)
– Trade receivables	**(27,996)**	(28,797)
– Deposits, prepayments and other receivables	**(34,989)**	(7,236)
– Contract liabilities	**(77,591)**	37,844
– Trade payables	**(22,785)**	56,892
– Other payables and accruals	**(7,111)**	8,279
– Restricted cash	**(23,900)**	–
Cash generated from operations	**115,073**	598,530

35 CASH FLOW INFORMATION *(continued)*

(b) Non-cash investing and financing activities

There were no material non-cash investing and financing transactions save as those disclosed in Note 35(c) during the years ended December 31, 2022 and 2021.

(c) Reconciliation of liabilities generated from financing activities

	Lease liabilities RMB'000	Bank borrowings RMB'000	Dividend payable RMB'000	Redemption liabilities RMB'000	Convertible preferred shares RMB'000
As at January 1, 2021	10,856	71,964	–	570,995	–
Interest expenses on lease liabilities	415	–	–	–	–
Interest expenses on redemption liabilities	–	–	–	40,481	–
Cash flows					
Payment for lease liabilities – principal and interest	(4,279)	–	–	–	–
Other non-cash movements					
Additions of lease liabilities	5,677	–	–	–	–
Disposal of lease liabilities	(2,050)	–	–	–	–
Currency translation difference	(410)	(7,642)	–	–	–
As at December 31, 2021	10,209	64,322	–	611,476	–
As at January 1, 2022	**10,209**	**64,322**	**–**	**611,476**	**–**
Interest expenses on lease liabilities	**389**	**–**	**–**	**–**	**–**
Interest expenses on redemption liabilities	**–**	**–**	**–**	**3,406**	**–**
Dividend declared	**–**	**–**	**259,951**	**–**	**–**
Cash flows	**–**	**–**	**–**	**–**	**–**
– Dividend paid	**–**	**–**	**(57,898)**	**–**	**(139,369)**
– Payment for lease liabilities-principal and interest	**(6,163)**	**–**	**–**	**–**	**–**
Other non-cash movements	**–**	**–**	**–**	**–**	**–**
– Additions of lease liabilities	**4,780**	**–**	**–**	**–**	**–**
– Disposal of lease liabilities	**(1,216)**	**–**	**–**	**–**	**–**
– Off-setting of dividend payable (Note(i))	**–**	**–**	**(202,053)**	**–**	**–**
– Reorganization- derecognition of redemption liabilities (Note 33)	**–**	**–**	**–**	**(614,882)**	**–**
– Reorganization- issuance of convertible preferred shares (Note 34)	**–**	**–**	**–**	**–**	**2,484,403**
– Fair value changes of convertible preferred shares (Note 34)	**–**	**–**	**–**	**–**	**(1,581,992)**
– Currency translation difference	**96**	**1,954**	**–**	**–**	**140,806**
As at December 31, 2022	**8,095**	**66,276**	**–**	**–**	**903,848**

35 CASH FLOW INFORMATION *(continued)*

(c) Reconciliation of liabilities generated from financing activities *(continued)*

Note(i): During the year ended December 31, 2022, dividend payable of RMB202,053,000 to individual shareholders of the Company were settled through offsetting amounts due from these individual shareholders (which were resulted from the consideration paid by the Group to them to acquire shares of Yuehua Limited as detailed in Note 1.2 (e) (i)), pursuant to certain offsetting agreements among the Group and individual these shareholders.

(d) Cash flows from deemed distribution

Pursuant to the dismantlement of contractual arrangements in respect of Horgos Yuehua and the deemed distribution which were accounted for as an equity transaction (i.e. distribution to owners), as detailed in Note 1.2(g) (i), the assets and liabilities of Horgos Yuehua were derecognised, and the resulting credit of approximately RMB565,000 to total equity and the net cash disposed of approximately RMB15,298,000, being the cash and cash equivalent balances under Horgos Yuehua on the date of deemed distribution, are as follows:

