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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Strawbear Entertainment Group**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Strawbear Entertainment Group 稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2125)

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

ANGLO CHINESE
CORPORATE FINANCE, LIMITED 英高

A letter from the Board is set out on pages 6 to 17 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 47 of this circular.

A notice convening the EGM of **Strawbear Entertainment Group** to be held at Building A2, SHANG 8 Design and Creative Industry Park, Chaoyang District, Beijing, China on Tuesday, December 24, 2024 at 11 a.m. is set out on pages 55 to 56 of this circular.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.strawbearentertainment.com), respectively. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours (i.e. 11 a.m. on Sunday, December 22, 2024) before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

December 3, 2024

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“2025 Copyright Licensing Framework Agreement”	the copyright licensing framework agreement to be entered into between the Company and iQIYI in relation to the licensing of copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audiovisual Works”	refers to audiovisual works as specified in the Copyright Law of the PRC
“Board”	the board of Directors of the Company
“Certain Online Video Platforms”	the leading online video platforms which published data of licensing fees for revenue-sharing drama series and films broadcasted on these platforms
“close associate”	has the meaning ascribed thereto under the Listing Rules
“Company”	Strawbear Entertainment Group (稻草熊娱乐集团), an exempted company with limited liability incorporated under the laws of Cayman Islands on January 3, 2018, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2125)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“consolidated affiliated entities”	the entities the Company controls through the Contractual Arrangements, namely Jiangsu Strawbear and its subsidiaries, further details of which are set out in “Contractual Arrangements” in the Prospectus

DEFINITIONS

“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), Jiangsu Strawbear and its registered shareholders, details of which are described in “Contractual Arrangements” in the Prospectus
“Director(s)”	the director(s) of the Company
“drama series”	refers to the content produced for broadcast via TV channels or the internet, which is usually released in episodes that follow a narrative, consisting of TV series, web series and micro-drama series
“EGM”	the extraordinary general meeting of the Company to be held at Building A2, SHANG 8 Design and Creative Industry Park, Chaoyang District, Beijing, China on Tuesday, December 24, 2024 at 11 a.m., to consider and, if appropriate, to approve the resolution contained in the notice of the EGM set out on pages 55 to 56 of this circular or any adjournment thereof (as the case may be)
“Existing Copyright Licensing Framework Agreement”	the copyright licensing framework agreement entered into between the Company and iQIYI on January 19, 2022 in relation to the licensing of copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI
“Group”	the Company, its subsidiaries and consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun, to advise the Independent Shareholders in respect of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap)

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“Independent Financial Adviser” or “Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap)
“Independent Shareholders”	the Shareholders (other than iQIYI and its associates) who are not required to abstain from voting on the resolution to be proposed at the EGM in relation to the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap)
“iQIYI”	iQIYI, Inc. (stock code: IQ. NASDAQ) and its subsidiaries and consolidated affiliated entities, one of the largest Chinese online video platforms listed in the U.S.
“Jiangsu Strawbear”	Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), a limited liability company established in the PRC on June 13, 2014 and indirectly controlled by the Company through the Contractual Arrangements
“Latest Practicable Date”	November 29, 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on January 15, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“micro-drama series”	a series of episodes, each lasting no more than 20 minutes, with relatively clear themes and main storylines, as well as continuous and complete plots
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Taiwan and the Macao Special Administrative Region of the People’s Republic of China
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by the Company on May 11, 2020, the principal terms of which are summarized in “Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme” in the Prospectus
“Pre-IPO Share Options”	the share options granted under the Pre-IPO Share Option Scheme
“Proposed Annual Cap”	the proposed annual cap for the transactions contemplated under the 2025 Copyright Licensing Framework Agreement for the year ending December 31, 2025
“Prospectus”	the prospectus of the Company published on December 31, 2020
“PVOD”	premium video on demand, i.e. a pay-per-view model where users can pay a one-time fee to access exclusive video content
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance of Hong Kong, (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of US\$0.000025 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“SVOD”	subscription video on demand, i.e. a subscription-based model where users are charged a monthly or yearly subscription fee for unlimited access to a library of video content
“TV series”	a series of scripted episodes that needs to obtain a distribution license from the National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局), which are broadcast on TV channels and/or new media channels such as online video platforms
“US\$”	United States dollars, the lawful currency for the time being of the United States
“VOD”	video on demand, i.e. the video content users choose to watch, where the timing of accessing the video content is not pre-determined, but rather is at the users’ discretion
“Voting Arrangement Agreements”	the agreement and supplemental agreement thereof dated November 1, 2018 entered into by, among others, Mr. Liu Xiaofeng, Ms. Liu Shishi, Ms. Zhai Fang, Ms. Zhao Liying, Ms. Zhang Qiuchen and their respective wholly-owned holding companies (where applicable) regarding certain arrangements for the voting rights in the members of the Group, details of which are set out in “History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements” in the Prospectus
“web series”	a series of scripted episodes which can only be broadcast on new media channels such as online video platforms
“%”	per cent

LETTER FROM THE BOARD



Strawbear Entertainment Group 稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2125)

Executive Directors:

Mr. Liu Xiaofeng (*Chairman*)

Ms. Zhai Fang

Non-executive Directors:

Mr. Wang Xiaohui

Ms. Liu Fan

Independent non-executive Directors:

Mr. Ma Zhongjun

Mr. Zhang Senquan

Mr. Chung Chong Sun

Registered office:

Harneys Fiduciary (Cayman) Limited

4th Floor, Harbour Place

103 South Church Street

P.O. Box 10240

Grand Cayman, KY1-1002

Cayman Islands

Principal place of business in Hong Kong:

40/F, Dah Sing Financial Centre

248 Queen's Road East

Wanchai

Hong Kong

December 3, 2024

To the Shareholders

Dear Sir or Madam,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

References are made to the announcement of the Company dated December 2, 2021 and the circular of the Company dated January 4, 2022, in relation to, among other things, the Existing Copyright Licensing Framework Agreement entered into between the Company and iQIYI on January 19, 2022.

Reference is also made to the announcement of the Company dated November 11, 2024 in relation to the proposed renewal of continuing connected transaction.

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The purpose of this circular is to provide you with information in respect of the resolution to be proposed at the EGM including, among other matters, (i) the proposed renewal of the continuing connected transaction; and (ii) to give you notice of the EGM at which resolution will be proposed for the Shareholders to consider and, if thought fit, approve the aforesaid matter.

A notice convening the EGM is set out on pages 55 to 56 of this circular.

2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION

Considering that (i) the term of the Existing Copyright Licensing Framework Agreement will expire on December 31, 2024; and (ii) the Group will continue to license the copyrights of its self-owned or licensed-in Audiovisual Works to iQIYI, the Company proposed to enter into the 2025 Copyright Licensing Framework Agreement with iQIYI upon approval by the Independent Shareholders at the EGM, pursuant to which, the Group shall license the copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI for a term commencing from January 1, 2025 to December 31, 2025.

2025 Copyright Licensing Framework Agreement

Principal terms of the 2025 Copyright Licensing Framework Agreement are set out as follows:

- Parties:**
- (1) the Company (for itself and on behalf of the Group); and
 - (2) iQIYI (for itself and on behalf of its subsidiaries and consolidated affiliated entities)
- Term:** Subject to the approval by the Independent Shareholders at the EGM, the term of 2025 Copyright Licensing Framework Agreement will commence from January 1, 2025 to December 31, 2025
- Subject matter:** Pursuant to the 2025 Copyright Licensing Framework Agreement, the Group shall license the copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI, and iQIYI shall pay licensing fees to the Group.

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Separate implementation agreements will be entered into between the parties to set out the detailed terms, including details of the Audiovisual Works, term of license, scope of license, broadcasting schedule, licensing fee and payment schedules, based on the principles and within the parameters provided under the 2025 Copyright Licensing Framework Agreement. The definitive terms of each of such implementation agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Payment and settlement terms: Payment and settlement terms under the 2025 Copyright Licensing Framework Agreement shall be specified in each of the implementation agreements to be entered into between the parties under the 2025 Copyright Licensing Framework Agreement.

Pricing Basis for Copyright Licensing

The licensing fees payable by iQIYI to the Group under the 2025 Copyright Licensing Framework Agreement will be determined based on one or more of the following manners, after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the genre, nature, popularity, quantity, quality and commercial potential of the Audiovisual Works:

- (a) the Group may charge iQIYI fixed licensing fees, which shall be determined based on the below formula:

$$\text{Fixed licensing fees} + \text{other licensing fees (if any)} = \text{total investment amount}^1 \times (1 + \text{target profit margin}^2)$$

Notes:

1. the total investment amount refers to the production, distribution and/or licensed-in copyright purchasing costs of the relevant Audiovisual Works; and
2. the target profit margin is determined with reference to the prevailing market price and various commercial factors, including the genre, the scope of license and exclusivity, type of licensing (exclusive licensing or joint licensing), the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot, if applicable) and the expected popularity of the relevant Audiovisual Works. The management of the Group expects the target profit margin to be not less than 20%, which is estimated based on the average historical profit margin of the drama series that the Group charged iQIYI fixed licensing fees for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024 and the management's judgement on future business environment.

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(b) iQIYI may also share its revenue/income generated from the Audiovisual Works with the Group:

(i) in respect of the films, the licensing fees chargeable by the Group include one of the followings:

(1) for films under SVOD model, revenue/income from SVOD to be shared by the Group = $B1 \times B2$

Where, "B1" denotes effective VOD play time of users of iQIYI's platforms, which represents the time that users continuously watch a paid film for more than 6 minutes; "B2" denotes unit price per VOD.

Unit price per VOD is expected to range from RMB1 per VOD to RMB3 per VOD, which shall be determined after arm's length negotiation between the parties with reference to the estimated rating of the film, the type of licensing (exclusive licensing or joint licensing) and the corresponding effective play time per film.

(2) for films under PVOD model, revenue/income from PVOD to be shared by the Group = $C1 \times C2$

Where, "C1" denotes box office income during the PVOD period, which represents the total income generated from the on demand broadcast of the content, net of channel fees by members and other users of iQIYI's platforms during the effective PVOD period; and "C2" denotes prescribed payment sharing percentage.

The effective PVOD period shall be determined after arm's length negotiation between the parties with reference to the estimated rating of the film and the broadcasting effect of other films of similar rating.

Prescribed payment sharing percentage is expected to range from 35% to 90%, which shall be determined after arm's length negotiation between the parties with reference to expected genre, rating and broadcasting effect of the films.

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The PVOD model is mainly different from the SVOD model in two ways: (i) in terms of content accessibility, under the SVOD model, users can access a wide range of films, while under the PVOD model, users can only access exclusive premium films; and (ii) in terms of payment, under the SVOD model, users are charged a fixed fee regardless of how many films are viewed, while under the PVOD model, users pay one-time fee for an individual film. Whether a film will adopt the SVOD model or the PVOD model will be determined after arm's length negotiation between the parties taking into account the rating of the film.

