

STRAWBEAR ENTERTAINMENT GROUP
稻草熊娱乐集团

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE: 2125

GLOBAL OFFERING



稻草熊
STRAW BEAR

JOINT SPONSORS

CMS  招商證券國際

 中信建投國際
CHINA SECURITIES INTERNATIONAL

JOINT GLOBAL COORDINATORS, JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

CMS  招商證券國際

 中信建投國際
CHINA SECURITIES INTERNATIONAL

 China Renaissance 华兴资本

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



Strawbear Entertainment Group 稻草熊娱乐集团

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	165,780,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	16,578,000 Shares (subject to reallocation)
Number of International Offer Shares	:	149,202,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	:	HK\$6.16 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	:	US\$0.000025 per Share
Stock Code	:	2125

Joint Sponsors and Joint Representatives



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between us and the Joint Representatives (for themselves and on behalf of the Underwriters) on or about Friday, January 8, 2021 and, in any event, not later than Monday, January 11, 2021. The Offer Price will not be more than HK\$6.16 per Offer Share and is expected to be not less than HK\$5.10 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$6.16 per Offer Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$6.16 per Offer Share. If, for any reason, the Offer Price is not agreed between us and the Joint Representatives (for themselves and on behalf of the Underwriters) on or before Monday, January 11, 2021, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of our Company at www.strawbearentertainment.com. See "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" for more details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors." The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting." It is important that you refer to that section for further details.

December 31, 2020

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications

under the **HK eIPO White Form** service through one of the below ways ⁽²⁾:

(1) the **IPO App**, which can be downloaded by searching
“**IPO App**” in App Store or Google Play or downloaded at

www.hkeipo.hk/IPOApp or **www.tricorglobal.com/IPOApp**

(2) the designated website **www.hkeipo.hk** 11:30 am on Friday,
January 8, 2021

Application lists of the Hong Kong Public Offering open⁽³⁾ 11:45 am on Friday,
January 8, 2021

Latest time to lodge **WHITE** and **YELLOW** Application Forms 12:00 noon on Friday,
January 8, 2021

Latest time to give **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Friday,
January 8, 2021

Latest time to complete payment of **HK eIPO White Form** applications
by effecting internet banking transfer(s) or PPS payment transfer(s) 12:00 noon on Friday,
January 8, 2021

Application lists of the Hong Kong Public Offering close 12:00 noon on Friday,
January 8, 2021

Expected Price Determination Date Friday,
January 8, 2021

(1) Announcement of:

- final offer price;
- the level of applications in the Hong Kong Public Offering;
- the indication of level of interest in the International Offering; and
- the basis of allocation of the Hong Kong Offer Shares;

expected to be published on the websites of the Stock Exchange
at **www.hkexnews.hk** and our Company

at **www.strawbearentertainment.com** on or before⁽⁸⁾ Thursday,
January 14, 2021

(2) Announcement of results of allocations in the Hong Kong Public
Offering (including successful applicants’ identification document
numbers, where appropriate) to be available through a variety of
channels as described in the section headed “How to Apply for the
Hong Kong Offer Shares — 11. Publication of Results” in this prospectus⁽⁸⁾ Thursday,
January 14, 2021

EXPECTED TIMETABLE⁽¹⁾

- (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.strawbearentertainment.com⁽⁵⁾ from⁽⁸⁾ Thursday, January 14, 2021

Results of allocations for the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) will be available at the "IPO Results" function in the **IPO App** or at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a "search by ID" function from⁽⁸⁾ Thursday, January 14, 2021

Dispatch/collection of Share certificates or deposit of Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁶⁾⁽⁸⁾ Thursday, January 14, 2021

Dispatch/collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications on or before⁽⁷⁾⁽⁸⁾ Thursday, January 14, 2021

Dealings in Shares on the Stock Exchange expected to commence on⁽⁸⁾ Friday, January 15, 2021

Application for the Hong Kong Offer Shares will commence on Thursday, December 31, 2020 through Friday, January 8, 2021, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Thursday, January 14, 2021. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Friday, January 15, 2021.

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning and/or Extreme Conditions at any time between 9:00 a.m. and 12:00 noon on Friday, January 8, 2021, the application lists will not open on that day. See the section headed "How to Apply for the Hong Kong Offer Shares — (10) Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares — (6) Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.
- (5) None of the website or any of the information contained on the website forms part of this prospectus.
- (6) Share certificates are expected to be issued on Thursday, January 14, 2021 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely at their own risk.
- (7) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessfully applications and in respect of successful applications if the Offer Price is less than the price payable on application.
- (8) In case a typhoon warning signal no.8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Thursday, December 31, 2020 to Friday, January 8, 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

EXPECTED TIMETABLE⁽¹⁾

The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

We have issued this prospectus solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should only rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

We generate revenue primarily from (i) licensing the broadcasting rights of our self-produced drama series to TV channels, online video platforms or third party distributors; (ii) licensing the broadcasting rights of outright-purchased drama series from online video platforms or drama series producers to TV channels, third party distributors or online video platforms; and (iii) production services for made-to-order drama series per online video platforms’ orders. In respect of licensing of broadcasting rights of our self-produced drama series business, we charge TV channels and online video platforms for broadcasting, and third party distributors for sub-licensing, our self-produced drama series, while we pay (i) IP costs to IP owners or screenwriters for their copyrights; (ii) service fees to third party production services providers and talents; and (iii) marketing and promotion fees to marketing agencies. Regarding licensing of broadcasting rights of our outright-purchased drama series business, we charge TV channels, third party distributors and online video platforms a fixed-amount licensing fee of each episode, while pay licensing fees to online video platforms or drama series producers. In addition, with regards to our business of made-to-order drama series production, we charge online video platforms production fees for provision of the overall production services, while pay IP costs to screenwriters for their screenplays, talent costs to directors and actors for their performance services, and production costs to third party production services providers.

We were one of the 73 holders of Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》) in the PRC, and the only one in Jiangsu Province, as of December 31, 2019. In recognition of our achievements in business innovation and rapid growth, we received various awards, including the Cultural and Technology Enterprise of Nanjing (南京市重點文化科技企業) in 2017 and Gazelle Enterprise of Nanjing (南京市瞪羚企業) granted by Nanjing Municipal People’s Government in 2018 in honor of fast growing innovation enterprise. In addition, the drama series that we produced and distributed also won a variety of awards from TV channels and online video platforms as well as the government.

To satisfy our demand for drama series production, we generally maintain 20 to 30 IP reserves simultaneously in accordance with our internal policy. As of the Latest Practicable Date, in addition to our drama series that had been broadcast and to be broadcast, we had reserved in aggregate 31 IPs, consisting of six original screenplays based on our own initial ideas and 25 adapted screenplays based on licensed IPs. In the meantime, some of our IPs are also high ranking stories on leading online literature platforms.

SUMMARY

We believe our platform business model gives us a competitive advantage over industry peers and empowers us to effectively integrate premium industry resources, such as well-recognized screenwriters, producers, directors and actors, filming and production studios as well as external quality control specialists, into our well-established ecosystem to achieve synergies. Our industry resource integration capability also ensures the quality and success of our drama series, which is evidenced by their audience reception. For example, our self-produced drama series, *The Impossible Mission* (不可能完成的任務) won the Jiangsu Province Government Television Award (江蘇省新聞出版廣電政府獎電視劇獎) from Jiangsu Provincial Administration of Radio and Television. *Treasure Adventure* (國寶奇旅) won the First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎) from Copyright Administration of Jiangsu Province, and Five-one Project Award of Jiangsu Province (江蘇省五個一工程獎) from the Standing Committee of Jiangsu Provincial Committee of the Communist Party of China. *Second Time Is A Charm* (第二次也很美) was the Annual Viewership Ratings Champion during the prime time of Dragon TV in 2019 (二零一九年東方衛視黃金時段年度收視率冠軍).

Our quality control of drama series, comprising both internal and external seasoned quality control staff, is one of our core competencies that distinguishes us from other drama series producers and distributors. We invite industry-recognized producers and/or directors to conduct quality control through the entire process of drama series production, from IP selection to filming and further to post-production. To better serve and continue to benefit from online video platforms as one of our strategies, we have established four in-house content production studios to serve our major online video platform partners. We provide diversified content developed by ourselves or licensed from our content partners to different online video platforms according to their preferences and specific demands.

We place high value on the investment in drama series. Our management and project initiation committee keep track of, continuously seek for, and make cautious selection in investment opportunities in drama series. As of June 30, 2020, we had invested in an aggregate of 16 drama series that had completed production, among which 11 are our self-produced drama series. We were the sole or largest investor in eight out of 11 of our self-produced drama series that had completed production as of the same date. We have strong distribution capability and have maintained well-established relationships with the top five TV channels and top three online video platforms in the PRC. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of the aforementioned eight dominant distribution channels in 2019. Leveraging our strong distribution capability, we are from time to time approached by other developers or producers to assist with the distribution of their drama series. As of the Latest Practicable Date, we had 32 drama series that had been broadcast, and three drama series to be broadcast by the fourth quarter of 2021, including one self-produced drama series and two made-to-order drama series.

We experienced stable growth during the Track Record Period. Our revenue increased from RMB542.9 million in 2017 to RMB679.1 million in 2018 and further increased to RMB765.1 million in 2019. According to the Frost & Sullivan Report, the size of the drama series market in the PRC in terms of licensing or distribution revenue and advertising revenue is expected to further grow from RMB99.1 billion in 2019 to RMB121.3 billion in 2024. As a major player in this market, we believe that we will continue to be well positioned and benefit from the stable and continuous market growth potential.