	As at March 4, 2022 RMB'000
Carrying amount of assets/(liabilities) disposed on the date of deemed distribution	
Cash and cash equivalents	15,298
Financial assets at fair value through profit or loss	340
Deposits, prepayments and other receivables	1,426
Investment in an associate	37,236
Trade and other payables and accruals	(52,603)
Contract liabilities	(2,262)
Credit to total equity	(565)
Net cash disposed from deemed distribution	15,298

36 COMMITMENTS

(a) Capital commitments

The Group mainly has capital commitments with respect to property, plant and equipment, intangible assets and investments accounted for using the equity method. Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities were as follows:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Leasehold improvements	**169**	2,687
Investments accounted for using the equity method	**–**	10,000
	169	12,687

37 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The Controlling Shareholder is disclosed in Note 1.2.

Save as disclosed elsewhere in Note 10, major related parties that had transactions with the Group during the years ended December 31, 2022 and 2021 were as follows:

The following companies are related parties of the Group that had balances and/or transactions with the Group.

Name of the related parties	Relationship with the Group
Ms. DU	Controlling Shareholder
Mr. SUN Yiding	Director of Yuehua Limited
Mr. LEE Sang Kyu	Director of a subsidiary of the Group
Ms. YAO Lu	Director of Yuehua Limited to represent CMC
Ms. ZHAO Wenjie	Director of Yuehua Limited to represent Quantum Jump
Mr. MENG Qingguang	Director of Yuehua Limited to represent Dongyang Alibaba Pictures
CMC and its subsidiaries (collectively "**CMC Group**")	CMC as a shareholder of Yuehua Limited with the right to nominate an individual to represent CMC as a director of Yuehua Limited, and CMC's subsidiaries
Quantum Jump's fellow subsidiaries under the common control of the same ultimate shareholder (collectively "**Quantum Jump's fellow subsidiaries**")	Quantum Jump as a shareholder of Yuehua Limited with the right to nominate an individual to represent Quantum Jump as a director of Yuehua Limited, and fellow subsidiaries of Quantum Jump under the common control of the same ultimate shareholder
Alibaba Pictures Group Limited and its subsidiaries, and its fellow subsidiaries under the common control of the same ultimate shareholder (collectively "**APG**")	Dongyang Alibaba Pictures as a shareholder of Yuehua Limited with the right to nominate an individual to represent Dongyang Alibaba Pictures as a director of Yuehua Limited, and Alibaba Pictures Group Limited and its subsidiaries (including Dongyang Alibaba Pictures) and its fellow subsidiaries under the common control of the same ultimate shareholder
Nice Future (Beijing) Culture Communication Co., Ltd. (尼斯未來（北京）文化傳播有限公司) ("**Nice Future**")	A company owned as to 10.0% by Tianjin Yihua, 30.0% by Mr. LIU Jiachao, an independent third party and 60.0% by Mr. DU Jiang, a family member of Ms. Du
Wuyin Digital 北京吾音數字科技有限公司	An associate of the Group owned as to 20.0% by Tianjin Yihua

37 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

In the opinion of the Company's directors, the following related party transactions were carried out at terms negotiated and mutually agreed between the Group and the respective related parties:

(a) Transactions with related parties

		As at December 31,	
		2022	2021
		RMB'000	RMB'000
(i)	Revenue:		
	APG	**49,271**	95,004
	CMC Group	**7,245**	6,883
	Quantum Jump's fellow subsidiaries	**32,850**	63,737
	Wuyin Digital	**164**	–
		89,530	165,624
(ii)	Cost of revenue:		
	APG	**–**	1,486
	Quantum Jump's fellow subsidiaries	**627**	452
		627	1,938
(iii)	Finance income:		
	Nice Future	**41**	53

37 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Trade-nature		
(i) Trade receivables:		
APG	**165**	565
CMC Group	**–**	57
Quantum Jump's fellow subsidiaries	**17,264**	15,770
	17,429	16,392
(ii) Contract liabilities:		
APG	**5,346**	4,463
Quantum Jump's fellow subsidiaries	**71**	–
	5,417	4,463
(iii) Other payables:		
APG	**70**	4,787
Quantum Jump's fellow subsidiaries	**620**	–
	690	4,787
Non-trade nature		
(iv) Loan and interests receivables to a related party:		
Nice Future	**–**	6,861
(v) Amounts due from shareholders:		
Various shareholders (Note 1.2 (e))	**–**	344,600

As of December 31, 2021, loan to Nice Future was unsecured, interest-bearing at China's one-year loan prime rate per annum and repayable in one year. The loan was fully repaid in 2022.