- (ii) the Group and iQIYI may also explore in the future to share other revenue/income generated from copyright operation (including but not limited to advertising opportunity offering, derivative products and sublicensing) of iQIYI at certain sharing rate. Such sharing rate is expected to range from 10% to 50%, which shall be determined after arm's length negotiation between the parties with reference to the type of such revenue/income and other commercial factors.

To sum up, the licensing fees chargeable by the Group for drama series include one of or mix of paragraphs (a) and (b) (ii) above, and the licensing fees chargeable by the Group for films include one of or mix of paragraphs (a), (b) (i) and (b) (ii) above. For each of the drama series and films, the pricing policies will be determined after arm's length negotiation between the parties with reference to various factors, including the genres, main creators and expected popularity of the drama series or film. In addition, the sharing of revenue/income generated from copyright operation of iQIYI as set out in paragraph b(ii) above is a potential new arrangement, which will depend on the commercial development model of the drama series and films in the future. In any event, the pricing policies offered by iQIYI are no less favorable to the Group than those available from independent third parties for comparable transactions.

Before entering into any implementation agreement pursuant to the 2025 Copyright Licensing Framework Agreement, the Company will assess its business needs and compare the licensing fees proposed by iQIYI with the licensing fees offered by at least two other comparable independent platform operators in the film and drama series distribution industry. If no comparable independent third party is available, the business department is required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The Group will only enter into an implementation agreement with iQIYI when the agreement is in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, the aggregate licensing fees paid and/or payable by iQIYI to the Group under the Existing Copyright Licensing Framework Agreement are approximately RMB249.6 million, RMB321.5 million and RMB886.0 million, respectively.

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Annual Cap and Basis of Determination of Annual Cap

The proposed annual cap for the licensing fees payable by iQIYI to the Group under the 2025 Copyright Licensing Framework Agreement for the year ending December 31, 2025 is set out below:

**For the year ending
December 31, 2025**
(RMB in thousands)

Aggregate amounts of licensing fees payable by iQIYI to the Group	1,260,000
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The proposed annual cap for the licensing fees payable by iQIYI to the Group under the 2025 Copyright Licensing Framework Agreement for the year ending December 31, 2025 was determined with reference to:

- (a) the historical amounts of the fees paid and/or payable by iQIYI to the Group under the Existing Copyright Licensing Framework Agreement for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024;
- (b) in respect of the drama series, the estimated amount of fixed licensing fees payable by iQIYI to the Group for the year ending December 31, 2025 is estimated based on:
 - (i) the contract amount under the existing drama series copyrights licensing agreements the Group has entered into with iQIYI;
 - (ii) the number of drama series copyrights licensing projects to be conducted with iQIYI in 2025, which is estimated to be approximately 11;
 - (iii) the estimated licensing fees charged per drama series, ranging from RMB1.8 million to RMB239.4 million per drama series, which is estimated based on the expected genre, rating, commercial potential and investment costs of the drama series;
- (c) in respect of the films, the estimated amount of licensing fees payable by iQIYI to the Group for the year ending December 31, 2025 is estimated based on:
 - (i) the number of film copyrights licensing projects to be conducted with iQIYI in 2025, which is estimated to be approximately three;
 - (ii) the estimated licensing fees charged per film, ranging from RMB10.4 million to RMB20.0 million, which is estimated based on the expected genre, rating, commercial potential and investment costs of the films and the public data of historical revenue/income sharing statistics of

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premium films. According to publicly available data published by Certain Online Video Platforms, the licensing fees for the top ten box office films broadcasted on these platforms for the ten months ended October 31, 2024 with similar themes to the film copyrights licensing projects to be licensed by the Group in the coming year range from approximately RMB10.8 million to approximately RMB20.1 million per film; and

- (d) the following factors were also taken into consideration when determining the annual cap:
 - (i) the limited number of platform operators in the film and drama series distribution industry; and
 - (ii) an additional buffer of 10%, so as to avoid adverse restrictions on future business operations of the Group. Taking into account (i) the potential increase in production costs in the production process, (ii) the possibility of increase in number of episodes and grading of Audiovisual Works, and (iii) the buffer of 10% is not a material portion of the annual cap under the 2025 Copyright Licensing Framework Agreement, the Board is of the view that an additional buffer of 10% is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Reasons for and Benefits of Entering into the 2025 Copyright Licensing Framework Agreement

The Group commenced producing its Audiovisual Works and licensing the related copyrights of the self-owned and licensed-in Audiovisual Works to major TV channels and/or online video platforms, which are limited in number, since its inception. iQIYI is a leading provider of online entertainment video services in China. It produces, aggregates and distributes a wide variety of professionally produced content, as well as a broad spectrum of other video content in a variety of formats. As such, the copyrights licensing arrangements under the 2025 Copyright Licensing Framework Agreement are in the ordinary and usual course of the business of the Group. In addition, entering into the 2025 Copyright Licensing Framework Agreement is in line with the evolved business model of the Group and the expanded business cooperation with iQIYI.

iQIYI has a massive demand for high-quality content generated by professional producers like the Group. By entering into the 2025 Copyright Licensing Framework Agreement, the Group can enhance its distribution network and maintain business relationship with iQIYI, which has been a major player in content distribution market. The prices and terms offered by the Group to iQIYI are not less favorable to the Group than those the Group offered to other customers which are independent third parties. Therefore, the copyrights licensing arrangements under the 2025 Copyright Licensing Framework Agreement are profitable and are in the interests of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

Internal Control

In order to ensure that the transactions contemplated under the 2025 Copyright Licensing Framework Agreement and implementation agreements are conducted on normal commercial terms or no less favorable than terms applicable to independent third parties, and comply with the annual cap and pricing policies under the 2025 Copyright Licensing Framework Agreement, the Company has adopted the following internal control procedures:

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments (including securities investment and financing department, finance department and business departments) of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the 2025 Copyright Licensing Framework Agreement and implementation agreements are on normal commercial terms, fair and reasonable and in the interests of the Group and its Shareholders as a whole, in particular, the fairness of the pricing policies under each agreement. The management of the Company also reviews the pricing policies of the 2025 Copyright Licensing Framework Agreement annually;
- (b) Various other internal departments (including securities investment and financing department, finance department and business departments) of the Company monitor the implementation of the 2025 Copyright Licensing Framework Agreement from time to time. In particular, the finance department and the securities investment and financing department will review the transaction amounts of the continuing connected transactions contemplated under the 2025 Copyright Licensing Framework Agreement every two weeks to ensure that the annual cap under the 2025 Copyright Licensing Framework Agreement are complied with, and that any implementation agreement under the 2025 Copyright Licensing Framework Agreement shall be entered into by the Company with the prior approval of the finance department. If the actual transaction amount reaches 80% of the annual cap under the 2025 Copyright Licensing Framework Agreement, the finance department and the securities investment and financing department shall inform the management of the Company, and the management of the Company will then report to the Board as soon as possible. The Board will consider the measures to be taken to ensure compliance with the requirements of the Listing Rules, including but not limited to, publishing announcement for an increased annual cap amount and seeking approval from Independent Shareholders (if required);

LETTER FROM THE BOARD

- (c) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the 2025 Copyright Licensing Framework Agreement and provide annual confirmation to ensure that the transactions are conducted in accordance with the terms of the 2025 Copyright Licensing Framework Agreement (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 of the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the 2025 Copyright Licensing Framework Agreement, the Company will then comply with the Listing Rules as applicable; and
- (d) when considering the pricing and terms offered by iQIYI under the implementation agreements of the 2025 Copyright Licensing Framework Agreement, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and independent third parties for similar transactions before entering into any implementation agreement, to make sure that the pricing and terms offered by iQIYI after arm's length negotiations, are no less favorable than those offered by independent third parties.

General Information

Information on the Group

The Group is a major drama series producer and distributor in the PRC, and principally engages in the investment, development, production and distribution of TV series and web series.

Information on iQIYI

iQIYI is a leading provider of online entertainment video services in China, the shares of which are listed on the Nasdaq Global Select Market with stock code IQ.NASDAQ. It produces, aggregates and distributes a wide variety of professionally produced content, as well as a broad spectrum of other video content in a variety of formats.

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Listing Rules Implications

iQIYI is the holding company of Taurus Holding Ltd., a substantial Shareholder of the Company, and hence an associate of Taurus Holding Ltd. Accordingly, iQIYI is a connected person of the Company under the Listing Rules, and the transactions contemplated under the 2025 Copyright Licensing Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual cap for the transactions contemplated under the 2025 Copyright Licensing Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Opinions of the Board

The Directors (excluding the independent non-executive Directors whose view have been included in the section headed "Letter from the Independent Board Committee" of this circular) are of the view that the transactions contemplated under the 2025 Copyright Licensing Framework Agreement will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual cap for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the best interests of the Company and its Shareholders as a whole.

The Independent Board Committee, comprising Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun, all being the independent non-executive Directors, had been formed to advise the Independent Shareholders in respect of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap) and whose views and recommendation have been included in the section headed "Letter from the Independent Board Committee" of this circular. Anglo Chinese has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The letter from the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 47 of this circular.

Since Mr. Wang Xiaohui and Ms. Liu Fan, each being a Director, also hold office in iQIYI, they have therefore abstained from voting on the relevant Board resolution approving the 2025 Copyright Licensing Framework Agreement. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the 2025 Copyright Licensing Framework Agreement and is required to abstain from voting on the relevant Board resolution.

LETTER FROM THE BOARD

3. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, December 19, 2024 to Tuesday, December 24, 2024, both days inclusive. During such period, no transfer of Shares of the Company will be registered. The record date for determining the eligibility to attend and vote at the EGM will be Tuesday, December 24, 2024. In order to be eligible for attending the EGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, December 18, 2024.

4. EXTRAORDINARY GENERAL MEETING

Set out on pages 55 to 56 of this circular is a notice convening the EGM to consider and, if appropriate, to approve, among others, the ordinary resolution relating to the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder.

Enclosed with this circular is a proxy form for use at the EGM. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.strawbearentertainment.com), respectively. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours (i.e. 11 a.m. on Sunday, December 22, 2024) before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

5. VOTES TAKEN BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to procedural or administrative matter to be voted by a show of hands. Accordingly, each of the resolution put to vote at the EGM will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or in the case of a Shareholder being a corporation, by its duly authorised representative, shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote needs not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

LETTER FROM THE BOARD

Pursuant to the Listing Rules, Taurus Holding Ltd., being an associate of iQIYI, is required to abstain from voting on the resolution to be proposed at the EGM in relation to the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder. As of the Latest Practicable Date, Taurus Holding Ltd. and its associates are interested in 97,320,000 Shares, representing approximately 13.78% of the Shares in issue of the Company. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, save as disclosed above, no other Shareholder is required under the Listing Rules to abstain from voting on the aforementioned resolution.