OUR BUSINESS MODEL

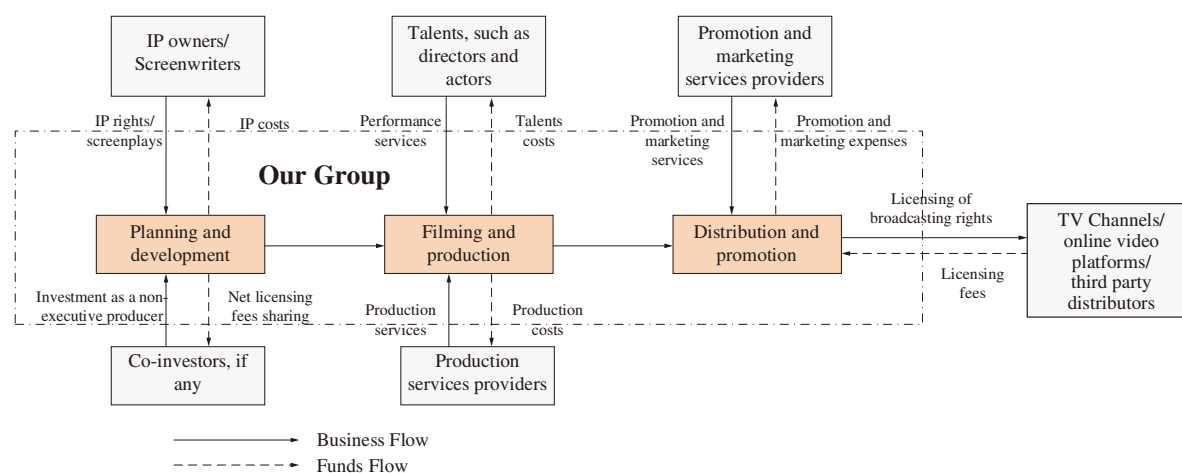
During the Track Record Period, we generated revenue primarily from (i) licensing of broadcasting rights of self-produced drama series; (ii) licensing of broadcasting rights of outright-purchased drama series; and (iii) production services for made-to-order drama series.

SUMMARY

Licensing of Broadcasting Rights of Self-produced Drama Series Business

We commenced producing our own drama series and licensing the related broadcasting rights to major TV channels, top online video platforms and sometimes third party distributors since our inception. Substantially all of our self-produced drama series are broadcast on both TV channels and online video platforms. We charge TV channels and online video platforms for broadcasting, and third party distributors for sub-licensing, our self-produced drama series, while we pay (i) IP costs to IP owners or screenwriters for their copyrights, (ii) service fees to talents, such as directors and actors, and to third party production services providers, such as filming and production studios; and (iii) marketing and promotion fees to marketing agencies for the relevant promotional services they provide. Our self-produced drama series are developed either solely by ourselves or jointly with Independent Third Party investors under a co-investment arrangement where we act as the executive producer. We take lead in the production and distribution of such drama series, while our co-investors generally have a passive role.

The chart below illustrates the business model of our business of licensing of broadcasting rights of self-produced drama series:

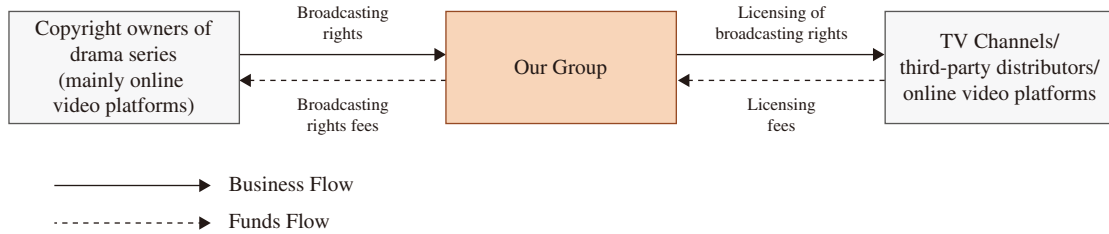


Licensing of Broadcasting Rights of Outright-purchased Drama Series Business

We purchase the broadcasting rights of drama series from copyright owners which are mainly online video platforms or sometimes drama series producers, and license such broadcasting rights of these drama series to TV channels, third-party distributors or sometimes online video platforms. We charge TV channels, third-party distributors or online video platforms a fixed-amount licensing fee of each episode for their broadcasting of our outright-purchased drama series, and pay a fixed-amount licensing fee of each episode to online video platforms or drama series producers for the broadcasting rights licensed to us.

SUMMARY

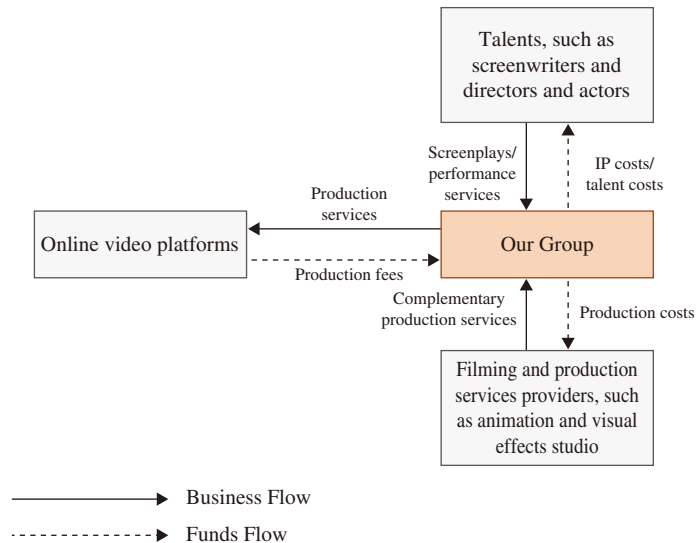
The chart below illustrates the business model of our business of licensing of broadcasting rights of outright-purchased drama series:



Made-to-order Drama Series Production Business

We produce made-to-order drama series for online video platforms since 2017. We charge online video platforms production fees for provision of the overall production services, including cast talents and filming and production crew assembling, production management and quality control, as well as post-production editing; while we pay IP costs to screenwriters for their screenplays, talent costs to directors and actors for their performance services, and production costs to third party production services providers, such as animation and visual effects studios, for their complementary production services.

The chart below illustrates the business model of our made-to-order drama series production business:



During the Track Record Period, we also generated revenue from other business, such as investment in drama services as a non-executive producer, IP derivatives, and product placement opportunities for advertisers.

SUMMARY

OUR DRAMA SERIES

Since our inception and up to the Latest Practicable Date, we had broadcast a total of 32 drama series, including (i) 30 drama series broadcast during the Track Record Period and up to the Latest Practicable Date, (ii) one drama series broadcast both prior to and during the Track Record Period, and (iii) one drama series broadcast prior to the Track Record Period. See “Business — Our Business Model — Overview” and “Business — Our Drama Series — Our Broadcast Drama Series Projects.” The table below sets forth the number of our broadcast drama series by category and business line for the periods indicated:

	Year ended December 31,			Subsequent to December 31, 2019 and up to the Latest Practicable Date
	2017	2018	2019	
TV series				
Self-produced drama series	2	2	3	3
Outright-purchased drama series	3	3	2	5
Made-to-order drama series	–	–	–	3
Others ⁽¹⁾	1	2	–	1
Sub-total	6	7	5	12
Web series				
Made-to-order drama series	–	1	–	–
Total	6	8	5	12

Note:

- (1) Others represent three co-financed drama series where we act as a non-executive producer and one drama series where we act as a distribution agent.

SUMMARY

The table below sets forth certain details of our drama series under production or to be broadcast as of the Latest Practicable Date:

	Status	Our Role	Production Type	Expected Broadcasting Channel	Expected Broadcasting Time
Self-produced drama series					
My Bargain Queen (我的砍價女王)	Post-production	Production and distribution	Adaptation	Youku	In the fourth quarter of 2021
Made-to-order drama series					
Breath Of Destiny (一起深呼吸)	Post-production	Production and distribution	Original	iQIYI	In the first quarter of 2021
Spirit Realm (靈域)	Post-production	Production	Adaptation	iQIYI	In the first quarter of 2021
Handsome Young Master (公子傾城)	Under production	Production	Adaptation	iQIYI	In the fourth quarter of 2021
Flying To The Moon (月歌行)	Under production	Production	Adaptation	iQIYI	In the first quarter of 2022

OUR CUSTOMERS AND SUPPLIERS

Our Customers

During the Track Record Period, our customers primarily include (i) TV channels to which we license our self-produced and outright-purchased drama series; (ii) online video platforms that we license self-produced and outright-purchased drama series to and produce made-to-order drama series for; and (iii) third party distributors that we license our self-produced and outright-purchased drama series to. We had had relationships with our five largest customers for approximately one to six years as of June 30, 2020. We generally settle with our five largest customers by wire transfer or banker's acceptance and grant to them credit terms ranging from 15 to 365 days.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, revenue from our five largest customers accounted for approximately 83.3%, 95.5%, 83.5% and 99.1%, respectively, of our total revenue, and revenue from our largest customer accounted for approximately 22.4%, 36.0%, 27.2% and 69.2%, respectively, of our total revenue for the same periods. Our five largest customers comprise major TV channels, top online video platforms and third party distributors. Except iQIYI, all of our five largest customers during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, except iQIYI, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period. See "Business — Our Customers."

SUMMARY

Business Relationship with iQIYI

iQIYI has been our substantial shareholder since November 2018, was one of our five largest customers and suppliers during the Track Record Period with our revenue generated from iQIYI in the six months ended June 30, 2020 accounting for approximately 69.2% of our total revenue for the same period, and has designated two Directors in our Board.

During the Track Record Period, iQIYI was our second largest customer in 2017 and single largest customer in 2018, 2019 and the six months ended June 30, 2020, as well as our third largest supplier in 2018 and the largest supplier in 2019. We license our self-produced and outright-purchased drama series to iQIYI and provide production services for its made-to-order drama series. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our revenue from iQIYI amounted to RMB116.2 million, RMB244.7 million, RMB208.5 million and RMB401.3 million, respectively, accounting for approximately 21.4%, 36.0%, 27.2% and 69.2% of our total revenue for the same periods, respectively. The significant increase in our revenue generated from iQIYI for the six months ended June 30, 2020 is primarily due to our exclusive licensing of *The Love Lasts Two Minds* (兩世歡) to iQIYI in the first half of 2020, which contributed a large amount of revenue of RMB237.7 million. Recently, other than iQIYI, we have also strengthened our relationships with existing customers and explored new business opportunities with other market players. See “Business — Our Customers — Top Customers — Business Relationship with iQIYI.”