The amounts due from shareholders amounting to approximately RMB344,600,000 were subsequently settled in March 2022 as part of the Group's reorganization. For details, please refer to Note 1.2(e).

37 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management personnel compensation

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and bonuses	**6,428**	7,079
Pension costs – defined contribution plans	**223**	175
Other social security costs, housing benefits and other employee benefits	**331**	393
Equity settled share-based payments	**15,310**	737
	22,292	8,384

38 NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Note	As at December 31, 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary	38(a)	**2,775,929**	2,068
Financial assets at fair value through profit or loss		**17,831**	–
		2,793,760	2,068
Current assets			
Cash and cash equivalents	38(b)	**256,356**	–
Amounts due from shareholders	1.2(e)&26(a)	**–**	46
Amounts due from a subsidiary		**49**	–
Investments measured at amortized cost	38(c)	**87,280**	–
		343,685	46
Total assets		**3,137,445**	2,114
EQUITY			
Share capital	26(a)	**50**	46
Treasury shares	26(a)	**(4)**	–*
Accumulated losses	38(e)	**(3,390,694)**	(35)
Reserves	38(e)	**5,624,215**	2,068
Total equity		**2,233,567**	2,079
LIABILITIES			
Non-current liabilities			
Financial liabilities at fair value through profit or loss	33	**774,964**	–
		774,964	–
Current liabilities			
Financial liabilities at fair value through profit or loss	33	**128,884**	–
Trade payables		**30**	–
Other payables and accruals	38(d)	**–**	35
		128,914	35
Total liabilities		**903,878**	35
Total equity and liabilities		**3,137,445**	2,114

* The balance was rounded to the nearest thousand.

The financial position of the Company was approved for issue by the Board of Directors on March 20, 2023 and were signed on its behalf.

Du Hua	**Zhang Wensheng**
Executive Director	*Chief Financial Officer*

38 NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY *(continued)*

(a) Investment in a subsidiary

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Investment in a subsidiary	**7,342,391**	–
Deemed investments arising from equity settled share-based payments (i)	**93,181**	2,068
Less: allowance for impairment of investment in a subsidiary (ii)	**(4,659,643)**	–
	2,775,929	2,068

(i) The amount represents equity settled share-based payments arising from the grant of restricted share units("**RSUs**") of the Company to eligible individuals of the subsidiaries (Note 39) in exchange for their services provided to these subsidiaries, which were deemed to be investments made by the Company into these subsidiaries pursuant to the accounting policies as set out in Note 2.20.

(ii) As at December 31, 2022, the Company recognized impairment of approximately RMB4,659,643,000 on investment in a subsidiary according to the valuation on the recoverable amount of the investment in a subsidiary. The recoverable amount was determined based on value-in-use calculations which use cash flow projections based on financial budgets.

(b) Cash and cash equivalents

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Cash at bank	**256,356**	–

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
RMB	**241,398**	–
USD	**14,937**	–
HKD	**21**	–
	256,356	–

38 NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY *(continued)*

(c) Investments measured at amortized cost

As at December 31, 2022, the balance primarily represented investments in a debt instrument amounting to approximately RMB87,280,000 as detailed in Note 24.

(d) Other payables

As at December 31, 2022 and 2021, the carrying amounts of other payables approximated their fair values and were denominated in USD.