6. RECOMMENDATION

The Board considers that the ordinary resolution in relation to the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder to be proposed at the EGM are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of such resolution at the EGM.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder will be conducted in the ordinary and usual course of the business of the Group and on normal commercial terms, and the terms and conditions therein as well as the Proposed Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary resolution to be proposed at the EGM.

Yours faithfully
By order of the Board
Strawbear Entertainment Group
Mr. Liu Xiaofeng
Chairman



Strawbear Entertainment Group
稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2125)

December 3, 2024

To the Independent Shareholders

Dear Sir/Madam,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated December 3, 2024 (the “Circular”) to its Shareholders of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual cap for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; and to advise the Independent Shareholders on how to vote on the relevant resolution, after taking into account the recommendations from the Independent Financial Adviser.

Anglo Chinese has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual cap for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; and to advise the Independent Board Committee and the Independent Shareholders on how to vote on the relevant resolution.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to:

- (a) the letter from the Board set out on pages 6 to 17 of this circular which contains its recommendation to the Independent Shareholders and the additional information set out in the Appendix to this circular; and
- (b) the letter from the Independent Financial Adviser set out on pages 20 to 47 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons taken into consideration in arriving at such advice.

Having considered the advice from the Independent Financial Adviser, we are of the view that the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder will be conducted in the ordinary and usual course of the business of the Group and on normal commercial terms, and the terms and conditions therein as well as the annual cap for the continuing connected transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant ordinary resolution to be proposed at the EGM in relation to the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap).

Yours faithfully,
For and on behalf of the Board
**Mr. Zhang Senquan, Mr. Ma Zhongjun and
Mr. Chung Chong Sun**
Independent Non-executive Directors

December 3, 2024

To: Independent Board Committee and the Independent Shareholders of
Strawbear Entertainment Group

Dear Sir or Madam,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap), details of which are set out in the letter from the Board contained in the circular dated December 3, 2024 issued by the Company (the “**Circular**”) of which this letter forms part, and to make a recommendation to the Independent Shareholders in respect thereof. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As at the Latest Practicable Date, iQIYI is the holding company of Taurus Holding Ltd., a substantial Shareholder, and hence an associate of Taurus Holding Ltd. Accordingly, iQIYI is a connected person of the Company under the Listing Rules, and the transactions contemplated under the 2025 Copyright Licensing Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Annual Cap is more than 5%, the transactions contemplated thereunder (including the Proposed Annual Cap) are therefore subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, the Independent Board Committee comprising all the independent non-executive Directors, who have no interest in the 2025 Copyright Licensing Framework Agreement (including the Proposed Annual Cap), has been formed to advise to the Independent Shareholders on whether or not the terms of the 2025 Copyright Licensing Framework Agreement (including the Proposed Annual Cap) are fair and reasonable so far as the Independent Shareholders are concerned, in the interests of the Company and the Shareholders as a whole, and as to voting. We have been appointed to advise the Independent Board Committee and the Independent Shareholders accordingly.

II. BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst other things, (i) published information of the Group, including its audited annual financial statements for the three financial years ended on December 31, 2021, 2022 and 2023, the unaudited interim financial information for the six months ended on June 30, 2023 and 2024, and the information contained in the announcement dated November 11, 2024 (the “**Announcement**”) and the Circular; (ii) the 2025 Copyright Licensing Framework Agreement; and (iii) the Existing Copyright Licensing Framework Agreement. We consider the information we have reviewed is sufficient to reach the conclusions set out in this letter and have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company, and have been advised by the Directors that, to the best of their knowledge, no material information has been omitted or withheld from the information supplied to us or the information relating to the Company referred to in the Circular. We have relied on the accuracy of the information, facts and representations and the opinions expressed by the Company referred to in the Circular. Also, we have relied on the information so provided to us and referred to in the Announcement and the Circular, and we have not verified it or conducted an independent investigation into the business and affairs of the Group, or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, directors, chief executive, substantial Shareholders or any associates of any of them. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. In the two years prior to the Latest Practicable Date, we were engaged as independent financial adviser in respect of continuing connected transactions of the Company as set out in the circular of the Company dated December 6, 2022. Save for the aforesaid engagement, there was no other service provided by us to the Company during the past two years prior to the Latest Practicable Date.

Having considered the above and that none of the circumstances would affect our independence as at the Latest Practicable Date, we consider that we are independent pursuant to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

Reference is made to (i) the circular dated January 4, 2022, in respect of, among other things, the Existing Copyright Licensing Framework Agreement dated January 19, 2022; and (ii) the Announcement and the Circular in respect of the 2025 Copyright Licensing Framework Agreement.

(a) The Existing Copyright Licensing Framework Agreement

On January 19, 2022, the Company and iQIYI entered into the Existing Copyright Licensing Framework Agreement pursuant to which the Group shall, among others, license the copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI in exchange for fees payable by iQIYI calculated as fixed licensing fees or sharing of revenue as specified in the relevant agreement.

(b) 2025 Copyright Licensing Framework Agreement

As stated in the letter from the Board, and as discussed with the management of the Company, the Company has considered that (i) the terms of the Existing Copyright Licensing Framework Agreement will expire on December 31, 2024; and (ii) the Group will continue its cooperation with iQIYI regarding the licensing copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI. Please refer to the section headed “5. Principal terms of the 2025 Copyright Licensing Framework Agreement” below and the section headed “2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION” in the letter from the Board for further details of the terms of the 2025 Copyright Licensing Framework Agreement.

2. Information of the Group

The Group is a major drama series producer and distributor in the PRC, and principally engages in the investment, development, production and distribution of TV series and web series.

(a) Financial performance

Set out below is the breakdown of the Group’s principal sources of revenue, expenses and profits for the three years ended December 31, 2021, 2022 and 2023, and the six months ended June 30, 2023 and 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 1 — Financial performance of the Group

<i>(in RMB thousand)</i>	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	("FY2021") <i>(audited)</i>	("FY2022") <i>(audited)</i>	("FY2023") <i>(audited)</i>	("1H2023") <i>(unaudited)</i>	("1H2024") <i>(unaudited)</i>
Revenue	1,703,064	980,923	840,663	462,097	846,947
– Licensing of the broadcasting rights of drama series	1,107,249	481,025	749,233	377,600	846,932
– Made-to-order drama series production	540,188	495,877	83,647	84,481	–
– Others	55,627	4,021	7,783	16	15
Gross profit	516,185	219,753	63,257	82,811	142,924
Profit/(Loss) and total comprehensive income/(loss) for the year, or period	169,378	50,007	(107,509)	3,858	30,001

Sources: Annual report and interim reports of the Company for the relevant year, or period

For 1H2024 compared to 1H2023

Revenue of the Group amounted to approximately RMB846.9 million for 1H2024, representing an increase of approximately 83.3% as compared with that for 1H2023. The increase in revenue was primarily attributable to an increase in revenue generated from the licensing of the broadcasting rights of drama series by approximately 124.3% to approximately RMB846.9 million for 1H2024, which was due to (i) the adjustments in the themes and types of broadcast drama series; (ii) an increase in investment scale; and (iii) a greater popularity of drama series 1H2024.

Gross profit of the Group amounted to approximately RMB142.9 million 1H2024, representing an increase of approximately 72.6% as compared with that for 1H2023. The increase in gross profit was primarily due to (i) the adjustments in the themes and types of broadcast drama series; (ii) an increase in investment scale; and (iii) a greater popularity of drama series.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Net profit of the Group for the 1H2024 amounted to approximately RMB30.0 million, representing an increase of approximately 677.6% as compared with that for 1H2023. The increase in net profit was mainly due to the increase in gross profit, partly offset by net increase of impairment of financial assets to a loss of approximately RMB33.1 million 1H2024 from a reversal of approximately RMB3.5 million 1H2023.

For FY2023 compared to FY2022

Revenue of the Group amounted to approximately RMB840.7 million for FY2023, representing a decrease of approximately 14.3% as compared with that for FY2022. The decrease is primarily attributable to the decrease in revenue from drama series broadcast by the Group due to the tightened procurement budgets from broadcast platforms and the decline in traffic of the D2C content market.

Gross profit of the Group amounted to approximately RMB63.3 million for FY2023, representing a decrease of approximately 71.2% as compared with that for FY2022. The decrease in gross profit was primarily attribute to (i) a decrease in revenue of the Group for FY2023 resulting from the decrease in revenue from drama series broadcast by the Group due to the tightened procurement budgets from broadcast platforms and the decline in traffic of the D2C content market, while the operating costs of the Group for FY2023 remained relatively stable as compared to that of last year; and (ii) the impairment of inventories with signs of impairment included in cost of sales (i.e. the reserved IPs of those projects which are either unable to meet the conditions for the commencement of filming or unlikely to be successful in project incubation), based on the Group's estimate after taking into account of a number of factors such as the development of the industry, project genres, policy direction, age of inventory, intended sales, the conversion rate of the current IP reserves and the prospects of its future operation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Net loss of the Group for FY2023 amounted to approximately RMB107.5 million, turning around from a net profit of approximately RMB50.0 million. The decrease in net profit was mainly attributable to (i) a decrease in gross profit; and (ii) a decrease in other income and gains of approximately 54.1% to approximately RMB15.6 million primarily attributable to the decrease in government grants of approximately RMB16.8 million.

For FY2022 compared to FY2021

Revenue of the Group amounted to approximately RMB980.9 million for FY2022, representing a decrease of approximately 42.4% as compared with that for FY2021. The decrease in revenue is primarily attributable to the decrease in the number of drama series of the Group broadcast during FY2022, which was due to the delay in filming and post-production of drama series and obtaining the broadcast permissions caused by the reduction of mobility of production staff due to the outbreak of COVID-19 pandemic.

Gross profit of the Group amounted to approximately RMB219.8 million for FY2022, representing a decrease of approximately 57.4% as compared with that for FY2021. The decrease in gross profit was primarily attribute to fewer market opportunities.

Net profit of the Group for FY2022 amounted to approximately RMB50.0 million, representing a decrease of approximately 70.5% as compared with that for FY2021. The decrease in net profit was mainly attributable to the decrease in gross profit, partly offset by the significant decrease of approximately 78.8% in selling and distribution expenses, which was primarily due to decrease in the number of drama series of the Group broadcast during FY2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Financial position

Set out below is a summary of the financial position of the Group as at December 31, 2021, 2022, and 2023, and June 30, 2024.

Table 2 — Financial position of the Group

<i>(in RMB thousand)</i>	As of December 31,			As of
	2021	2022	2023	June 30, 2024
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Non-current assets	150,866	134,372	164,330	169,272
Current assets	2,689,701	2,358,191	2,419,298	2,472,611
Current liabilities	1,056,933	661,772	810,262	857,482
Non-current liabilities	10,402	5,185	34,048	6,223
Net assets	1,773,232	1,825,606	1,739,318	1,778,178

Sources: Annual report and interim report of the Company for the relevant year, or period

As at June 30, 2024, the increase in total assets of the Group was primarily attributable to increase in trade and notes receivable from approximately RMB554.2 million as at December 31, 2023 to approximately RMB876.8 million as at June 30, 2024, partly offset by the decrease in inventories from approximately RMB1,308.5 million as at December 31, 2023 to approximately RMB1,064.2 million as at June 30, 2024.