Our Suppliers

During the Track Record Period, our suppliers primarily consist of (i) IP owners who sell the copyrights of creative works or license the broadcasting rights of the drama series to us; and (ii) third-party service providers in relation to (a) drama series production, including screenwriters, directors and actors, filming and production studios as well as external post-production studios; and (b) marketing and promotional activities, such as marketing agencies. We had had relationships with our five largest suppliers for approximately one to four years as of June 30, 2020. Our five largest suppliers generally settle with us within 90 to 365 days by wire transfer.

During the Track Record Period, purchases from our five largest suppliers collectively accounted for approximately 80.0%, 79.6%, 58.6% and 78.5% of our total purchases for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and purchases from our largest supplier accounted for approximately 42.5%, 25.4%, 15.8% and 41.7% of our total purchases for the same periods, respectively. Our five largest suppliers primarily comprise online video platforms, third party distributors, filming and production studios as well as post-production studios. Except iQIYI and Nova Film, all of our five largest suppliers during the Track Record Period are Independent Third Parties. Nova Film was our fifth largest supplier and an Independent Third Party in 2017, which was acquired by us in June 2020. To the best of the knowledge of our Directors, except iQIYI, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. See “Business — Our Suppliers.”

Overlapping of Customers and Suppliers

Due to the nature of our business, some of our customers or suppliers during the Track Record Period were also our suppliers or customers, respectively, during the same period, which is an industry norm in the drama series industry, as advised by Frost & Sullivan. Our Directors confirmed that the transactions with these overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis. For details, see “Business — Overlapping of Customers and Suppliers.”

SUMMARY

PRICING

In determining the licensing fee of our self-produced drama series, we generally consider the total investment, the genre, the distribution channels (TV channels or online video platforms) and their reputation and relationships with us, the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the prevailing market price, the target audience base, the expected level of popularity, as well as our target profit margin. See “Financial Information — Description of Key Statement of Profit or Loss Items — Revenue.” Generally, the amount charged for first-run broadcasting rights is much higher than subsequent distributions, and we normally target to cover our total investment by the licensing fees received from first-run broadcast. During the Track Record Period, except for Treasure Adventure (國寶奇旅) which was broadcast in February 2019, all of the total investments of our self-produced drama series were covered by revenue generated from their respective first-run broadcasting right. The shortfall not covered by the first-run licensing revenue of Treasure Adventure (國寶奇旅) was approximately RMB10.4 million, primarily as a result of (i) the lower licensing fees as online video platforms generally reduced their purchase prices of TV series per episode in 2019, which was in line with the market trend, and drama series of war/spy genre and theme are relatively less popular among online video platforms; and (ii) the higher actors’ remuneration as it was produced before actors’ remuneration had been substantially reduced pursuant to relevant government policies. Such shortfall is expected to be compensated by a total of (i) revenue of RMB4.5 million generated from re-run broadcast; (ii) investment income contributed by a co-investor of RMB4.1 million; and (iii) expected revenue to be generated of RMB5.6 million for the years ending December 31, 2020 and 2021. During the Track Record Period, the licensing fees of the first-run broadcasting rights of our self-produced drama series ranged (i) from RMB1.0 million to RMB2.6 million per episode for TV channels; and (ii) from RMB0.4 million to RMB7.0 million per episode for online video platforms. According to Frost & Sullivan, the licensing fees of the first-run of self-produced drama series normally range from RMB0.8 million to RMB4.0 million per episode for TV channels.

In determining the licensing fee of our outright-purchased drama series, we generally consider the costs of purchases of the relevant broadcasting rights, the broadcasting time slot (prime time or otherwise), the video views, the prevailing market price, and our target profit margin. During the Track Record Period, the licensing fees of the first-run broadcasting rights of our outright-purchased drama series generally ranged from RMB0.5 million to RMB3.4 million per episode. According to Frost & Sullivan, the licensing fees of the first-run of outright-purchased drama series normally range from RMB0.1 million to RMB3.0 million per episode.

For made-to-order drama series, we charge online video platforms a pre-determined fixed fee based on negotiations between the parties on a cost-plus basis, taking into consideration our target profit margin for the production services we provide. During the Track Record Period, our pre-determined fixed fees of made-to-order drama series generally ranged from RMB2.5 million to RMB7.5 million per episode. According to Frost & Sullivan, pre-determined fixed fees of made-to-order drama series normally range from RMB0.5 million to RMB5.0 million per episode.

During the Track Record Period, the licensing fees of the re-run of our drama series generally ranged from RMB800 to RMB0.2 million per episode for TV channels; while according to Frost & Sullivan, the licensing fees of the re-run of drama series normally range from RMB50,000 to RMB0.6 million per episode for TV channels.

For further details, see “Business — Pricing.”

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe our previous success is attributable to the following competitive strengths: (i) a major drama series producer and distributor; (ii) a large and diversified pool of IP rights; (iii) our platform business model enables us to effectively integrate premium industry resources; (iv) capture the opportunities offered by the rise of online video platforms and produce diversified quality drama series; (v) strong investment and distribution capability; and (vi) visionary and experienced management team.

OUR STRATEGIES

We plan to continue to maintain our major market position, further take advantage of our platform business model, and explore business innovations. To achieve our goals, we plan to execute the following strategies: (i) continue to deepen our platform business model and enhance our production and distribution capabilities; (ii) further expand our business through selective investments, mergers and acquisitions; (iii) continue to further discover potential opportunities from online video platforms and explore business innovation; and (iv) continue to attract and retain talented professionals.

RISK FACTORS

Our business faces risks including those set out in “Risk Factors.” As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the “Risk Factors” section in its entirety before you decide to invest in our Offer Shares. Some of the major risks that we face include: (i) our success depends, in a significant part, on the general prosperity and development of China’s overall entertainment industry, and factors affecting the entertainment industry, especially the development of the drama series market, could have a material and adverse effect on our business, financial condition and results of operations; (ii) iQIYI was our single largest customer in 2018, 2019 and the six months ended June 30, 2020. If we fail to maintain our business relationship with iQIYI or if iQIYI loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected; (iii) our income is generally project-based and non-recurring in nature and a failure to obtain new contracts could materially affect our financial performance; (iv) the production and distribution of drama series are extensively regulated in the PRC, and our production and distribution of drama series are subject to various PRC laws, rules and regulations. Our failure to comply with existing laws, rules and regulations as well as evolving laws, rules and regulations could materially and adversely affect our business, financial condition and results of operations; (v) we rely on major TV channels and top online video platforms for the distribution and broadcast of our drama series, with which we have limited bargaining power, and the loss of any one of them would materially and adversely affect our business, financial conditions, results of operations and prospects; (vi) we are exposed to liquidity risk arising from the mismatch between our cash inflow received from customers and cash outflow paid to suppliers as a result of the long credit period we grant to our customers, as well as the long cash conversion cycle as a result of the increasing balances and turnover days of our inventories and trade receivables; and (vii) we recorded negative cash flow from operating activities during the Track Record Period and may be subject to liquidity risks, which could constrain our operational flexibility and materially and adversely affect our business, financial condition and results of operations.

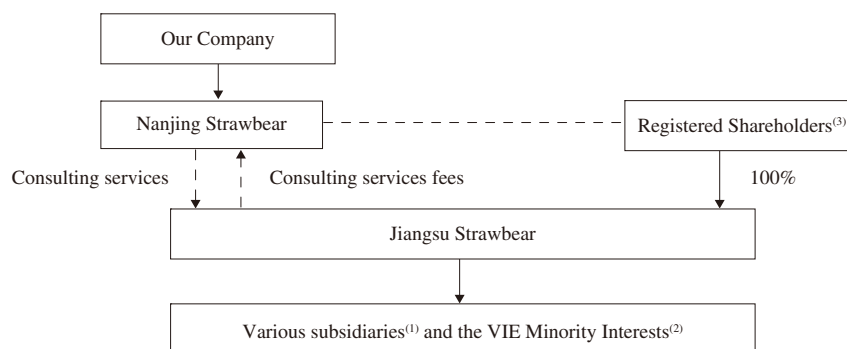
SUMMARY

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon the exercise of the Pre-IPO Share Options), Mr. Liu, his wholly-owned holding company Master Sagittarius and Leading Glory which is controlled by Mr. Liu as it is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust that is a discretionary trust established by Mr. Liu as the settlor and protector and his wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu, will be able to exercise the voting rights attaching to approximately 60.32% of the total issued share capital of our Company. Therefore, Mr. Liu, Master Sagittarius and Leading Glory shall be regarded as our Controlling Shareholders. See “Relationship with Our Controlling Shareholders — Our Controlling Shareholders” for further details.

CONTRACTUAL ARRANGEMENTS

As the operations of our Consolidated Affiliated Entities are subject to various foreign ownership prohibitions under PRC laws and regulations, it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. On November 20, 2018 we entered into the Contractual Arrangements with Jiangsu Strawbear and the Registered Shareholders, which were amended and restated on February 20, 2019, pursuant to which we are able to assert management control over the operations of the Consolidated Affiliated Entities and are entitled to all the economic benefits derived from their operations. The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



Notes:

—> denotes direct legal and beneficial ownership in the equity interest.

- -> denotes contractual relationship.

- - - denotes the control by Nanjing Strawbear over our Consolidated Affiliated Entities through (i) powers of attorney to exercise all shareholders' rights in Jiangsu Strawbear, (ii) exclusive options to acquire all or part of the equity interests in Jiangsu Strawbear and (iii) equity pledges over the equity interest in Jiangsu Strawbear.