(e) Reserve movement of the Company

	Accumulated Losses RMB'000	Exchange reserve RMB'000	Share premium and other reserves RMB'000	Share-based compensation reserve RMB'000	Total reserves RMB'000
Balance at January 1, 2021	–	–	–	–	–
Equity settled share-based payments	–	–	–	2,068	2,068
Loss and comprehensive loss for the year	(35)	–	–	–	(35)
Balance at December 31, 2021	(35)	–	–	2,068	2,033
Balance at January 1, 2022	**(35)**	**–**	**–**	**2,068**	**2,033**
Equity settled share-based payments	**–**	**–**	**–**	**91,113**	**91,113**
Loss and comprehensive loss for the year	**(3,390,659)**	**–**	**–**	**–**	**(3,390,659)**
Reorganization – issuance of convertible preferred shares by the Company and recognition of the investment in a subsidiary	**–**	**–**	**5,402,739**	**–**	**5,402,739**
Reorganization – capital contribution from ordinary shareholders	**–**	**–**	**202,053**	**–**	**202,053**
Dividends to the shareholders of the Company	**–**	**–**	**(259,951)**	**–**	**(259,951)**
Currency translation differences	**–**	**186,193**	**–**	**–**	**186,193**
Balance at December 31, 2022	**(3,390,694)**	**186,193**	**5,344,841**	**93,181**	**2,233,521**

39 EQUITY SETTLED SHARE-BASED PAYMENTS

2021 share incentive plan of the Company (the "2021 Share Incentive Plan")

On December 10, 2021, the Company adopted the 2021 Share Incentive Plan, pursuant to which the maximum number of shares in respect of which awards may be granted shall not exceed 5,790,000 shares. On the same day, the board of directors of the Company passed a resolution, pursuant to which an aggregate of 1,542,500 ordinary shares were issued to ARK Trust (Hong Kong) Limited, a trustee for the administration of the 2021 Share Incentive Plan. Meanwhile, the Company granted 1,542,500 RSUs to eligible participants (the "**Grantees**"), representing ordinary shares of par value USD0.0001 each in the share capital of the Company.

On March 4, 2022, the board of directors of the Company passed a resolution, pursuant to which an aggregate of 4,247,500 ordinary shares of the Company were issued to Lightstone Trust (Hong Kong) Limited, a trustee for the administration of the 2021 Share Incentive Plan. On the same day, 3,594,750 RSUs had been granted to the Grantees. On December 20, 2022, 652,750 RSUs had been granted to the Grantees.

The aforementioned RSUs awarded on December 10, 2021, March 4, 2022 and December 20, 2022 are subject to a vesting scale in tranches from the grant date over certain period of employment with the Group or period of service to the Group, on the condition that employees remain employed and suppliers continue to provide services to the Group without any performance requirements. Once the vesting conditions underlying the respective RSUs are met and the RSUs are released, the shares shall be subject to applicable restrictions in the award and any legal restrictions.

Details of RSUs are as follows:

Grant date	Number of RSUs	Vesting condition
December 10, 2021	1,542,500	25% are to be vested 6 months from the Listing Date 25% are to be vested 18 months from the Listing Date 25% are to be vested 30 months from the Listing Date 25% are to be vested 42 months from the Listing Date
March 4, 2022	3,594,750	25% are to be vested 6 months from the Listing Date 25% are to be vested 18 months from the Listing Date 25% are to be vested 30 months from the Listing Date 25% are to be vested 42 months from the Listing Date
December 20, 2022	652,750	25% are to be vested 6 months from the Listing Date 25% are to be vested 18 months from the Listing Date 25% are to be vested 30 months from the Listing Date 25% are to be vested 42 months from the Listing Date

39 EQUITY SETTLED SHARE-BASED PAYMENTS *(continued)*

2021 share incentive plan of the Company (the "2021 Share Incentive Plan") *(continued)*

The exercise price is HKD0.1 per share and will be paid by the Grantees upon the vesting and settlement of each of the RSUs.

The share-based compensation expenses recognized during the years ended December 31, 2022 and 2021 were summarized in the following table:

	Year ended December 31,	
	2022 **RMB'000**	2021 RMB'000
Share-based compensation expenses for eligible individuals	**91,113**	2,068

Expected retention rate

The Group has to estimate the expected percentage of Grantees that will stay within the Group at the end of the vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As at December 31, 2022 and 2021, the Expected Retention Rate was assessed to be close to 100%.