As at June 30, 2024, the increase in total liabilities of the Group was primarily attributable to (i) increase of trade payables from approximately RMB300.8 million as at December 31, 2023 to approximately RMB316.7 million as at June 30, 2024; and (ii) increase in provision from nil as at December 31, 2023 to approximately RMB3.3 million as at June 30, 2024.

As at June 30, 2024, net assets of the Group amounted to approximately RMB1,778.2 million, representing an increase by approximately 2.2% as compared with that as at December 31, 2023, which was mainly due to an increase in trade and notes receivable, partly offset by (i) the decrease in inventories; (ii) the increase in trade payables; and (iii) the increase in provision as mentioned above.

3. Information on iQIYI

iQIYI is a leading provider of online entertainment video services in China, the shares of which are listed on the Nasdaq Global Select Market with stock code IQ. NASDAQ. It produces, aggregates and distributes a wide variety of professionally produced content, as well as a broad spectrum of other video content in a variety of formats.

4. Reasons for and benefits of entering into the 2025 Copyright Licensing Framework Agreement

The Group commenced producing its Audiovisual Works and licensing the related copyrights of the self-owned and licensed-in Audiovisual Works to major TV channels and/or online video platforms, which are limited in number, since its inception. iQIYI is a leading provider of online entertainment video services in China. It produces, aggregates and distributes a wide variety of professionally produced content, as well as a broad spectrum of other video content in a variety of formats. As such, the copyrights licensing arrangements under the 2025 Copyright Licensing Framework Agreement are in the ordinary and usual course of the business of the Group. In addition, entering into the 2025 Copyright Licensing Framework Agreement is in line with the evolved business model of the Group and the expanded business cooperation with iQIYI.

iQIYI has a massive demand for high-quality content generated by professional producers like the Group. By entering into the 2025 Copyright Licensing Framework Agreement, the Group can enhance its distribution network and maintain business relationship with iQIYI, which has been a major player in content distribution market. The prices and terms offered by the Group to iQIYI are not less favorable to the Group than those the Group offered to other customers which are independent third parties. Therefore, the copyrights licensing arrangements under the 2025 Copyright Licensing Framework Agreement are profitable and are in the interests of the Group and the Shareholders as a whole.

— *Overview of the PRC online intellectual property (“IP”) and the web film market*

China’s consistent advancements in digital infrastructure have universalised internet access, significantly expanding the market size of all online merchant. According to the “54th Statistical Report on China’s Internet Development” (第54次中國互聯網發展統計報告) published by the China Internet Network Information Center (中國互聯網信息中心)¹, the number of internet users in China as of June 2024 amounted to approximately 1.1 billion, indicating a penetration rate of around 78%. Among them, 1.068 billion are also online video streamers, reflecting an increase of 73 million (or 7.3%) compared to 0.995 billion as at June 2022 stated in the “50th Statistical Report on China’s Internet Development” (第50次中國互聯網發展統計報告)².

1. <https://www.cnnic.cn/NMediaFile/2024/0911/MAIN1726017626560DHICKVFSM6.pdf>
2. <https://www.cnnic.cn/NMediaFile/2023/0807/MAIN1691371428732J4U9HYW1ZL.pdf>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The market size of China's online audiovisual industry which includes long-form videos, short-form videos, livestreaming, and audio, has benefited from the democratisation of technology, exceeding RMB1.15 trillion as of December 2023, representing a sizeable growth of approximately 58.2% from RMB727.4 billion in December 2022 according to the 2023 and 2024 "China Internet Audio-Visual Development Research Report" 《中國網絡視聽發展研究報告(2023), (2024)》^{1, 2} published by the China Netcasting Services Association (中國網絡視聽節目服務協會). The report also ranked drama series, films and micro drama series respectively as the top three most streamed categories of media online.

In recent years, heightened regulatory scrutiny, shifts in consumer preferences, and changes in revenue-sharing models offered by streaming platforms have led to strategic adjustments in the long-form video sector. These changes have incentivised higher quality content and curbed subpar productions, as evidenced by increased effective playbacks among top-performing drama series despite a reduction in the total number of drama series broadcasted. According to the "China Online Intellectual Property Development Report (2022)" (中國網絡版權產業報告(2022))³, the total number of long-form video streamers in 2022 decreased by 2.1% year-on-year to approximately 852 million, while the market size of long-form video sector was RMB133 billion, down 2.6% year-on-year. According to DataWin (德塔文數據)⁴ and Enlightent (雲合數據)^{5, 6}, the number of drama series broadcast and film releases in 2023 decreased by 13% and 15% year-on-year, respectively, while total effective playbacks among the top 20 drama series in 2023 surged by 3.3% year-on-year, increasing from 44.49 billion to 45.95 billion. The performance of web films has been weaker than that of drama series, with the number of films released from 2019 to 2023 declining at a compound annual growth rate (CAGR) of -23.4%. Additionally, the number of web films with box office revenue exceeding RMB10 million decreased by 18% from 2022 to 2023⁴.

1. <https://www.ncwxw.gov.cn/sys-nd/102.html>
2. http://www.cnsa.cn/art/2024/3/28/art_1580_43075.html
3. <https://www.ciplawyer.cn/articles/152630.html>
4. <http://wechat.xshelly.com/youku/2023/>
5. https://mp.weixin.qq.com/s?__biz=MzkxNzUxMzI1OA==&mid=2247505988&idx=1&sn=c820a6294cba2706be5c077de5c82f8b&chksm=c1bde01f6ca6417597e0b0245099369eef3f5b024489253fb2c93b86841ff37b2d792ce7861&payreadticket=HEc2uKhW-mv4F7PTmIm5cRizJ_ZGCUMuqj7JcRPKpN9L3b7YDJcAFoMMVheagO2qmDtS-8#rd
6. <https://file.enlightent.com/20230207/%E3%80%90%E4%BA%91%E5%90%88%E6%95%B0%E6%8D%AE%E3%80%912022%E8%BF%9E%E7%BB%AD%E5%89%A7%E7%BD%91%E6%92%AD%E8%A1%A8%E7%8E%B0%E5%8F%8A%E7%94%A8%E6%88%B7%E5%88%86%E6%9E%90%E6%8A%A5%E5%91%8A.pdf>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the 54th Statistical Report on China's Internet Development (第54次中國互聯網發展統計報告)¹, short-form videos have played a crucial role in driving the growth of China's online audiovisual industry in recent years. Out of the 1.1 billion internet users mentioned above, around 95.5% (i.e. 1.05 billion) were short-form video streamers and 52% (576 million) were micro drama series streamers. According to the 2020 and 2023 "China Internet Audio-Visual Development Research Report" 《中國網絡視聽發展研究報告》^{2, 3}, the market size of the short-form video segment as of December 2022 was around RMB292.8 billion, making up 40% of the total audiovisual industry and achieving a compound annual growth rate of approximately 31% since December 2019 when the market size was around RMB130.2 billion. According to the "Analysis Report on the Chinese Micro Drama Market from 2023 to 2024" (2023-2024年中國微短劇市場研究報告) published by iiMedia Research (艾媒諮詢) and quoted in the press release of National Radio and Television Administration of the PRC (國家廣播電視總局)⁴, the market size of micro drama series in 2023 amounted to RMB37.4 billion, increasing 267.6% year on year and is projected to reach RMB100 billion by 2027.

According to the report published by iiMedia Research (艾媒諮詢) as mentioned above, the rise in popularity of short-form videos can be attributed to several factors including, episodes are shorter than conventional long-form content which makes them more suitable for consumption on mobile devices; significantly lower production costs compared to traditional films and drama series; shorter production cycle; fast-paced, engaging storylines and effective monetization strategies such as the offering of free teaser episodes to entice in-app purchases of the entire series.

Rapid development of information technology has significantly facilitated the distribution of audiovisual content hence increasing its demand as a medium for cultural output. We concur with the view of the management of the Group that cultural and entertainment industry in China has become one of the most important pillars of the development of the digital economy, which in turn benefits the business model of the Group as discussed above.

— *Long-term cooperation relationship with market-leading provider*

As discussed in the sub-section headed "4. Reasons for and benefits of entering into of the 2025 Copyright Licensing Framework Agreement" above, iQIYI has a massive demand for high-quality content generated by professional producers like the Group with sizable procurement budgets for drama series. iQIYI has been a major player in the content distribution market in China, and the Group is therefore able to maintain its distribution network and business relationship with iQIYI, through entering into of the 2025 Copyright Licensing Framework Agreement.

1. <https://www.cnnic.cn/NMediaFile/2024/0911/MAIN1726017626560DHICKVFSM6.pdf>
2. <http://www.cnsa.cn/attach/0/2112271351275121.pdf>
3. <https://www.ncxw.gov.cn/sys-nd/102.html>
4. https://www.nrta.gov.cn/art/2024/7/8/art_3731_68157.html

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the changes in industry dynamics and consumer preferences, iQIYI remains as one of the largest streaming platforms with 111.9 million average daily subscribing members as disclosed in its 2023 annual report. iQIYI also recorded approximately RMB20.3 billion in membership services revenue for 2023, substantially more than the RMB4.3 billion generated by Mango Excellent Media, another long form video streaming platform as disclosed in the 2023 annual report of Mango Excellent Media Co., Ltd (300413.sz). Moreover, such iQIYI's segment revenue from membership services alone is comparable to the total revenue of approximately RMB21.1 billion generated by Alibaba Digital Media and Entertainment Group, the owner of Youku, according to the 2023/24 annual report of Alibaba Group Holding Limited (NYSE: BABA, HKEx: 9988 (HK\$ counter), 89988 (RMB counter)).

According to Enlightent (雲合數據)^{1, 2, 3}, iQIYI had displayed best in class performance in the full year of 2023, having 8 entries among the top 10 new drama series released during the year with the most effective playbacks (有效播放), topping the chart for three consecutive years. iQIYI also produced seven drama series among the top ten list of drama series ranked by average effective playbacks per episode per 30 days. In terms of web film receptions, iQIYI has the largest market share by measure of effective playbacks at 47% with four original movies each amassing box office income of over RMB100 million. In the field of micro drama series, iQIYI received the most effective playbacks per series among its key industry peers through the release of 16 series garnering 500 million effective playbacks, while Tencent released 218 series garnering 4.6 billion effective playbacks; Youku released 159 series garnering 1 billion effective playbacks; and Mango TV released 42 series garnering 400 million effective playbacks.

Accordingly, we concur with the view of the Directors that it is natural and reasonable, and in the interests of the Company and the Independent Shareholders to cooperate with iQIYI, as the market-leading provider and as one of the long-term business partners since inception, and such cooperation forms an important and integral part of the business alliance which is crucial for the Group's long-term business and operations.