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- (1) These include Horgos Strawbear, Beijing Strawbear and Nova Film.
- (2) These refer to the 18.31% partnership interests held by Jiangsu Strawbear in Nanjing Huawen.
- (3) As of the Latest Practicable Date, Jiangsu Strawbear was held as to 100% by the Registered Shareholders, details of which are set out in “Contractual Arrangements.”

PRE-IPO INVESTMENTS

On November 29, 2018 and May 21, 2020, we issued and allotted 1,765 Series A Preferred Shares of a par value of US\$1.00 each and 26,720,000 Series A Preferred Shares of a par value of US\$0.000025 each to Taurus Holding, respectively. As of the Latest Practicable Date, Taurus Holding held approximately 19.57% of the total issued share capital of our Company. Upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon the exercise of the Pre-IPO Share Options), Taurus Holding will hold approximately 14.68% of the enlarged issued share capital of our Company. See “History, Reorganization and Corporate Development — Pre-IPO Investments” for further details.

PRE-IPO SHARE OPTION SCHEME

Following the adoption of the Pre-IPO Share Option Scheme and as of the Latest Practicable Date, an aggregate of 37,648,000 Pre-IPO Share Options, representing 5.68% of the issued share capital of our Company immediately after the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), had been conditionally granted to Mr. Liu, our founder, an executive Director and the chief executive officer of our Company, to recognize his significant contribution to our Group. On November 18, 2020, Mr. Liu transferred all of his 37,648,000 Pre-IPO Share Options to Gorgeous Horizon which is indirectly wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust which is a personal trust established by Mr. Liu as the settlor and protector and Mr. Liu’s wholly-owned holding company Master Sagittarius as the beneficiary. Pursuant to the terms of the Pre-IPO Share Option Scheme, Mr. Liu shall not exercise the outstanding options granted to him under the Pre-IPO Share Option Scheme prior to the Listing. No further options may be granted under the Pre-IPO Share Option Scheme after the Listing. For details, see “Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The tables below set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this prospectus. You should read this summary in conjunction with our consolidated financial information included in the Accountants’ Report in Appendix I to this prospectus, including the accompanying notes, and the information set forth in “Financial Information.”

SUMMARY

Summary of Consolidated Statements of Profit or Loss

The table below sets forth selected consolidated statements of profit or loss items for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
REVENUE	542,864	679,109	765,097	647,745	579,832
Cost of sales	(390,812)	(469,246)	(657,457)	(574,962)	(444,190)
Gross profit	152,052	209,863	107,640	72,783	135,642
Other income and gains	4,008	4,411	34,343	22,279	10,448
Selling and distribution expenses	(24,375)	(75,758)	(33,498)	(29,443)	(32,364)
Administrative expenses	(15,430)	(64,047)	(17,655)	(9,810)	(29,831)
Other expenses	(829)	(386)	(128)	(128)	–
Finance costs	(22,792)	(34,871)	(9,734)	(5,018)	(5,513)
Changes in fair value of financial liabilities at fair value through profit or loss	–	936	(14,996)	(4,328)	(3,720)
PROFIT BEFORE TAX	92,634	40,148	65,972	46,335	74,662
Income tax expense	(28,604)	(29,635)	(15,572)	(8,537)	(20,534)
PROFIT FOR THE YEAR/PERIOD	64,030	10,513	50,400	37,798	54,128
Attributable to:					
Owners of the parent	60,566	12,434	50,032	37,800	54,128
Non-controlling interests	3,464	(1,921)	368	(2)	–
	64,030	10,513	50,400	37,798	54,128

SUMMARY

Our profit for the year decreased significantly by 83.6% to RMB10.5 million for the year ended December 31, 2018 from RMB64.0 million for the year ended December 31, 2017. Such decrease was primarily due to (i) the significant increase in selling and distribution expenses in 2018 as a result of the increase in advertising expenses because the number of drama series incurring advertising expenses of over RMB1.0 million increased by six from 2017 to 2018, most of which were distributed to TV channels where we undertook the promotion responsibility for such drama series; and (ii) the significant increase in administrative expenses as a result of the occurrence of the equity-settled share award expense of RMB42.0 million in 2018.

Revenue

The table below sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,						
	2017	2018		2019		2020				
	<i>(RMB in thousands, except percentages of revenue)</i>									
	<i>(Unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	95,804	17.6%	445,295	65.6%	571,412	74.7%	459,388	70.9%	480,848	83.0%
Licensing of broadcasting rights of outright-purchased drama series	423,061	77.9%	224,174	33.0%	183,272	24.0%	183,272	28.3%	2,288	0.4%
Made-to-order drama series production	5,178 ⁽²⁾	1.0%	-	-	-	-	-	-	84,906	14.6%
Others ⁽¹⁾	18,821	3.5%	9,640	1.4%	10,413	1.3%	5,085	0.8%	11,790	2.0%
Total	542,864	100.0%	679,109	100.0%	765,097	100.0%	647,745	100.0%	579,832	100.0%

Notes:

- (1) Others primarily comprise revenues from (i) net licensing fees received from investment in drama series as a non-executive producer; and (ii) IP derivatives, such as online games, and product placements for advertisers.
- (2) Represented production service fees we charged for made-to-order drama series A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記), the revenue of which was recognized over time until completion of the production in 2017. See “Financial Information — Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin — Made-to-order Drama series.”

Our revenue increased from RMB542.9 million for the year ended December 31, 2017 to RMB679.1 million for the year ended December 31, 2018 and further increased to RMB765.1 million for the year ended December 31, 2019, primarily attributable to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series from RMB95.8 million to RMB445.3 million and further to RMB571.4 million for the same years as a result of the broadcast of our self-produced drama series over the years, such as the broadcast of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) in 2018, as well as Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行) in 2019, which was partially offset

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by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series from RMB423.1 million to RMB224.2 million and further to RMB183.3 million for the same years, primarily due to (i) the significantly higher revenue generated from Lost Love in Times (醉玲瓏) in 2017 as it was distributed to all of the top three online video platforms; and (ii) the decrease in number of outright-purchased drama series broadcast from 2018 to 2019, as this business line was highly depending on the market opportunities that we could identify and seize, namely, once we find premium and suitable drama series that needs to be distributed as well as matching distribution channels, we will seize the opportunity to match the distribution channel with the copyright owner of such drama series. The decrease of our revenue from RMB647.7 million for the six months ended June 30, 2019 to RMB579.8 million for the same period in 2020 was primarily due to the significant decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB181.0 million as the revenue generated from the licensing fees of The Legends (招搖) and Detective Ke Chen (神探柯晨) recognized in the first half of 2019 was much higher than that of A Sword Across The Sky (一劍橫空) recognized in the first half of 2020, which was partially offset by (i) the increase in revenue generated from made-to-order drama series of RMB84.9 million primarily attributable to the broadcast of Customer First (獵心者) in the first half of 2020 while we did not broadcast any made-to-order drama series in the same period in 2019; and (ii) the slight increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB21.5 million primarily attributable to the slightly higher licensing fees of The Love Lasts Two Minds (兩世歡) and Inside Man (局中人) broadcast in the first half of 2020 than that of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) broadcast in the first half of 2019.

Gross Profit and Gross Profit Margin

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

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin
	<i>(RMB in thousands, except gross profit margin)</i>									
	<i>(unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	54,899	57.3%	107,790	24.2%	63,779	11.2%	34,138	7.4%	114,511	23.8%
Licensing of broadcasting rights of outright-purchased drama series	76,504	18.1%	99,110	44.2%	34,339	18.7%	34,339	18.7%	1,991	87.0%
Made-to-order drama series production	5,178	100.0%	-	-	-	-	-	-	14,151	16.7%
Others	15,471	82.2%	2,963	30.7%	9,522	91.4%	4,306	84.7%	4,989	42.3%
Total	152,052	28.0%	209,863	30.9%	107,640	14.1%	72,783	11.2%	135,642	23.4%

SUMMARY

Our overall gross profit margin decreased significantly from 30.9% for the year ended December 31, 2018 to 14.1% for the year ended December 31, 2019, primarily due to the decrease in gross profit margins for the business lines of licensing of broadcasting rights of self-produced and outright-purchased drama series in 2019, mainly due to the lower gross profit margins of self-produced drama series Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) and lower gross profit margins of outright-purchased drama series Detective Ke Chen (神探柯晨) and The Legends (招搖) broadcast in 2019. The lower gross profit margins of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) were as a result of (i) the higher actors' remuneration as these two drama series were produced before actor remuneration had been substantially reduced according to relevant government policies; while (ii) relatively lower licensing fees as online video platforms generally reduced their purchase prices of TV series per episode in 2019, which was in line with the market trend. The lower gross profit margins of Detective Ke Chen (神探柯晨) and The Legends (招搖) were mainly because they were distributed to third party distributors, which generally resulted in lower gross profit margin, and the procurement cost of The Legends (招搖) was higher than that of the outright purchased drama series broadcast in 2018. Our overall profit margin increased from 11.2% for the six months ended June 30, 2019 to 23.4% for the same period in 2020, primarily attributable to the increase in gross profit margin for licensing of broadcasting rights of self-produced drama series which was mainly attributable to the higher gross profit margin of The Love Lasts Two Minds (兩世歡) broadcast in the first half of 2020, as a result of the higher licensing fees for such drama series partially determined by its innovative and scarce genre and theme, and its lower production cost which was mainly because the actors for such drama series were freshman actors with relatively lower remuneration.

Non-HKFRS Measure

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

SUMMARY

We define adjusted net profit as profit for the period adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also non-cash items and unrelated to our principal business, and therefore are not indicative of our profit from operations post-completion of our Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which will be converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing.