Movements in the number of RSUs granted and the respective weighted average grant date fair value per RSU are as follows:

	Number of RSUs	**Weighted average grant date fair value per RSU** (RMB)
As at December 1, 2021	–	–
Granted on December 10, 2021	1,542,500	49.72
Vested during the period	–	–
Outstanding as at December 31, 2021	1,542,500	49.72
As at January 1, 2022	**1,542,500**	**49.72**
Granted on March 4, 2022	**3,594,750**	**50.18**
Granted on December 20, 2022	**652,750**	**21.73**
Vested during the year	**–**	**–**
Outstanding as at December 31, 2022	**5,790,000**	**46.85**

39 EQUITY SETTLED SHARE-BASED PAYMENTS *(continued)*

2021 share incentive plan of the Company (the "2021 Share Incentive Plan") *(continued)*

The Group applied the discounted cash flow method to determine the underlying equity value of the Company on the date of grant. The fair value of each RSU at the grant date is determined with reference to the fair value of the underlying ordinary shares on the date of grant. Key assumptions are set as below:

	As at December 10, 2021 RMB'000	As at March 4, 2022 RMB'000	As at December 20, 2022 RMB'000
Discount rate	12.00%	12.00%	12.50%
Discount for lack of control	25.10%	24.00%	24.00%

In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of RSUs on the grant date.

40 SUBSIDIARIES

The Company's major subsidiaries as at December 31, 2022 and 2021 are set out below. Unless otherwise stated, they have capital consisting solely of ordinary shares that are held directly by the Group. The place of establishment/incorporation is also their principal place of business.

Name of subsidiary	Place and date of incorporation/ establishment and nature of legal entity	Principal activities and place of operation	Issued and paid in capital/ registered capital	Effective interest held by the Group December 31, 2022	2021
Yuehua BVI	The BVI; June 22, 2021; limited liability company	Investment holding; The BVI	–/USD 1	**100.00%**	100.00%
Yuehua HK	Hong Kong; July 6, 2021; limited liability company	Investment holding; Hong Kong	–/HKD10,000	**100.00%**	100.00%
Yuehua Investment (天津樂華投資有限公司)	The PRC; September 24, 2021; wholly foreign owned enterprise	Investment holding; The PRC	–/RMB200,000,000	**100.00%**	100.00%
YUE HUA HONG KONG ENTERTAINMENT COMPANY LIMITED (樂華娛樂香港有限公司)	Hong Kong; January 13, 2015; limited liability company	Pan-entertainment business; Hong Kong	USD77,352/ USD77,352	**100.00%**	100.00%
Yuehua Limited	The PRC; July 3, 2009; limited liability company	Artist management, music IP production and operation and pan-entertainment business; The PRC	RMB110,000,000/ RMB110,000,000	**100.00%**	100.00%
Tianjin Yuehua Music Culture Communication Co., Ltd. (天津樂華音樂文化傳播有限公司)	The PRC; August 1, 2011; limited liability company	Artist management, music IP production and operation and pan-entertainment business; The PRC	RMB10,000,000/ RMB10,000,000	**100.00%**	100.00%
Tibet Yuehua Culture Communication Co., Ltd. (西藏樂華文化傳播有限公司)	The PRC; December 25, 2011; limited liability company	Artist management, music IP production and operation and pan-entertainment business; The PRC	RMB10,000,000/ RMB10,000,000	**100.00%**	100.00%
Horgos Yuehua (霍爾果斯樂華影業有限公司) (Note 1.2(g))	The PRC; January 6, 2016; limited liability company	Investment and production in movies and TV shows; The PRC	RMB80,000,000/ RMB80,000,000	**–**	100.00%
Tianjin Yihua Management Consulting Co., Ltd. ("**Tianjin Yihua**") (天津壹華管理諮詢有限責任公司)	The PRC; February 22, 2019; limited liability company	Investment holding; The PRC	RMB30,000,000/ RMB30,000,000	**100.00%**	100.00%
Tianjin Chufa Culture Technology Co., Ltd. (天津觸發文化科技有限公司)	The PRC; April 17, 2014; limited liability company	Pan-entertainment business; The PRC	RMB1,000,000/ RMB1,000,000	**100.00%**	90.00%
Yuehua Entertainment Korea Co., Ltd. (韓國樂華娛樂股份有限公司)	Korea; August 28, 2014; limited liability company	Training center for artist management; The PRC	KRW5,875,000,000/ KRW5,875,000,000	**85.00%**	85.00%

41 CONTINGENT LIABILITIES

The Group had no material contingent liabilities outstanding as at December 31, 2022 and 2021.