In view of the above, we concur with the view of the management of the Group that the entering into the 2025 Copyright Licensing Framework Agreement is in the interests of the Group and the Shareholders as a whole.

1. https://mp.weixin.qq.com/s?__biz=MzIxNzUxMzI1OA==&mid=2247505988&idx=1&sn=c820a6294cba2706be5c077de5c82f8b&chksm=c1bde01f6ca6417597e0b0245099369eef3f5b024489253fb2c93b86841ff37b2d792ce7861&payreadticket=HEc2uKhW-mv4F7PTmIm5cRizJ_ZGCUmuqj7JcRPKpN9L3b7YDJcAFoMMVheagO2qmDtS-8#rd
2. https://finance.sina.cn/hkstock/gsxw/2024-02-29/detail-inaksvq9501180.d.html?vt=4&cid=76526&node_id=76526
3. https://www.sohu.com/a/798833888_121840918

5. Principal terms of the 2025 Copyright Licensing Framework Agreement

The principal terms and conditions of the 2025 Copyright Licensing Framework Agreement are summarised below. Please refer to the section headed “2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION — 2025 Copyright Licensing Framework Agreement” set out in the letter from the Board for further details.

Subject matter

Pursuant to the 2025 Copyright Licensing Framework Agreement, the Group shall license the copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI, and iQIYI shall pay licensing fees to the Group.

Separate implementation agreements will be entered into between the parties to set out the detailed terms, including details of the Audiovisual Works, term of license, scope of license, broadcasting schedule, licensing fee and payment schedules, based on the principles and within the parameters provided under the 2025 Copyright Licensing Framework Agreement. The definitive terms of each of such implementation agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm’s length negotiation between the parties.

Payment and settlement terms

Payment and settlement terms under the 2025 Copyright Licensing Framework Agreement shall be specified in each of the implementation agreements to be entered into between the parties under the 2025 Copyright Licensing Framework Agreement. The payment and settlement terms of each implementation agreement is usually determined on a case-by-case basis and subject to the transaction schedule, which we understand in normal commercial practice have taken into consideration similar arrangements under the Existing Copyright Licensing Framework Agreement.

Pricing basis

As stated in the sub-section headed “2. PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTION — Pricing Basis for Copyright Licensing” to the letter from the Board, the licensing fees payable by iQIYI to the Group under the 2025 Copyright Licensing Framework Agreement will be determined based on one or more of the following manners, after arm’s length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the genre, nature, popularity, quantity, quality and commercial potential of the Audiovisual Works.

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(a) *Fixed pricing*

The Group may charge iQIYI fixed licensing fees, which shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors as discussed in details below.

As discussed with the management of the Group, and having reviewed the walkthrough documents in respect of how the Company determine the estimated licensing fees for drama series based on fixed pricing according to the abovementioned generic pricing policy, we set out below the general formula in determination of the fixed licensing fees as stated in the letter from the Board:

Fixed licensing fees + other licensing fees (if any) = total investment amount¹ × (1 + target profit margin²)

Notes:

1. the total investment amount refers to the production, distribution and/or licensed-in copyright purchasing costs of the relevant Audiovisual Works; and
2. the target profit margin is determined with reference to the prevailing market price and various commercial factors, including the genre, the scope of license and exclusivity, type of licensing (exclusive licensing or joint licensing), the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot, if applicable) and the expected popularity of the relevant Audiovisual Works. The management of the Group expects the target profit margin to be not less than 20%, which is estimated based on the average historical profit margin of the drama series that the Group charged iQIYI fixed licensing fees for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024 and the management's judgement on future business environment.

According to the letter from the Board in the Circular, the target profit margin on the investment amount is expected to be not less than 20% with reference made to the average historical mark-up on the investment costs in 2022, 2023 and the first nine months in 2024, and the management's judgement on the future business environment. We reviewed historical profit margins of all nine implementation agreements that were charged based on fixed pricing basis and note that for the two years ended December 31, 2022 and 2023 and up to the Latest Practicable Date, the average historical profit margin on the investment costs as regards to the fixed licensing fees was aligned with the expected target profit margin stated above. As advised by the management of the Group, the variance on the historical mark-up ratios on investment amount of some drama series in 2022, 2023 and up to the Latest Practicable Date were affected by, in addition to the commercial factors as discussed in note 2 to the general formula above, the expected popularity of the drama series, which takes into account various factors, the historical popularity of the genres, and the amount of other scheduled similar drama series and main creator around the time of broadcast.

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As some of the above factors are not generic in nature relating to the versatility and uniqueness of each drama series, it is noted that the above analysis is set out for illustrative purpose to provide a general idea on determining the fixed licensing fee only and there is no actual quantitative formula for the determination of the fixed licensing fee.

We have reviewed the Existing Copyright Licensing Framework Agreement and the 2025 Copyright Licensing Framework Agreement. We note that the pricing basis of fixed pricing under the 2025 Copyright Licensing Framework Agreement largely aligns with that of the Existing Copyright Licensing Framework Agreement.

We have further discussed with the management of the Group about the terms under the 2025 Copyright Licensing Framework Agreement, and we have also reviewed all nine previous implementation agreements executed between the Group and iQIYI which were charged based on fixed pricing under the Existing Copyright Licensing Framework Agreement during the period from January 19, 2022 up to the Latest Practicable Date. We are of the view that the scope and period of our review are fair and representative. The management of the Company has confirmed that they have provided an exhaustive list of agreements for the above transactions within the said time period. Based on the implementation agreements reviewed, we note that the licensing fees for all of the transactions were calculated on the same basis in accordance with abovementioned general formula of pricing policies.

We have also reviewed all three implementation agreements regarding the historical transactions of licensing of non-exclusive broadcasting rights of drama series charged based on fixed pricing by the Group, where the drama series were licensed to other independent third parties from January 19, 2022 up to the Latest Practicable Date. We are of the view that the scope and period of our review are fair and representative. The management of the Company has confirmed that they have provided an exhaustive list of agreements for the above transactions and time period. We note that the amount paid and, or, payable, by iQIYI to the Group were overall no less favorable than those paid by independent third parties to the Group.

In light of the above, we are of the view that the determination of licensing fees in terms of fixed pricing term is on normal commercial terms, and is in line with the historical pricing term entered between the Group and iQIYI.

(b) Sharing of revenue, or income

As stated in the letter from the Board, set forth below is the summary of the formulas used in the determination of revenue, or income to be shared from the Audiovisual Works with the Group:

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(i) in respect of the films, the licensing fees chargeable by the Group include one of the followings:

(1) for films under SVOD model, revenue, or income from SVOD to be shared by the Group = $B1 \times B2$

Where, “B1” denotes effective VOD play time (實際 VOD的播放時間) of users of iQIYI’s platforms, which represents the time that users continuously watch a paid film for more than 6 minutes; and “B2” denotes unit price per VOD.

Unit price per VOD is expected to range from RMB1 per VOD to RMB3 per VOD, which shall be determined after arm’s length negotiation between the parties with reference to the estimated rating of the film, the type of licensing (exclusive licensing or joint licensing) and the corresponding effective play time per film.

To allow Shareholders to further understand the above formula, we set out below an example for illustrative purpose only:

Assuming the effective VOD play time of an exclusive film is 10 million hours in aggregate, the expected income from SVOD to be shared by the Group would be calculated as:

2 million hours (B1) \times RMB1 (B2 for the first 2 million hours) + 4 million hours (B1) \times RMB2 (B2 for the subsequent 4 million hours) + 4 million hours (B1) \times RMB3 (B2 for the last 4 million hours) = RMB22 million.

(2) for films under PVOD model, revenue, or income from PVOD to be shared by the Group = $C1 \times C2$

Where, “C1” denotes box office income during the PVOD period, which represents the total income generated from the on demand broadcast of the content, net of channel fees by members and other users of iQIYI’s platforms during the effective PVOD period; and “C2” denotes prescribed payment sharing percentage.

The effective PVOD period shall be determined after arm’s length negotiation between the parties with

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reference to the estimated rating of the film and the broadcasting effect of other films of similar rating.

Prescribed payment sharing percentage is expected to range from 35% to 90%, which shall be determined after arm's length negotiation between the parties with reference to expected genre, rating and broadcasting effect of the films.

As advised by the management of the Company, we understand that regarding the prescribed payment sharing percentage for PVOD, the Company has made reference to information available on the website of iQIYI, a minimal commercially acceptable rate for the Group, and after consultation with iQIYI, the Company understands that it is in line with market norm.

To allow Shareholders to further understand the above formula, we set out below an example for illustrative purpose only:

Assuming the box office income during the PVOD period is RMB50 million (C1) which is subject to 60% income sharing (C2), then the income to be shared by the Group would be RMB30 million.

The PVOD model is mainly different from the SVOD model in two ways: (i) in terms of content accessibility, under the SVOD model, users can access a wide range of films, while under the PVOD model, users can only access exclusive premium films; and (ii) in terms of payment, under the SVOD model, users are charged a fixed fee regardless of how many films are viewed, while under the PVOD model, users pay one-time fee for an individual film. Whether a film will adopt the SVOD model or the PVOD model will be determined after arm's length negotiation between the parties taking into account the rating of the film.

- (ii) the Group and iQIYI may also explore in the future to share other revenue or, income generated from copyright operation (including but not limited to advertising opportunity offering, derivative products and sublicensing) of iQIYI at certain sharing rate. Such sharing rate is expected to range from 10% to 50%, which shall be determined after arm's length negotiation between the parties with reference to the type of such revenue or, income and other commercial factors.

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We have enquired with the management of the Company and understand that the abovementioned range of the sharing rate is determined with reference to (i) the previous arrangements with iQIYI in general; and (ii) the minimal commercially acceptable rate for the Group in respect of the floor sharing rate of 10%. As advised by the management of the Company, at this stage the Group and iQIYI do not have any fixed pricing terms as regards to this clause, and this is expected to create flexibility for the management of the Company to explore new options in the future to enhance the profit, or revenue sharing with iQIYI. Nonetheless, we further understand that similarly to the other arrangements above, such potential new arrangement would apply to all suppliers of iQIYI equally and that the Company has the discretion whether or not to enter into a new implementation agreement with iQIYI under such arrangements.

We have reviewed both the Existing Copyright Licensing Framework Agreement and the 2025 Copyright Licensing Framework Agreement. We notice several changes in the pricing basis of sharing of revenue, or income compared to the Existing Copyright Licensing Framework Agreement, among others:

- (a) the removal of pricing policy in relation to sharing of revenue, or income for drama series, as drama series on a revenue-sharing basis were less preferred by the drama series producers as mentioned in the section headed “6. Annual caps — (a) Review of historical transactions” in this letter;
- (b) the removal of revenue, or income from advertising video on demand (AVOD) and the revised measurement for SVOD under (b)(i)(1), which we are given to understand that the revenue portion from AVOD was not expected to be material compared with SVOD as SVOD is considered as the key revenue metric, and that SVOD is now determined based on effective VOD play time (please see the example stated above for details), being a more objective basis than the previous prevailing pricing basis with reference to the rating of the film and thus the overall change is not expected to be less favorable to the Group; and
- (c) the revised definition of the box office income during the PVOD period (C1) and the increased upper range of the prescribed payment sharing percentage (C2) from 60% to 90% under (b)(i)(2), which we are given to understand the overall change is not expected to be less favorable to the Group.