The table below reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is the net profit for the year/period:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Reconciliation of net profit to adjusted net profit					
Net profit for the year/period	64,030	10,513	50,400	37,798	54,128
Add:					
Changes in fair value of financial liabilities at fair value through profit or loss	–	(936)	14,996	4,328	3,720
Equity-settled share award expense	–	41,951	–	–	2,146
Listing expenses	–	–	–	–	12,087
Adjusted net profit	64,030	51,528	65,396	42,126	72,081

SUMMARY

Summary of Consolidated Statements of Financial Position

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Current assets:				
Inventories	314,509	536,664	919,119	681,121
Trade and notes receivables	289,851	180,344	485,396	776,634
Prepayments, other receivables and other assets	83,981	244,498	340,906	254,012
Due from a related party	–	–	3,000	–
Financial assets at fair value through profit or loss	20,000	–	–	–
Cash and cash equivalents	153,258	97,255	52,349	83,295
Restricted cash	–	–	54,312	18
Total current assets	861,599	1,058,761	1,855,082	1,795,080
Total non-current assets	11,398	21,126	197,173	198,641
Current liabilities:				
Trade payables	189,570	236,863	449,190	425,521
Other payables and accruals	177,894	177,497	734,535	602,808
Interest-bearing bank and other borrowings	43,000	66,000	125,000	140,500
Lease liabilities	1,493	907	509	896
Due to a joint venture	–	–	51,000	71,260
Tax payable	19,585	16,648	6,604	7,999
Due to a related party	–	81,013	105,926	–
Dividend payable	–	80,000	81,507	80,000
Total current liabilities	431,542	658,928	1,554,271	1,328,984
Net current assets	430,057	399,833	300,811	466,096
Total non-current liabilities	247,957	274,997	303,533	413,041
Net assets	193,498	145,962	194,451	251,696
Equity:				
Share capital	–	–	–	–
Reserves	190,034	144,419	194,451	250,822
Non-controlling interests	3,464	1,543	–	874
Total equity	193,498	145,962	194,451	251,696

SUMMARY

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our net assets was RMB193.5 million, RMB146.0 million, RMB194.5 million and RMB251.7 million, respectively. The decrease in our net assets from December 31, 2017 to December 31, 2018 was mainly due to the dividends declared of RMB100.0 million in 2018. See “— Dividends” for details.

During the Track Record Period, we recorded significant amounts of certain items of assets and liabilities, such as goodwill, other intangible assets and financial liabilities at fair value through profit or loss. Our goodwill represents the excess of (i) the aggregate of the fair value of consideration transferred over and (ii) the net fair value of the acquiree’s identifiable assets and liabilities measured as of the acquisition date. Our goodwill was nil, nil, RMB108.3 million and RMB113.0 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our other intangible assets represent identifiable intangible assets including software, trademarks, backlog and patents, among of which, we obtained backlog and patents through our acquisition of Hangzhou Yide and Nova Film. We recorded other intangible assets of RMB28.0 thousands, RMB24.0 thousands, RMB42.9 million and RMB27.2 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our financial liabilities at fair value through profit or loss primarily represent preferred shares held by iQIYI. We recorded financial liabilities at fair value through profit or loss of nil, RMB274.5 million, RMB289.5 million and RMB401.5 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

See “Financial Information — Discussion of Certain Balance Sheet Items” for further details.

Summary of Consolidated Statements of Cash Flows

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

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Profit before tax	92,634	40,148	65,972	46,335	74,662
Adjustments	27,100	88,878	17,504	5,895	38,953
Change in working capital	(148,679)	(150,718)	(6,824)	21,761	(73,583)
Income tax paid	(27,757)	(42,294)	(37,518)	(29,922)	(28,206)
Net cash (used in)/generated from operating activities	(56,702)	(63,986)	39,134	44,069	11,826
Net cash generated from/(used in) investing activities	131,671	(89,666)	(186,570)	(68,291)	20,139
Net cash generated from/(used in) financing activities	62,431	97,649	102,530	(20,352)	(1,019)
Net increase/(decrease) in cash and cash equivalents	137,400	(56,003)	(44,906)	(44,574)	30,946
Cash and cash equivalents at the beginning of the year/period	15,858	153,258	97,255	97,255	52,349
Cash and cash equivalents at the end of the year/period	153,258	97,255	52,349	52,681	83,295

SUMMARY

Our cash used in operating activities of RMB56.7 million for the year ended December 31, 2017 was primarily due to the decrease in working capital mainly as a result of the significant increase in inventories of RMB262.2 million and the increase in trade and notes receivables of RMB176.6 million in 2017. The increase in inventories in 2017 was primarily due to the commencement of production of Mr. Nanny (月嫂先生) and Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌) in 2017, and the increase in trade and notes receivables in 2017 was primarily because certain of our drama series, such as Starry April (繁星四月), Lost Love in Times (醉玲瓏) and My! P.E. Teacher (我的！體育老師), were broadcast and the revenues were recognized in 2017. Our cash used in operating activities of RMB64.0 million for the year ended December 31, 2018 was primarily due to the decrease in working capital mainly as a result of the significant increase in inventories of RMB236.0 million in 2018. The increase in inventories in 2018 was primarily due to the increase in our work in progress attributable to the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域).

We have adopted and will continue to adopt the following measures to improve our cash flow position and working capital sufficiency:

- *Deepening our cooperation with online video platforms to produce more made-to-order drama series to expand our pipeline programs, which will allow us to obtain upfront funding.* Under made-to-order business model, normally, we are invited by online video platforms to produce web series, while they are responsible for investing in, developing and distributing such web series. As a result, we are able to secure the distribution of such web series and receive a portion of the production fees in installments at an early stage, which helps us to maintain our liquidity and lower the risks of unsuccessful distribution. See “Business — Our Business Process — Made-to-order Drama Series;”
- *Closely monitoring and managing, among other things, the collection status of our trade and notes receivables and the level of our prepayments.* We will continue to exercise a stringent credit control policy and closely follow up with our customers, especially TV channels, on our trade and notes receivables by performing aging analysis of our trade and notes receivables regularly and take appropriate actions according to the length of the overdue period. In addition, we will continue to develop and enhance our business relationships with first-tier satellite TV channels which generally have stronger ability to repay and lower credit and default risks as compared to other TV stations; and
- *Implementing annual budget planning and periodical financial reporting mechanism to ensure our cash flow to remain healthy.* Our annual budgeting planning shall be reviewed and approved by our Board. At the operational level, we have assigned our finance staff to monitor the financial status of our Group such as the management accounts, and our financial department will report to our Board and senior management in relation to our Group’s financial performance and cash flow status periodically.

See “Financial Information — Liquidity and Capital Resources — Cash Flows” for further details of our cash flows.

SUMMARY

Key Financial Ratios

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

	Year ended/as of December 31,			Six months ended/as of June 30,
	2017	2018	2019	2020
Profitability ratios				
Gross profit margin	28.0%	30.9%	14.1%	23.4%
Net profit margin	11.8%	1.5%	6.6%	9.3%
Return on equity ⁽¹⁾	39.7%	6.2%	29.6%	N/A ⁽²⁾
Return on assets ⁽³⁾	9.7%	1.1%	3.2%	N/A ⁽²⁾
Liquidity ratios				
Current ratio ⁽⁴⁾	2.00	1.61	1.19	1.35
Quick ratio ⁽⁵⁾	1.27	0.79	0.60	0.84
Capital adequacy ratio				
Debt to equity ratio ⁽⁶⁾	71.9%	35.0%	118.3%	52.5%
Interest coverage ratio ⁽⁷⁾	5.1	2.2	7.8	14.5

Notes:

- (1) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity of the same period and multiplied by 100%.
- (2) Denotes “not applicable” as the ratios are not meaningful given the recorded profit only represented the amount for the six months ended June 30, 2020.
- (3) Return on assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets of the same period and multiplied by 100%.
- (4) Current ratio is calculated based on total current assets divided by total current liabilities as of the dates indicated.
- (5) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as of the dates indicated.
- (6) Debt to equity ratio is calculated based on net debt (of which net debt is defined as interest-bearing bank loans and other borrowings, lease liabilities, due to a joint venture and due to a related party deduct cash and cash equivalents) divided by total equity as of the dates indicated and multiplied by 100%.
- (7) Interest coverage ratio is calculated based on the profit for the year/period before interest and tax divided by the interest expenses for the same period.

SUMMARY

Both of our return on equity and return on assets experienced significant decreases from December 31, 2017 to December 31, 2018, mainly because of the decrease in our profit for the year primarily due to the significant increases in (i) selling and distribution expenses and (ii) administrative expenses in 2018. Such profitability ratios then increased as of December 31, 2019 and further increased as of June 30, 2020, primarily attributable to the significant increase in our profit for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively.

Both of our current ratio and quick ratio experienced decreases from December 31, 2017 to December 31, 2018, and further decreased as of December 31, 2019, primarily because the increase in our current liabilities outpaced the increase in our current assets from the end of 2017 to the end of 2019, which is line with the expansion and growth of our business. Our current ratio and quick ratio rebounded as of June 30, 2020, primarily because the decrease in our total current liabilities was faster than the decrease in our total current assets from December 31, 2019 to June 30, 2020.

Our debt to equity ratio decreased from 71.9% as of December 31, 2017 to 35.0% as of December 31, 2018, primarily attributable to the repayment of other borrowings from an investor in August 2018. Our debt to equity ratio significantly increased from 35.0% as of December 31, 2018 to 118.3% as of December 31, 2019, primarily attributable to the increases in amount due to a joint venture. Our debt to equity ratio decreased from 118.3% as of December 31, 2019 to 52.5% as of June 30, 2020, primarily due to the decrease in amount due to a related party and the increase in cash and cash equivalent. The increase of cash and cash equivalent balance was attributable to the increase in net cash generated from investing activities as a result of the repayment from a drama series production company for our investment with fixed return in its drama series, My Unicorn Girl (穿盔甲的少女).