42 SUBSEQUENT EVENTS

(a) On January 19, 2023, the Company was listed on the Main Board of Stock Exchange and received net proceeds from the global offering in the amount of approximately HKD398.4 million after deducting underwriting commissions and all related expenses. Upon the Listing of the Company on January 19, 2023, the convertible preferred shares disclosed in Note 34 was mandatorily and automatically converted to 38,489,135 shares of the Company at the final offer price of HKD4.08 per share. Moreover, in connection with the listing, the Company issued a total of 634,210,000 shares, among which 391,689,135 shares and 210,810,865 shares are attributable to ordinary shareholders and holders of convertible preferred shares respectively, by capitalising the relevant sum standing to the credit of the share premium account of the Company.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of our Group for the last four financial years, is set out below:

	For the year ended December 31,			
	2022	2021	2020	2019
	(RMB in thousands, except for percentages)			
Revenues	**980,254**	**1,290,449**	**922,042**	**631,436**
Cost of revenue	**(617,168)**	(688,490)	(429,060)	(351,932)
Gross profit	**363,086**	**601,959**	**492,982**	**279,504**
Selling and marketing expenses	**(37,611)**	(34,523)	(30,823)	(23,359)
General and administrative expenses	**(119,494)**	(71,530)	(44,081)	(39,406)
Net impairment losses on financial assets	**(7,715)**	(3,296)	(8,954)	(1,374)
Other income	**3,901**	18,420	7,303	3,778
Other (losses)/gains, net	**10,044**	(5,889)	(18,522)	(39,996)
Operating profit	**212,211**	**505,141**	**397,905**	**179,147**
Finance income	**6,597**	5,215	3,693	1,222
Finance costs	**(6,306)**	(42,749)	(6,366)	(1,921)
Finance costs, net	**291**	(37,534)	(2,673)	(699)
Share of losses of investments accounted for using the equity method	**(3,062)**	(6,568)	(2,697)	(9,217)
Fair value changes of convertible preferred shares	**1,581,992**	–	–	–
Profit before income tax	**1,791,432**	**461,039**	**392,535**	**169,231**
Income tax expense	**(66,247)**	(125,707)	(100,589)	(49,898)
Profit for the year	**1,725,185**	**335,332**	**291,946**	**119,333**
Profit attributable to:				
Owners of our Company	**1,724,470**	336,684	291,370	119,023
Non-controlling interests	**715**	(1,352)	576	310
	1,725,185	335,332	291,946	119,333
Non-IFRS measures*:				
Adjusted net profit	**266,553**	**394,571**	**295,855**	**119,333**
Adjusted net profit margin	**27.2%**	**30.6%**	**32.1%**	**18.9%**

* We define adjusted net profit (a non-IFRS measure) as net profit for the period 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 is not a measure required by, or presented in accordance with, the IFRS.

	As at December 31,			
Assets, Liabilities and Equity/(deficit)	**2022**	2021	2020	2019
	(RMB in thousands)			
Total assets	**1,322,271**	1,678,897	1,175,178	961,180
Total liabilities	**1,439,124**	1,359,339	1,188,637	506,149
Total equity/(deficit)	**(116,853)**	319,558	(13,459)	455,031