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We further understand that certain of the above changes in revenue, or income sharing pricing arrangements for web films are based on iQIYI's own standard pricing policy for revenue, or income sharing pricing applicable to all its suppliers, which is published and updated on its website from time to time. We have reviewed iQIYI's website, we note that the published pricing policies as at the date of the Announcement match those stipulated in the 2025 Copyright Licensing Framework Agreement.

We have reviewed all four previous implementation agreements executed between the Group and iQIYI which were charged based on the revenue sharing pricing basis under the Existing Copyright Licensing Framework Agreement during the period from January 19, 2022 up to the Latest Practicable Date. We are of the view that the scope and period of our review are fair and representative. The management of the Company has confirmed that they have provided an exhaustive list of agreements for the above transactions and time period. Based on the implementation agreements reviewed, we note that the Company did not enter implementation agreements for films. With regards to drama series, the pricing policies for the implementation agreements of drama series were aligned with those stipulated in the Existing Copyright Licensing Framework Agreement, and the sharing rate for all transactions under (b)(ii) above were 30%, which is in accordance with the corresponding general formula of pricing policies. The Company did not have any similar arrangement with independent third parties in the past.

In light of the above, we are of the view that the determination of licensing fees in terms of the above revenue sharing term is on normal commercial terms, and is in line with the historical pricing term entered between the Group and iQIYI.

To sum up, the licensing fees chargeable by the Group for drama series include one of or mix of paragraphs (a) and (b)(ii) above, and the licensing fees chargeable by the Group for films include one of or mix of paragraphs (a), (b)(i) and (b)(ii) above. For each of the drama series and films, the pricing policies will be determined after arm's length negotiation between the parties with reference to various factors, including the genres, main creators and expected popularity of the drama series or film. In addition, the sharing of revenue/income generated from copyright operation of iQIYI as set out in paragraph b(ii) above is a potential new arrangement, which will depend on the commercial development model of the drama series and films in the future. In any event, the pricing policies offered by iQIYI are no less favorable to the Group than those available from independent third parties for comparable transactions.

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As discussed in the letter from the Board, before entering into any implementation agreement pursuant to the 2025 Copyright Licensing Framework Agreement, the Company will assess its business needs and compare the licensing fees proposed by iQIYI with the licensing fees offered by at least two other comparable independent platform operators in the film and drama series distribution industry. If no comparable independent third party is available, the business department of the Company will be required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. As confirmed by the management of the Company, such measure has also been implemented in the past three years pursuant to the Existing Copyright Licensing Framework Agreement.

We note that the overall pricing policy for the 2025 Copyright Licensing Framework Agreement largely aligns with the Existing Copyright Licensing Framework Agreement including revenue, or income sharing pricing arrangements with iQIYI for both drama series and films, save for a few changes in the sharing of revenue, or income which is discussed above.

We understand from the Company that the 2025 Copyright Licensing Framework Agreement was entered into upon arm's length negotiation with iQIYI in accordance with the Group's own business plan and strategy. We further acknowledged from the management of the Company which relied on their expertise in this industry where the incorporation of such revenue, or income, pricing arrangement is part of the Group's strategy to expand its cooperation in relation to the Group licensing of different Audiovisual Works under various modes, as it could provide flexibility for the Group to adopt suitable pricing basis for each of the drama series projects and films projects.

As a result, we concur with the view of the management of the Company that the pricing terms under the 2025 Copyright Licensing Framework Agreement as discussed above is fair and reasonable, as (i) such pricing terms being adopted between the Company and iQIYI are no less favorable than the terms being adopted between the Company and other parties; and (ii) the licensing fees chargeable by the Group for drama series include one of or mix of (a) and (b)(ii) above, and the licensing fees chargeable by the Group for films include one of or mix of (a), (b)(i) and (b)(ii) above. It will allow the Company to decide the most favorable terms available among various platform operators in the film and drama series distribution industry, and the Company will only enter into an implementation agreement with iQIYI when the agreement is in the best interests of the Company and the Independent Shareholders as a whole.

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6. Annual caps

(a) Review of historical transactions

The following table sets forth (i) the historical amounts in respect of the aggregate licensing fees paid and, or, payable, by iQIYI to the Group under the Existing Copyright Licensing Framework Agreement; and (ii) the historical annual caps for the two years ended December 31, 2022, 2023 and the year ending December 31, 2024 under the Existing Copyright Licensing Framework Agreement:

Table 3 — Historical transactions and corresponding annual caps under the Existing Copyright Licensing Framework Agreement

(RMB)	For the year ended December 31,		For the year ending December, 31
	2022	2023	2024
Existing annual cap	1,440,000,000	1,840,000,000	2,340,000,000
Aggregate licensing fees paid and, or, payable, by iQIYI to the Group (tax included)	264,570,728	336,400,000	939,195,750 ^(Note)
Utilization rate	18.4%	18.3%	40.1%

Sources: the management of the Company and the Circular

Note: The aggregate licensing fees paid and, or, payable, by iQIYI to the Group (tax included) for the year ending December 31, 2024 were based on the actual amounts provided by the Company as at the Latest Practicable Date. The Company advised that there is a possibility of incurring a further transaction amount of approximately RMB127.5 million after the Latest Practicable Date but on or before December 31, 2024, which would increase the utilization rate in 2024 to approximately 45.6%.

As stated in the letter from the Board, when estimating the Proposed Annual Cap, the Company has taken into consideration, among others, the historical licensing fees paid and, or payable by the Group to iQIYI under the Existing Copyright Licensing Framework Agreement for the two years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024. Therefore, we have reviewed the historical transaction amounts and the corresponding annual caps.

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As shown in the table above, the historical utilization rates of the Group were approximately 18.4% and 18.3% for the years ended December 31, 2022 and 2023, respectively and the expected utilisation rate would increase to approximately 40.1% for the year ending December 31, 2024 (or approximately 45.6% taking into account the possible transaction amount of approximately RMB127.5 million). As advised by the Company, we understand that the low utilization rates are mainly due to the unpredictable market and industry conditions, including (i) the demand of broadcasting platforms, TV channels and thirty-party agents; (ii) level of scrutiny by the relevant authorities, where certain genres under focus may face stricter regulation and longer vetting time; (iii) unfavorable changes in pricing policy for revenue sharing drama series as further discussed below; and (iv) the Company's lower priority on films as a strategic shift subsequent to the signing of the Existing Copyright Licensing Framework Agreement, resulting in slower progress than expected. As mentioned in the section headed "4. Reasons for and benefits of entering into the 2025 Copyright Licensing Framework Agreement — Overview of the PRC online intellectual property ("IP") and the web film market" in this letter, we note that the performance of web films in the market has been weaker than that of drama series from 2019 to 2023, which is in line with the strategic shift of the Group.

Regarding point (iii) in the previous paragraph, as mentioned in our letter in the circular of the Company dated January 4, 2022 in relation to the Existing Copyright Licensing Framework Agreement, the revenue, or income sharing pricing arrangements for both drama series and web films are based on iQIYI's own standard pricing policy for revenue, or income sharing pricing applicable to all its suppliers, which is published and updated on its website from time to time. We note that the pricing policy for revenue sharing drama series has been changed since October 2022 which became less favorable to the Company. These changes included the removal of incentive funds from the pricing formula, and a reduction in the revenue sharing window from one year after the broadcast period (跟播期) to six months after the broadcast period. As advised by the Company, such changes are industry wide resulting in reduced production of revenue-sharing drama series in the past three years. According to Enlightenment (雲合數據) and DataWin (德塔文數據), the number of newly produced revenue-sharing drama series on Certain Online Video Platforms has exhibited a declining trend dropping from 108 series in 2020 to 49 series in 2023 and only 17 new series were broadcasted in the first five months of 2024, which is consistent with the view of the Company in point (iii) in the previous paragraph.

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(b) Review of the Proposed Annual Cap and the corresponding basis of determination

The following table sets forth the Proposed Annual Cap and the year-on-year change:

Table 4 — Proposed Annual Cap and year-on-year change

<i>(RMB)</i>	For the year ending December 31, 2025
Proposed Annual Cap	1,260,000,000
Decrease in the annual cap year-on-year	46.2%

As stated in the letter from the Board, when determining the Proposed Annual Cap, the Directors made reference to:

- (a) the historical amounts of the fees paid and/or payable by iQIYI to the Group under the Existing Copyright Licensing Framework Agreement for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024;
- (b) in respect of the drama series, the estimated amount of fixed licensing fees payable by iQIYI to the Group for the year ending December 31, 2025 is estimated based on:
 - (i) the contract amount under the existing drama series copyrights licensing agreements the Group has entered into with iQIYI;
 - (ii) the number of drama series copyrights licensing projects to be conducted with iQIYI in 2025, which is estimated to be approximately 11;
 - (iii) the estimated licensing fees charged per drama series, ranging from RMB1.8 million to RMB239.4 million per drama series, which is estimated based on the expected genre, rating, commercial potential and investment costs of the drama series;
- (c) in respect of the films, the estimated amount of licensing fees payable by iQIYI to the Group for the year ending December 31, 2025 is estimated based on:
 - (i) the number of film copyrights licensing projects to be conducted with iQIYI in 2025, which is estimated to be approximately three;

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- (ii) the estimated licensing fees charged per film, ranging from RMB10.4 million to RMB20.0 million, which is estimated based on the expected genre, rating, commercial potential and investment costs of the films and the public data of historical revenue/income sharing statistics of premium films. According to publicly available data published by Certain Online Video Platforms, the licensing fees for the top ten box office films broadcasted on these platforms for the ten months ended October 31, 2024 with similar themes to the film copyrights licensing projects to be licensed by the Group in the coming year range from approximately RMB10.8 million to approximately RMB20.1 million per film; and
- (d) the following factors were also taken into consideration when determining the annual caps:
 - (i) the limited number of platform operators in the film and drama series distribution industry; and
 - (ii) an additional buffer of 10%, so as to avoid adverse restrictions on future business operations of the Group. Taking into account (1) the potential increase in production costs in the production process, (2) the possibility of increase in number of episodes and grading of Audiovisual Works, and (3) the buffer of 10% is not a material portion of the annual cap under the 2025 Copyright Licensing Framework Agreement, the Board is of the view that an additional buffer of 10% is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

To assess the fairness and reasonableness of the Proposed Annual Cap, we have further reviewed and discussed with the management of the Company regarding, *inter alia*, (i) the basis and underlying assumptions of each of the estimated fees payable by iQIYI to the Group under the 2025 Copyright Licensing Framework Agreement; (ii) the historical transaction amounts and the corresponding annual caps; and (iii) the calculations of the Proposed Annual Cap.