See “Financial Information — Key Financial Ratios” for more details of the above ratios and a detailed analysis of fluctuations of other ratios.

RECENT DEVELOPMENTS

There has been an outbreak of an infectious disease caused by a novel coronavirus (the “COVID-19”). The disease quickly spread within the PRC and globally and materially and adversely affected the global economy. The outbreak has endangered the health of many people residing in China and significantly disrupted travel and the local economy across the country. The development of such epidemic in China is beyond our control. We adopted a strict disease prevention scheme to reduce the risk of our employees from infection of COVID-19. The measures implemented include, among others, sterilizing our workplaces twice a day, ventilating the workplaces and monitoring the body temperature of employees twice a day. As of the Latest Practicable Date, all of our employees had returned to work.

We do not expect the outbreak of COVID-19 would have a significant impact on our business operations and financial condition primarily because our business activities mainly involve drama series production and the licensing of the broadcasting rights of drama series. Except for on-site filming of our self-produced and made-to-order drama series, our screenwriters, post-production partners and employees can work remotely and communicate with one another through mobile phones, the internet and other media tools to facilitate the progress of each project in a timely manner. Except for the costs in association with drama series production and procurement of the broadcasting rights of outright-purchased drama series, our monthly fixed costs, such as employee benefits expenses and rental expenses are relatively low.

SUMMARY

Specifically, in addition to Breath Of Destiny (一起深呼吸), where our production was delayed for approximately 49 days and we incurred losses of approximately RMB1.1 million as a result of the spread of COVID-19, there has been no material adverse impact on the on-site filming and/or production of our self-produced and made-to-order drama series. As of the Latest Practicable Date, Breath Of Destiny (一起深呼吸) had completed filming and was in the process of post-production, and we had resumed the on-site filming and production of all of our pipeline drama series. Our outright-purchased drama series would not be adversely and materially affected as all of them have completed production before we procure their broadcasting rights. As the COVID-19 has almost been controlled in China, there had been no material adverse impact caused by COVID-19 on our operations and financial performance subsequent to the Track Record Period and up to the Latest Practicable Date.

In the event the COVID-19 continues to spread in the second half of 2020 or the PRC government authorities prohibit us from filming our self-produced or made-to-order drama series to avoid a new wave of infections, we have business contingency plans in place. In particular, (i) as of the Latest Practicable Date, we had in aggregate three drama series that had been distributed but were to be broadcast by the fourth quarter of 2021, including one self-produced drama series and two made-to-order drama series. See “Business — Our Drama Series — Our Drama Series to be Broadcast;” (ii) we would strive to work closely with our business partners seeking opportunities for more re-runs of our popular drama series. For example, post the Track Record Period and up to the Latest Practicable Date, we had entered into in aggregate 11 licensing agreements for three self-produced drama series and one production service agreement with a top online video platform to produce made-to-order drama series; and (iii) we would be expanding our business of licensing of broadcasting rights of outright-purchased drama series leveraging our strong distribution capability to maintain our results of operations and financial positions. Subsequent to the Track Record Period and up to the Latest Practicable Date, we also broadcast a total of eight drama series, including (i) one self-produced drama series, Unbending Will (石头開花); (ii) four outright-purchased drama series, Winter Begonia (鬢邊不是海棠紅), Get Married Or Not (誰說我結不了婚), We Are All Alone (怪你過分美麗) and Dear Missy (了不起的女孩); (iii) two made-to-order drama series, Dating In The Kitchen (我，喜歡你) and Marry Me (三嫁惹君心); and (iv) one drama series where we act as a distribution agent, Dear Myself (親愛的自己).

Based on our unaudited management accounts, our revenue and gross profit for the nine months ended September 30, 2020 increased by more than 20% and 100%, respectively, compared with our revenue and gross profit for the same period in 2019. Such increase in our revenue was primarily attributable to the higher revenue generated in the third quarter of 2020 as compared to the same period in 2019, which offset the decrease in our revenue from RMB647.7 million for the six months ended June 30, 2019 to RMB579.8 million for the same period in 2020. The higher revenue generated in the third quarter of 2020 was mainly attributable to the increase in revenue generated from all our three business lines: (i) the increases in revenue from both made-to-order drama series and outright-purchased drama series were primarily attributable to the above-mentioned two made-to-order drama series and two outright-purchased drama series broadcast in the third quarter of 2020, while we did not generate revenue from these two business lines in the same period in 2019; and (ii) the increase in revenue from our self-produced drama series was primarily as a result of an increase in the number of self-produced drama series that we licensed the re-run broadcasting rights of by two in the third quarter of 2020 as compared to the same period in 2019. Such increase in our gross profit was as a result of the higher gross profit for all our three business lines for the third quarter of 2020 as compared to the same period in 2019, mainly attributable to high gross profit of the aforementioned drama series licensed and broadcast in the third quarter of 2020.

SUMMARY

Our Directors confirm that, up to the date of this prospectus, (i) there has been no material adverse change in our financial, operational and/or trading position since June 30, 2020; and (ii) there has been no material adverse change in our business, the industry in which we operate and/or market or regulatory environment to which we are subject.

In the worst case scenario, namely, when we are required to suspend our operations starting from November 2020, our available financial resources of approximately RMB963.7 million comprising as of October 31, 2020 (i) cash and cash equivalent of RMB191.0 million; (ii) bank and other borrowings of RMB170.5 million; (iii) trade and notes receivables of RMB535.7 million to be collected based on the average trade and notes receivables turnover days for the six months ended June 30, 2020; and (iv) 10% of net proceeds from the Global Offering for general working capital of RMB66.5 million (based on HK\$5.10 per Share, being the low-end of the Offer Price range stated in this prospectus and assuming that the Over-allotment Option is not exercised), reduced by as of October 31, 2020 (i) trade payables of RMB357.9 million to be paid as of October 31, 2020 based on the average trade payables turnover days in the six months ended June 30, 2020; and (ii) commitments of RMB99.5 million can support the payment of our operating expenses for at least 12 months starting from November 1, 2020. The above estimate is based on the estimated operating expenses, which comprised (i) base salaries of employees and social insurance and housing provident fund contributions; (ii) average historical administrative expenses; and (iii) expected capital expenditure.

In addition, we may record net loss for the year ending December 31, 2020 primarily due to the expected loss on fair value changes of our financial liabilities at fair value through profit or loss which represent our convertible redeemable preferred shares held by iQIYI. Although our convertible redeemable preferred shares will be automatically converted to Shares upon the closing of the Listing, to the extent we need to revalue the preferred shares prior to the Listing, any changes in fair value of these convertible redeemable preferred shares will affect our financial positions and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance.” After the automatic conversion of all preferred shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

SUMMARY

OFFERING STATISTICS

	<u>Based on an Offer Price of HK\$5.10 per Offer Share</u>	<u>Based on an Offer Price of HK\$6.16 per Offer Share</u>
Market capitalization of Offer Shares ⁽¹⁾	HK\$845.5 million	HK\$1,021.2 million
Market capitalization of our Shares upon completion of the Global Offering ⁽²⁾	HK\$3,381.8 million	HK\$4,084.7 million
Unaudited pro forma adjusted net tangible assets per Offer Share ⁽³⁾	HK\$2.12	HK\$2.38

Notes:

- (1) The calculation of market capitalization is based on 165,780,000 Offer Shares expected to be issued immediately upon completion of the Global Offering, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of the options granted under the Pre-IPO Share Options.
- (2) The calculation of market capitalization is based on 663,100,000 Offer Shares expected to be issued immediately upon completion of the Global Offering, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the exercise of the options granted under the Pre-IPO Share Options.
- (3) See “Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets” and “Appendix II — Unaudited Pro Forma Financial Information” for further details of the assumptions used and the calculation method.

LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers and the Reporting Accountants for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, excluding any discretionary incentive fee which may be payable by us) for the Global Offering are approximately RMB51.1 million, representing approximately 6.5% of the gross IPO proceeds. During the Track Record Period, we incurred listing expenses of RMB15.8 million, among which RMB12.1 million was charged to the consolidated statements of profit or loss for the six months ended June 30, 2020 as administrative expenses and approximately RMB3.7 million was capitalized as deferred expenses in the consolidated statements of financial position as of June 30, 2020 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately RMB35.3 million, of which approximately RMB15.6 million is expected to be recognized as administrative expenses and approximately RMB19.7 million is expected to be recognized as a deduction in equity directly upon the Listing. Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2020.

DIVIDENDS

For the year ended December 31, 2018, a subsidiary of our Group, Jiangsu Strawbear, declared dividends of RMB100.0 million to its then shareholders, which had not been paid yet as of the Latest Practicable Date. Such dividends are expected to be paid to the relevant shareholders of Jiangsu Strawbear within about five years from 2020 in installments with our self-owned funds. For the year ended December 31, 2019, a subsidiary of our Group, Blue Boiling Point, declared dividends of RMB1.9

SUMMARY

million to its then shareholders, which were paid in the first quarter of 2020. See Note 11 to the Accountants' Report set forth in Appendix I to this prospectus. Other than the above, no dividend has been proposed, paid or declared by our Company or our subsidiaries since its incorporation during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. See "Financial Information — Dividends."

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$872.9 million, assuming an Offer Price of HK\$5.63 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), after deducting the underwriting commissions, and estimated expenses paid or payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised.

In line with our strategies, we intend to apply the net proceeds from the Global Offering for the following purposes and in the amounts set forth below:

Percentage of Net Proceeds	Future Plans	Approximately HK\$ in millions
70%	To fund our drama series production.	611.0
10%	To fund potential investment in, or merger and acquisition of, companies that may enhance our market position and ramp up our drama series development, production and distribution, in particular, one downstream market player engaged in post-production.	87.3
10%	To secure more IPs to guarantee the stable development of our drama series production and distribution by acquiring at least one premium copyright company.	87.3
10%	Working capital and other general corporate purposes.	87.3

See "Future Plans and Use of Proceeds."