DEFINITIONS AND GLOSSARIES

"AGM"	the annual general meeting of the Company
"Articles of Association"	the articles of association of the Company adopted on December 26, 2022, which became effective on the Listing Date and as amended from time to time
"Audit Committee"	The audit committee of the Board
"Board" or "Board of Directors"	The board of Directors of the Company
"Capitalization Issue"	the issue of 634,210,000 Shares upon the capitalization of the relevant sum standing to the credit of the share premium account of the Company, details of which are set out in "Appendix V – Statutory and General Information – A. Further Information of our Group – 3. Resolutions of our Shareholders" in the Prospectus
"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 report and for geographical reference only and except where the context requires otherwise, references herein to "China," "mainland China" and the "PRC" do not apply to Hong Kong, Macau Special Administrative Regions and Taiwan
"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)
"Hainan Yuehua"	Hainan YueHua Culture Communication Co., Ltd. (海南樂華文化傳播有限公司), a limited liability company established in the PRC on April 30, 2021 and a wholly-owned subsidiary of Yuehua Limited
"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
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board

"Independent Third Party(ies)"	party or parties that, to the best of our Directors' knowledge, information and belief, is or are not a connected person(s) of our Company within the meaning of the Listing Rules
"Korea"	the Republic of Korea
"KRW"	Korean Republic won, the lawful currency of Korea
"Latest Practicable Date"	April 14, 2023, being the latest practicable date prior to the publication of this annual report for ascertaining certain information contained herein
"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
"Nomination Committee"	The nomination committee of the Board
"Over-allotment Option"	has the meaning ascribed to it in the Prospectus
"Prospectus"	the prospectus of the Company published on December 30, 2022
"Remuneration Committee"	The remuneration committee of the Board
"Reporting Period"	the twelve-month period from January 1, 2022 to December 31, 2022
"RMB" or "Renminbi"	the lawful currency of the PRC
"RSU(s)"	a restricted share unit award to be granted to a participant under the Share Incentive Plan
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"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 adopted by our Company on December 10, 2021
"Tianjin Chufa"	Tianjin ChuFa Culture Technology Co., Ltd. (天津觸發文化科技有限公司) (formerly known as Shanghai Chufa Culture Technology Co., Ltd. (上海觸發文化科技有限公司) and Shanghai Chufa Culture Communication Co., Ltd. (上海觸發文化傳播有限公司)), a limited company established in the PRC on April 17, 2014 and a wholly-owned subsidiary of Yuehua Limited

"Tianjin Yihua"	Tianjin Yihua Management Consulting Co., Ltd. (天津壹華管理諮詢有限責任公司), a limited company established in the PRC on February 22, 2019 and a wholly-owned subsidiary of Yuehua Limited
"Tianjin Yuehua"	Tianjin Yuehua Music and Culture Communication Co., Ltd. (天津樂華音樂文化傳播有限公司), a limited liability company established in the PRC on August 1, 2011 and a wholly-owned subsidiary of Yuehua Limited
"Tibet Yuehua"	Tibet Yuehua Culture Communication Co., Ltd. (西藏樂華文化傳播有限公司), a limited company established in the PRC on December 25, 2011 and a wholly-owned subsidiary of Yuehua Limited
"US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"YUE HUA HONG KONG"	YUE HUA HONG KONG ENTERTAINMENT COMPANY LIMITED (樂華娛樂香港有限公司), a limited company established in Hong Kong on January 13, 2015 and a wholly-owned subsidiary of Yuehua Limited
"Yuehua HK"	YH Entertainment Group (HK) Limited, a limited company established in Hong Kong on July 6, 2021 and an indirect wholly-owned subsidiary of our Company in Hong Kong
"Yuehua Investment"	Tianjin Yuehua Investment Co., Ltd. (天津樂華投資有限公司), a limited liability company established in the PRC on September 24, 2021 and an indirect wholly-owned subsidiary of our Company in the PRC
"Yuehua Korea"	Yuehua Entertainment Korea Co., Ltd., a company incorporated in the Republic of Korea on August 28, 2014 and a non-wholly owned subsidiary of Yuehua Limited
"Yuehua Limited"	YueHua Entertainment Co., Ltd. (北京樂華圓娛文化傳播有限公司), a limited liability company established in the PRC on July 3, 2009 and a non-wholly owned subsidiary of Yuehua Investment
"%"	percentage