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The Proposed Annual Cap of RMB1.26 billion represents a decrease of RMB1.08 billion, or approximately 46.2%, as compared to the existing annual cap of RMB2.34 billion for the year ending December 31, 2024, and an increase of approximately RMB320.8 million, or approximately 34.2% compared to the transaction amount of RMB939,195,750 recorded in 2024 up to the Latest Practicable Date. We understand the Proposed Annual Cap is arrived from the following basis:

- (i) the total number of episodes of all long-form drama series aggregated in the pipeline scheduled in 2025 is expected to be more than that of 2024 by approximately 43.8%;
- (ii) the estimated average of licensing fees charged per episode of long-form drama series is lower than that of 2024 by approximately 15.1%;
- (iii) approximately 2 micro drama series and 3 films in the pipeline scheduled in 2025, of which the Company has not produced similar types of Audiovisual Works in the past; and
- (iv) the Company adopts a buffer of approximately 10% for potential industry changes.

With regards to the micro drama series and films of which the Company has not produced or broadcasted in the past, we noted that the Company started developing micro drama series to capture market opportunities and trends. As detailed in the subsection headed “4. Reasons for and benefits of entering into the 2025 Copyright Licensing Framework Agreement — Overview of the PRC online intellectual property (“IP”) and the web film market” in this letter, internet drama, web films and micro drama series respectively are the top three most watched categories of media in 2024, and the market size of micro drama series is projected to increase from approximately RMB37.4 billion in 2023 to approximately RMB100 billion by 2027, representing a 267.6% year on year increase. As mentioned in the previous section, film production was slower than expected as the Company allocated less resources in this aspect, with two of the films which had begun production in 2023 and 2024 respectively now tentatively scheduled to be broadcasted in 2025.

We have further enquired the Company about the details of the potential industry changes considered in the determination of the level of buffer adopted for the Proposed Annual Cap and noted that the potential industry changes refer to, *inter alia*, unexpected operational costs in the production process and the possible increase in number of episodes and grading, that are beyond the Group’s projections. For our assessment, we notice that the buffer of 10% is moderate compared to the growth of approximately 58.2% for the market size of China’s online audiovisual industry from December 2022 to December 2023, as such the level of buffer is

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considered to be reasonable. Please refer to the subsection headed “4. Reasons for and benefits of entering into the 2025 Copyright Licensing Framework Agreement — Overview of the PRC online intellectual property (“IP”) and the web film market” of this letter for more details of the industry overview.

Based on the above, we are of the view that the basis of determining the Proposed Annual Cap is generally fair and reasonable.

(c) *Summary*

In our opinion, it is in the interests of the Company and the Shareholders as a whole to determine the Proposed Annual Cap which can best accommodate the Group’s entire business strategy. As stated in the sub-sections headed “5. Principal terms of the 2025 Copyright Licensing Framework Agreement — Pricing basis” in this letter, the pricing policies for the licensing fees payable by the Group to iQIYI under the 2025 Copyright Licensing Framework Agreement are conducted on normal commercial terms or no less favorable than terms applicable to independent third parties. Furthermore, the basis of determining the Proposed Annual Cap takes into consideration, *inter alia*, of the overall market prospects and business plans of the Group. As a result, we consider the Proposed Annual Cap to be generally fair and reasonable.

IV. INTERNAL CONTROL PROCEDURES FOR THE GROUP’S CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the transactions contemplated under the 2025 Copyright Licensing Framework Agreement and implementation agreements are conducted on normal commercial terms or no less favorable than terms applicable to independent third parties, and comply with the annual cap and pricing policies under the 2025 Copyright Licensing Framework Agreement, the Company has adopted the following internal control procedures:

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments (including securities investment and financing department, finance department and business departments) of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the 2025 Copyright Licensing Framework Agreement and implementation agreements are on normal commercial terms, fair and reasonable and in the interests of the Group and its Shareholders as a whole, in particular, the fairness of the pricing policies under each agreement. The management of the Company also reviews the pricing policies of the 2025 Copyright Licensing Framework Agreement annually;

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- (b) Various other internal departments (including securities investment and financing department, finance department and business departments) of the Company monitor the implementation of the 2025 Copyright Licensing Framework Agreement from time to time. In particular, the finance department and the securities investment and financing department will review the transaction amounts of the continuing connected transactions contemplated under the 2025 Copyright Licensing Framework Agreement every two weeks to ensure that the annual cap under the 2025 Copyright Licensing Framework Agreement are complied with, and that any implementation agreement under the 2025 Copyright Licensing Framework Agreement shall be entered into by the Company with the prior approval of the finance department. If the actual transaction amount reaches 80% of the annual cap under the 2025 Copyright Licensing Framework Agreement, the finance department and the securities investment and financing department shall inform the management of the Company, and the management of the Company will then report to the Board as soon as possible. The Board will consider the measures to be taken to ensure compliance with the requirements of the Listing Rules, including but not limited to, publishing announcement for an increased annual cap amount and seeking approval from Independent Shareholders (if required);
- (c) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the 2025 Copyright Licensing Framework Agreement and provide annual confirmation to ensure that the transactions are conducted in accordance with the terms of the 2025 Copyright Licensing Framework Agreement (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 of the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the 2025 Copyright Licensing Framework Agreement, the Company will then comply with the Listing Rules as applicable; and
- (d) when considering the pricing and terms offered by iQIYI under the implementation agreements of the 2025 Copyright Licensing Framework Agreement, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and independent third parties for similar transactions before entering into any implementation agreement, to make sure that the pricing and terms offered by iQIYI after arm's length negotiations, are no less favorable than those offered by independent third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the Company's annual reports for the years ended December 31, 2022 and 2023, and noted that the independent non-executive Directors and the auditor of the Company have reviewed the continuing connected transactions, including transactions under the Existing Copyright Licensing Framework Agreement during such period, and provided the relevant confirmations. We have also reviewed one approval record for the implementation agreement under the Existing Copyright Licensing Framework Agreement for each of the years 2022, 2023, and 2024 as a sample check. Based on such compliance record, we are of the view that there are appropriate and effective measures to govern the future execution of such continuing connected transactions and to safeguard the interests of the Independent Shareholders.

Based on the above, we consider that the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the transactions contemplated under the 2025 Copyright Licensing Framework Agreement.

V. CONCLUSIONS AND RECOMMENDATIONS

In assessing the 2025 Copyright Licensing Framework Agreement, based on the below factors and reasons which have been laid out earlier in this letter:

- (a) the entering into of the 2025 Copyright Licensing Framework Agreement falls within the ordinary and usual course of business of the Group, and it is in the interests of the Company and the Independent Shareholders as a whole;
- (b) the terms and pricing basis of the 2025 Copyright Licensing Framework Agreement are on normal commercial terms;
- (c) the Proposed Annual Cap under the 2025 Copyright Licensing Framework Agreement are generally acceptable so far as the Independent Shareholders are concerned;
- (d) the 2025 Copyright Licensing Framework Agreement provides the Group the right but not the obligation to enter the implementation agreements separately with iQIYI under such 2025 Copyright Licensing Framework Agreement; and
- (e) the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the Proposed Annual Cap.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having taken into consideration the above factors, we consider that (i) the terms of the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap) are generally fair and reasonable, so far as the Independent Shareholders are concerned; and (ii) the entering into of the 2025 Copyright Licensing Framework Agreement (including the Proposed Annual Cap) is on normal commercial terms, and conducted in the ordinary and usual course of business of the Company, which is in the interests of the Company and its Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we also recommend the Independent Shareholders to vote in favor of the resolutions to be proposed at the EGM to approve the resolutions in relation to the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Cap).

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Karl Chan
Director

Mr. Karl Chan is a licensed person registered with the Securities and Futures Commission and as a licensed responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) and as a licensed representative to carry out Type 9 (asset management) regulated activities under the SFO. He has over 9 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

As of the Latest Practicable Date, the interest or short position of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange are as follows:

Interests in the Shares and underlying Shares of the Company

Name of Director/ Chief executive	Nature of interest	Number of Shares ⁽¹⁾	Number of Underlying Shares	Approximate percentage of shareholding ⁽¹⁾
Mr. Liu Xiaofeng	Founder of a discretionary trust ⁽²⁾	301,774,400	26,353,600	
	Interest held through voting powers entrusted by other persons ⁽³⁾	109,520,000		
		437,648,000		61.99%
Ms. Zhai Fang	Founder of a discretionary trust ⁽⁴⁾	32,000,000		4.53%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the Latest Practicable Date, being 706,041,400 Shares (without taking into account the Shares which may be allotted and issued upon the exercise of the outstanding Pre-IPO Share Options).
- (2) LEADING GLORY INVESTMENTS LIMITED is owned as to (i) 99% by MASTER GENIUS GLOBAL LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary; and (ii) 1% by Master Sagittarius Holding Limited which is wholly owned by Mr. Liu Xiaofeng. Accordingly, each of Master Sagittarius Holding Limited, MASTER GENIUS GLOBAL LIMITED and Mr. Liu Xiaofeng is deemed to be interested in all the Shares held by LEADING GLORY INVESTMENTS LIMITED.

GORGEOUS HORIZON LIMITED, being the beneficial owner of the outstanding Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary. On May 12, 2022, May 12, 2023 and May 14, 2024, 1,882,400 Shares, 3,764,800 Shares and 5,647,200 Shares were issued to GORGEOUS HORIZON LIMITED, respectively, upon the exercise of the Pre-IPO Share Options by Mr. Liu Xiaofeng under the Pre-IPO Share Option Scheme. As of the Latest Practicable Date, the number of Shares underlying the outstanding Pre-IPO Share Options held by GORGEOUS HORIZON LIMITED is 26,353,600 Shares.

- (3) Pursuant to the Voting Arrangement Agreements, Mr. Liu Xiaofeng, Master Sagittarius Holding Limited and LEADING GLORY INVESTMENTS LIMITED are able to exercise voting rights entrusted from the other signing parties and are therefore deemed to be interested in the shareholding interest in the Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements" in the Prospectus.
- (4) GOLDEN BASIN GLOBAL LIMITED is owned as to (i) 99% by SMART CENTURY VENTURES LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai Fang as the settlor and protector and Ms. Zhai Fang's wholly-owned holding company Gold Fish Management Holding Limited as the beneficiary; and (ii) 1% by Gold Fish Management Holding Limited which is wholly owned by Ms. Zhai Fang. Accordingly, each of Gold Fish Management Holding Limited, SMART CENTURY VENTURES LIMITED and Ms. Zhai Fang is deemed to be interested in all the Shares held by GOLDEN BASIN GLOBAL LIMITED.