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on December 18, 2020 with effect from the Listing Date, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Honeybear”	Beijing Honeybear Entertainment Cultural Media Co., Ltd (北京蜜熊娛樂文化傳媒有限公司), a limited liability company established in the PRC on September 10, 2020 and an indirectly non-wholly-owned subsidiary of our Company
“Beijing iQIYI”	Beijing iQIYI Technology Co., Ltd. (北京愛奇藝科技有限 公司), a limited liability company established in the PRC on March 27, 2007, a wholly-owned subsidiary of iQIYI, Inc. and a connected person of our Company
“Beijing Strawbear”	Beijing Strawbear Film Co., Ltd. (北京稻草熊影業有限公 司), a limited liability company established in the PRC on September 2, 2019 and indirectly controlled by our Company through the Contractual Arrangements
“Beyond Vast”	BEYOND VAST LIMITED, a BVI business company incorporated under the laws of the BVI on August 12, 2020 and wholly owned by Family Trust Singapore, the trustee of the LSS Family Trust

DEFINITIONS

“Blue Boiling Point”	Jiangsu Blue Boiling Point Film-Television Culture Co., Ltd. (江蘇藍色沸點影視文化有限公司), a limited liability company established in the PRC on June 2, 2015 and deregistered on December 20, 2019, a previous subsidiary of our Group
“Board” or “Board of Directors”	the board of directors of our Company
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business to the public
“BVI”	the British Virgin Islands
“Cayman Companies Act” or “Companies Act”	the Companies Act (2020 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our 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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Jiangsu Strawbear and its subsidiaries, further details of which are set out in “Contractual Arrangements”
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Nanjing Strawbear, Jiangsu Strawbear and its registered shareholders, details of which are described in “Contractual Arrangements”
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, unless the context otherwise requires, refers to Mr. Liu, Master Sagittarius and Leading Glory
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Non-competition”	a deed of non-competition undertakings dated December 18, 2020 entered into by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of our subsidiaries), particulars of which are summarized in the section headed “Relationship with Our Controlling Shareholders” in this prospectus
“Director(s)”	director(s) of our Company
“EIT”	enterprise income tax in the PRC
“Employee Trust Hong Kong”	Vistra Trust (Hong Kong) Limited, an Independent Third Party professional trust company established in Hong Kong

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“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“F&S Report” or “Frost & Sullivan Report”	an independent market research report prepared by Frost & Sullivan for the purpose of this prospectus
“Family Trust Singapore”	Vistra Trust (Singapore) Pte. Limited, an Independent Third Party professional trust company established in Singapore
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
“GAPP”	the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署)
“GDP”	gross domestic product
“GFA”	gross floor area
“Glesason Global”	GLESASON GLOBAL LIMITED, a BVI business company incorporated under the laws of the BVI on May 5, 2020 and owned as to 99% by Beyond Vast and 1% by Gold Pisces
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Gold Fish”	Gold Fish Management Holding Limited, a BVI business company incorporated under the laws of the BVI on January 30, 2018 and wholly owned by Ms. Zhai
“Gold Fish Trust”	the discretionary trust established by Ms. Zhai as the settlor and the protector, with Family Trust Singapore as the trustee, details of which are set out in the section headed “History, Reorganization and Corporate Development”
“Gold Pisces”	Gold Pisces Holding Limited, a BVI business company incorporated under the laws of the BVI on December 19, 2017 and wholly owned by Ms. Liu

DEFINITIONS

“Golden Basin”	GOLDEN BASIN GLOBAL LIMITED, a BVI business company incorporated under the laws of the BVI on April 1, 2020 and owned as to 99% by Smart Century and 1% by Gold Fish
“Gorgeous Horizon”	GORGEOUS HORIZON LIMITED, a BVI business company incorporated under the laws of the BVI on August 28, 2020 and wholly owned by Success Tale
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider, designated by our Company
“Group”, “our Group”, “the Group”, “we” or “us”	our Company and our subsidiaries and Consolidated Affiliated Entities at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“Hangzhou Yide”	Hangzhou Yide Cultural Creativity Co., Ltd. (杭州懿德文化创意有限公司), a limited liability company established in the PRC on June 25, 2015 and an indirectly wholly-owned subsidiary of our Company
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the IPO App or the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company as specified in the IPO App or on the designated website at www.hkeipo.hk
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards, which collectively include Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 16,578,000 Shares initially being offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in “Structure of the Global Offering”)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering as listed in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement, dated December 29, 2020, relating to the Hong Kong Public Offering, entered into by, among others, our Company, the Controlling Shareholders, China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited and the Hong Kong Underwriters
“Horgos Strawbear”	Horgos Strawbear Film Co., Ltd. (霍爾果斯稻草熊影業有限公司), a limited liability company established in the PRC on August 4, 2016 and indirectly controlled by our Company through the Contractual Arrangements
“Ice Princess”	Ice Princess Holding Limited, a BVI business company incorporated under the laws of the BVI on December 19, 2017 and wholly owned by Ms. Zhao
“Independent Third Party(ies)”	an individual or a company which, to the best of our Director’s knowledge, information, and belief, having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules

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“International Offer Shares”	the 149,202,000 Shares being initially offered by our Company for subscription and purchased at the Offer Price under the International Offering together with, where relevant, any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in “Structure of the Global Offering”
“International Offering”	the conditional offering of the International Offer Shares by the International Underwriters to professional, institutional, and other investors at the Offer Price by the International Underwriters on behalf of our Company as described in “Structure of the Global Offering”
“International Underwriters”	the group of underwriters of the International Offering, which is expected to enter into the International Underwriting Agreement relating to the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, our Controlling Shareholders, the Joint Representatives and the International Underwriters on or about January 8, 2021
“ IPO App ”	the mobile application for the HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“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. with approximately 476.0 million average MAUs in 2019
“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 our Company through the Contractual Arrangements

DEFINITIONS

“Joint Bookrunners”	China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited, China Renaissance Securities (Hong Kong) Limited, ABCI Capital Limited, Haitong International Securities Company Limited, BOCOM International Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, CMB International Capital Limited and Futu Securities International (Hong Kong) Limited
“Joint Global Coordinators”	China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited and China Renaissance Securities (Hong Kong) Limited
“Joint Lead Managers”	China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited, China Renaissance Securities (Hong Kong) Limited, ABCI Securities Company Limited, Haitong International Securities Company Limited, BOCOM International Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, CMB International Capital Limited, Futu Securities International (Hong Kong) Limited, US Tiger Securities, Inc. (<i>in relation to the International Offering only</i>) and China Galaxy International Securities (Hong Kong) Co., Limited
“Joint Representatives”	China Merchants Securities (HK) Co., Limited and China Securities (International) Corporate Finance Company Limited
“Joint Sponsors”	China Merchants Securities (HK) Co., Limited and China Securities (International) Corporate Finance Company Limited
“Latest Practicable Date”	December 21, 2020, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Leading Glory”	LEADING GLORY INVESTMENTS LIMITED, a BVI business company incorporated under the laws of the BVI on April 1, 2020 and owned as to 99% by Master Genius and 1% by Master Sagittarius
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“Listing Date”	the date, expected to be on or about January 15, 2021, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are first permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“LSS Family Trust”	the discretionary trust established by Ms. Liu as the settlor and the protector, with Family Trust Singapore as the trustee, details of which are set out in the section headed “History, Reorganization and Corporate Development”
“LXF Family Trust”	the discretionary trust established by Mr. Liu as the settlor and the protector, with Family Trust Singapore as the trustee, details of which are set out in the section headed “History, Reorganization and Corporate Development”
“LXF Option Trust”	the trust established by Mr. Liu as the settlor and the protector, with Employee Trust Hong Kong as the trustee and Master Sagittarius as the beneficiary
“M&A Rules”	Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Master Genius”	MASTER GENIUS GLOBAL LIMITED, a BVI business company incorporated under the laws of the BVI on August 28, 2020 and wholly owned by Family Trust Singapore, the trustee of the LXF Family Trust
“Master Sagittarius”	Master Sagittarius Holding Limited, a BVI business company incorporated under the laws of the BVI on December 18, 2017 and wholly owned by Mr. Liu, one of our Controlling Shareholders

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the sixth amended and restated memorandum of association of our Company, conditionally adopted on December 18, 2020 with effect from the Listing Date, and as amended from time to time
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Liu”	Mr. LIU Xiaofeng (劉小楓), chairman of the Board, an executive Director, the chief executive officer of our Company, one of our Controlling Shareholders and one of the Registered Shareholders of Jiangsu Strawbear
“Ms. Liu”	Ms. LIU Shishi (劉詩施), one of our substantial Shareholders and one of the Registered Shareholders of Jiangsu Strawbear
“Ms. Zhai”	Ms. ZHAI Fang (翟芳), an executive Director, the chief operating officer of our Company and one of the Registered Shareholders of Jiangsu Strawbear
“Ms. Zhang”	Ms. ZHANG Qiuchen (張秋晨), an executive Director, the chief marketing officer of our Company and one of the Registered Shareholders of Jiangsu Strawbear
“Ms. Zhao”	Ms. ZHAO Liying (趙麗穎), one of our Shareholders and one of the Registered Shareholders of Jiangsu Strawbear
“Nanjing Huawen”	Nanjing Huawen Strawbear Culture Partnership (Limited Partnership) (南京華文稻草熊文化合夥企業(有限合夥)), a limited partnership established in the PRC on November 29, 2019, 18.31% limited partnership interest in which are held by Jiangsu Strawbear
“Nanjing Strawbear”	Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), a limited liability company established in the PRC on September 17, 2018 and an indirectly wholly-owned subsidiary of our Company
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