Interests in the associated corporation

Name of Director	Nature of interest	Name of associated corporation ⁽¹⁾	Approximate percentage of shareholding
Mr. Liu Xiaofeng	Beneficial owner	Jiangsu Strawbear	77.9%
	Interest held through voting powers entrusted by other persons ⁽²⁾	Jiangsu Strawbear	22.1%
Ms. Zhai Fang	Beneficial owner	Jiangsu Strawbear	0.1%

Notes:

- (1) Jiangsu Strawbear is deemed as a subsidiary of the Company under the Contractual Arrangements, and therefore is an associated corporation of the Company by virtue of the SFO.
- (2) Pursuant to the Voting Arrangement Agreements, Mr. Liu Xiaofeng is able to exercise voting rights entrusted from the other signing parties and is therefore deemed to be interested in the shareholding interest in Jiangsu Strawbear held by the other signing parties by virtue of the SFO. For further details, see “History, Reorganization and Corporate Development — Voting Arrangement and Lock-up arrangements” in the Prospectus.

Save as disclosed above, as of the Latest Practicable Date, so far as it was known to the Directors or chief executive of the Company, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS’ SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or may not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

As of the Latest Practicable Date, Mr. Wang Xiaohui held directorship in certain companies engaging in producing and/or distributing drama series, including Horgos Eternity Pictures Co., Ltd. (霍爾果斯萬年影業有限公司), Beijing Huaxi Taihe Film Co., Ltd. (北京華熙泰和影視有限公司), Beijing Haidong Mingri Film Culture Communication Co., Ltd. (北京海東明日影視文化傳播有限公司), Beijing Chinese Miracle Culture Technology Co., Ltd. (北京中文奇蹟文化科技有限公司), Dongyang Liubai Film Culture Co., Ltd. (東陽留白影視文化有限公司), Hainan Huoyubai Film Culture Media Co., Ltd. (海南火羽白影視文化傳媒有限公司), Xiamen Taiyang Mingshan Film Culture Co., Ltd. (廈門泰洋明山影視文化有限公司), Beijing Xinliliang Film Culture Co., Ltd. (北京新力量影視文化有限公司) and Beijing Wannian Mandao Cultural Media Co., Ltd. (北京萬年漫道文化傳媒有限公司). Mr. Wang Xiaohui was not involved in the daily management and operation of the Company and the aforementioned companies. As such, the directorship held by Mr. Wang Xiaohui would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS

As of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since December 31, 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Save for the contractual arrangements and continuing connected transactions as disclosed in the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus and the section headed "Connected Transactions" in the 2023 Annual Report of the Company published on April 25, 2024, as of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group.

6. INTERESTS AND SHORT POSITIONS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As of Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
Master Sagittarius Holding Limited	Beneficiary of trust ⁽²⁾	328,128,000	46.47%
MASTER GENIUS GLOBAL LIMITED	Interest in a controlled corporation ⁽²⁾	290,480,000	41.14%
LEADING GLORY INVESTMENTS LIMITED	Beneficial interest ⁽²⁾⁽³⁾	290,480,000	41.14%
GORGEOUS HORIZON LIMITED	Beneficial interest ⁽²⁾	37,648,000	5.33%
SUCCESS TALE ENTERPRISES LIMITED	Interest in a controlled corporation ⁽²⁾	37,648,000	5.33%
Vistra Trust (Hong Kong) Limited	Trustee ⁽²⁾	37,648,000	5.33%
Ms. Liu Shishi	Founder of a discretionary trust ⁽⁴⁾	73,600,000	10.42%
Gold Pisces Holding Limited	Beneficiary of trust ⁽⁴⁾	73,600,000	10.42%
BEYOND VAST LIMITED	Interest in a controlled corporation ⁽⁴⁾	73,600,000	10.42%

Name of Shareholder	Nature of interest	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding ⁽¹⁾
GLESASON GLOBAL LIMITED	Beneficial interest ⁽⁴⁾	73,600,000	10.42%
Taurus Holding Ltd.	Beneficial interest ⁽⁵⁾	97,320,000	13.78%
iQIYI, Inc.	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.78%
Baidu Holdings Limited	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.78%
Baidu, Inc.	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.78%
Li Yanhong	Interest in a controlled corporation ⁽⁵⁾	97,320,000	13.78%
Vistra Trust (Singapore) Pte. Limited	Trustee ⁽²⁾	290,480,000	
	Trustee ⁽⁴⁾	73,600,000	
	Trustee ⁽⁶⁾	32,000,000	
		396,080,000	56.10%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the Latest Practicable Date, being 706,041,400 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the outstanding Pre-IPO Share Options).
- (2) LEADING GLORY INVESTMENTS LIMITED is owned as to (i) 99% by MASTER GENIUS GLOBAL LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary; and (ii) 1% by Master Sagittarius Holding Limited which is wholly owned by Mr. Liu Xiaofeng. Accordingly, each of Master Sagittarius Holding Limited, MASTER GENIUS GLOBAL LIMITED and Mr. Liu Xiaofeng is deemed to be interested in all the Shares held by LEADING GLORY INVESTMENTS LIMITED.
- GORGEOUS HORIZON LIMITED, being the beneficial owner of the outstanding Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary. On May 12, 2022 May 12, 2023 and May 14, 2024, 1,882,400 Shares, 3,764,800 Shares and 5,647,200 Shares were issued to GORGEOUS HORIZON LIMITED, respectively, upon the exercise of the Pre-IPO Share Options by Mr. Liu Xiaofeng under the Pre-IPO Share Option Scheme. As of June 30, 2024, the number of Shares underlying the outstanding Pre-IPO Share Options held by GORGEOUS HORIZON LIMITED is 26,353,600 Shares.
- (3) Pursuant to the Voting Arrangement Agreements, LEADING GLORY INVESTMENTS LIMITED is able to exercise voting rights entrusted from the other signing parties and is therefore deemed to be interested in the shareholding interest in the Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements" in the Prospectus.

- (4) GLESASON GLOBAL LIMITED is owned as to (i) 99% by BEYOND VAST LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LSS Family Trust which is a discretionary trust established by Ms. Liu Shishi as the settlor and protector and Ms. Liu Shishi's wholly-owned holding company Gold Pisces Holding Limited as the beneficiary; and (ii) 1% by Gold Pisces Holding Limited which is wholly owned by Ms. Liu Shishi. Accordingly, each of Gold Pisces Holding Limited, BEYOND VAST LIMITED and Ms. Liu Shishi is deemed to be interested in all the Shares held by GLESASON GLOBAL LIMITED.
- (5) Taurus Holding Ltd. is wholly owned by iQIYI, Inc., whose voting power is owned as to 89.2% by Baidu Holdings Limited, a wholly-owned subsidiary of Baidu, Inc. Baidu, Inc. is owned as to 59.3% by Li Yanhong. Therefore, each of iQIYI, Inc., Baidu Holdings Limited, Baidu, Inc. and Li Yanhong is deemed to be interested in the Shares directly held by Taurus Holding Ltd. by virtue of the SFO.
- (6) GOLDEN BASIN GLOBAL LIMITED is owned as to (i) 99% by SMART CENTURY VENTURES LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai Fang as the settlor and protector and Ms. Zhai Fang's wholly-owned holding company Gold Fish Management Holding Limited as the beneficiary; and (ii) 1% by Gold Fish Management Holding Limited which is wholly owned by Ms. Zhai Fang. Accordingly, each of SMART CENTURY VENTURES LIMITED, Gold Fish Management Holding Limited and Ms. Zhai Fang is deemed to be interested in all the Shares held by GOLDEN BASIN GLOBAL 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 executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

As of the Latest Practicable Date, the following Directors were directors or employees of companies which had, or was deemed to have, an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company having an interest or a short position in the Shares or underlying Shares	Position held within such company
Mr. Liu Xiaofeng	Master Sagittarius Holding Limited	Director
	LEADING GLORY INVESTMENTS LIMITED	Director
	GORGEOUS HORIZON LIMITED	Director
Mr. Wang Xiaohui	iQIYI	Chief content officer
Ms. Liu Fan	iQIYI	Head of development strategy and investment department

Save as disclosed above, as of the Latest Practicable Date, the Directors were not aware of any other Director who was a director or employee of a company which had, or was deemed to have, an interest in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

7. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of Anglo Chinese, who has given its opinions or advices, which are contained or referred to in this circular:

Name	Qualifications
Anglo Chinese Corporate Finance, Limited	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As of the Latest Practicable Date, Anglo Chinese has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name in the form and context in which it appears.

As of the Latest Practicable Date, Anglo Chinese did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) any direct or indirect interest in any assets which had, since December 31, 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group.

9. DOCUMENTS ON DISPLAY

Electronic copy of 2025 Copyright Licensing Framework Agreement proposed to be entered into between the Company and iQIYI will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.strawbearentertainment.com) for a period of 14 days from the date of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Strawbear Entertainment Group 稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2125)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2024 first extraordinary general meeting (the “EGM”) of Strawbear Entertainment Group (the “**Company**”) will be held at Building A2, SHANG 8 Design and Creative Industry Park, Chaoyang District, Beijing, China on Tuesday, December 24, 2024 at 11 a.m. for the purposes of considering and if thought fit, passing the following resolution (with or without modification) as ordinary resolution of the Company. Unless otherwise specified, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated December 3, 2024 (the “**Circular**”).

ORDINARY RESOLUTION

1. To consider and if thought fit, pass the following resolution (with or without modification) as ordinary resolution of the Company:

“That:

- (a) the 2025 Copyright Licensing Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the circular of the Company dated December 3, 2024 (the “**Circular**”), be and is hereby approved, ratified and confirmed;
- (b) the proposed annual cap for the continuing connected transactions contemplated under the 2025 Copyright Licensing Framework Agreement for the year ending December 31, 2025 as set out in the Circular be and is hereby approved, ratified and confirmed; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any one or more of the Directors is hereby authorized to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the transactions contemplated under the 2025 Copyright Licensing Framework Agreement (including the Proposed Annual Cap).

Yours faithfully,
By order of the Board
Strawbear Entertainment Group
Mr. Liu Xiaofeng
Chairman

Nanjing, PRC, December 3, 2024

Notes:

- (1) For the purpose of determining the identity of the shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, December 19, 2024 to Tuesday, December 24, 2024, both dates inclusive, during which period no transfer of shares will be effected. The record date for determining the eligibility to attend and vote at the EGM will be Tuesday, December 24, 2024. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, December 18, 2024.
- (2) A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he/she/it is the holder of two or more shares, more proxies to attend and vote instead of him/her/it. A proxy need not be a member of the Company.
- (3) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such Share shall alone be entitled to vote in respect thereof.
- (4) In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours (i.e. 11 a.m. on Sunday, December 22, 2024) before the time fixed for holding of the EGM. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the EGM (or any adjourned meeting thereof) if they so wish.

As at the date of this notice, the Board comprises Mr. Liu Xiaofeng and Ms. Zhai Fang as executive Directors; Mr. Wang Xiaohui and Ms. Liu Fan as non-executive Directors; and Mr. Ma Zhongjun, Mr. Zhang Senquan and Mr. Chung Chong Sun as independent non-executive Directors.