DEFINITIONS

“Negative List”	Special Management Measures for Access of Foreign Investment (2020 Edition) (《外商投資准入特別管理措施(負面清單)》(2020年版))
“Nova Film”	Nova Film Technology (Jiangsu) Co., Ltd. (諾華視創電影科技(江蘇)有限公司), a limited liability company established in the PRC on May 29, 2015 and indirectly controlled by our Company through the Contractual Arrangements
“NRTA”	National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局), the successor of SAPPRT
“Offer Price”	the final price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which Offer Shares are to be subscribed for and to be determined in the manner further described in “Structure of the Global Offering — Pricing and Allocation”
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares may be issued by our Company pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 24,867,000 additional Shares (representing in aggregate 15% of initial Offer Shares) at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in “Structure of the Global Offering”
“PBOC”	the People’s Bank of China (中國人民銀行)
“People’s Congress”	the PRC’s legislative apparatus, including the National People’s Congress and all the local people’s congresses (including provincial, municipal, and other regional or local people’s congresses) as the context may require, or any of them

DEFINITIONS

“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of National People’s Congress on October 26, 2018 and effective on the same date
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal, and other regional or local government entities) and its organs or, as the content requires, any of them
“PRC Legal Advisors”	Commerce & Finance Law Offices
“Pre-IPO Investments”	the pre-IPO investments in our Company undertaken by the Pre-IPO Investor, details of which are set out in “History, Reorganization and Corporate Development”
“Pre-IPO Investor”	Taurus Holding
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by our 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”
“Pre-IPO Share Options”	the share options granted under the Pre-IPO Share Option Scheme
“Price Determination Agreement”	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of the other Underwriters) and the Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about Friday, January 8, 2021, on which the Offer Price will be determined, or such later time as the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company may agree, but in any event, no later than Monday, January 11, 2021
“Province”	a province or, where the context requires, a provincial level municipality or autonomous region under the direct administration of the central government of the PRC
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganization”	the reorganization arrangements undergone by our Group for the purpose of the Listing as set out in “History, Reorganization and Corporate Development”
“RMB” or “Renminbi”	the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAFE Circular 13”	Notice on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by SAFE in February 2015
“SAFE Circular 37”	Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round tripping by Chinese Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE in July 2014
“SAIC”	State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAPPRFT”	The State Administration of Press, Publications, Radio, Film and Television of the PRC, the successor of SARFT and GAPP (中華人民共和國國家新聞出版廣電總局)
“SARFT”	the State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局)
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Series A Preferred Shares”	series A-1 preferred shares and series A-2 preferred shares, which are convertible preferred shares of our Company with par value of US\$0.000025 per share

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Shanghai Shaoyin”	Shanghai Shaoyin Music Entertainment Co., Ltd. (上海韶愔音樂娛樂有限公司), a limited liability company established in the PRC on July 26, 2019 held by Mr. Liu and Beijing iQIYI as to 40% and 60%, respectively, and a connected person of our Company
“Shanghai Strawbear”	Shanghai Strawbear Business Consulting Co., Ltd. (上海稻草熊商務諮詢有限公司), a limited liability company established in the PRC on September 3, 2018 and an indirectly wholly-owned subsidiary of our Company
“Share(s)”	ordinary share(s) in the share capital of our Company with a par value of US\$1.00 each before the Share Subdivision and of US\$0.000025 each following the Share Subdivision
“Share Subdivision”	the subdivision of our Company’s issued and unissued 50,000 shares of a par value of US\$1.00 each into 2,000,000,000 shares of a par value of US\$0.000025 each on May 11, 2020
“Shareholder(s)”	holder(s) of our Share(s)
“Smart Century”	SMART CENTURY VENTURES LIMITED, a BVI business company incorporated under the laws of the BVI on June 24, 2020 and wholly owned by Family Trust Singapore, the trustee of the Gold Fish Trust
“Stabilizing Manager”	China Securities (International) Corporate Finance Company Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between among others, Leading Glory and the Stabilizing Manager on or around the Price Determination Date
“Strawbear Film”	Strawbear Film Limited, a limited liability company incorporated under the laws of Hong Kong on January 31, 2018 and an indirectly wholly-owned subsidiary of our Company

DEFINITIONS

“Strawbear Pictures”	Strawbear Pictures Limited, a BVI business company incorporated under the laws of BVI on January 9, 2018 and a directly wholly-owned subsidiary of our Company
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Success Tale”	SUCCESS TALE ENTERPRISES LIMITED, a BVI business company incorporated under the laws of the BVI on August 28, 2020 and wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Taurus Holding”	Taurus Holding Ltd., a BVI business company incorporated under the laws of the BVI on November 28, 2018, our Pre-IPO Investor and a substantial Shareholder
“Track Record Period”	the three financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States”, “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“VAT”	value-added tax
“VIE” or “VIEs”	variable interest entity or variable interest entities

DEFINITIONS

“Voting Arrangement Agreements”	the agreement and supplemental agreement thereof dated November 1, 2018 entered into by, among others, Mr. Liu, Ms. Liu, Ms. Zhai, Ms. Zhao, Ms. Zhang and their respective wholly-owned holding companies (where applicable) regarding certain arrangements for the voting rights in the members of our Group, details of which are set out in “History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements”
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“Wuxi Strawbear”	Wuxi Strawbear Culture Media Co., Ltd. (無錫稻草熊文化傳媒有限公司), a limited liability company established in the PRC on June 4, 2020 and an indirectly non-wholly-owned subsidiary of our Company
“Wuxi Youkong”	Wuxi Youkong Yinghua Culture Media Co., Ltd. (無錫有空映畫文化傳媒有限公司), a limited liability company established in the PRC on November 1, 2017 and a substantial shareholder of Wuxi Strawbear
“Xingyu Yinyue”	Xiangshan Xingyu Yinyue Culture Media Co., Ltd. (象山星宇愜樂文化傳媒有限公司), a limited liability company established in the PRC on November 19, 2020 and an indirectly non-wholly-owned subsidiary of our Company
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC, PRC laws or regulations and PRC governmental authorities mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities, PRC laws or regulations and PRC governmental authorities included in this prospectus and for which no official English translation exists are provided for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“broadcasting right”	refers to (i) the right of broadcasting (廣播權), in terms of drama series broadcast via TV channels; and (ii) the right to network dissemination of information (信息網絡傳播權), in terms of drama series and films broadcast via online video platforms, for the purpose of this prospectus
“CAGR”	compound annual growth rate
“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 and web series
“executive producer(s)”	drama series producers that take lead in the creation of TV series and web series, usually responsible for initiating, managing and overseeing the production of drama series
“first-run broadcast” or “first-run”	the first round broadcast of a drama series on the TV channel or online video platform
“IP(s)”	refers to intellectual properties such as existing films, drama series or other literary or artistic works, concepts, stories and expressions that can be used or considered, entirely or partially, to create and/or produce new drama series or films
“IP reserve”	a reserve of IPs for future production of drama series or films
“master copy” or “master cassettes”	the final copy or tape of a program that is delivered to the media platform for broadcast
“MAUs”	monthly active users
“prime time”	refers to the block of time when audience viewership peaks for programming during a defined period of time. For PRC television, prime time usually means the 19:30 to 22:00 time slot
“product placement”	a modern marketing strategy for brands to reach their target audiences to promote their products or services by embedding the goods or services in another form of media, such as a television program or film

GLOSSARY OF TECHNICAL TERMS

“re-run broadcast” or “re-run”	the rebroadcast of a drama series that has previously been broadcast on the TV channel or online video platform, including second-run broadcast and all subsequent broadcasts on any channel
“second-run broadcast”	the second round broadcasting of a drama series which has previously been broadcast for the first time on the TV channel or online video platform
“Top five TV channels”	the top five non-CCTV satellite TV networks in the PRC in terms of viewership ratings during the Track Record Period, namely, Jiangsu TV (江蘇衛視), Zhejiang TV (浙江衛視), Dragon TV (東方衛視), Hunan TV (湖南衛視) and Beijing TV (北京衛視), the total market share of which was approximately 12.0% in terms of viewership ratings in 2019, according to Frost & Sullivan. The data of viewership ratings is published by CSM Media Research (中國廣視索福瑞媒介研究), which is a professional radio and television audience measurement research institute ultimately controlled by CCTV (中國中央電視台)
“Top three online video platforms”	iQIYI (愛奇藝), Tencent Video (騰訊視頻) and Youku (優酷), three leading online video platforms with market share collectively accounting for approximately 83.6% of the drama series market in the PRC in terms of the revenue in 2019
“TV”	television
“TV series”	a series of scripted episodes that needs to obtain a distribution license from the NRTA, which are broadcast on TV channels and/or new media channels such as online video platforms
“viewership rating(s)”	an index which indicates the coverage rate of a TV series during a specific period, measured by the number of audience of a particular TV series as a percentage of the total audience
“web film”	a film which has a length of more than 60 minutes and can only be broadcast on new media channels such as online video platforms
“web series”	a series of scripted episodes which can only be broadcast on new media channels such as online video platforms

FORWARD-LOOKING STATEMENTS

This prospectus contains, and the documents incorporated by reference herein may contain certain statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe(s),” “aim(s),” “estimate(s),” “plan(s),” “project(s),” “anticipate(s),” “expect(s),” “intend(s),” “may,” “seek(s),” “can,” “could,” “ought to,” “potential,” “will” or “should” or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to “estimate(s)” only refer to situations where best estimates have been adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this prospectus and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this prospectus. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- our operations and business prospects;
- our ability to maintain relationship with, and the actions and developments affecting, our major customers and suppliers;
- future developments, trends and conditions in the industries and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment in the industries and markets in which we operate;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- our ability to retain senior management and key personnel, and recruit qualified staff;
- our business strategies and plans to achieve these strategies, including our expansion plans;
- the actions of and developments affecting our competitors;
- our ability to reduce costs and offer competitive prices;
- our ability to defend our intellectual rights and protect confidentiality;

FORWARD-LOOKING STATEMENTS

- change or volatility in interest rates, foreign exchange rates, equity prices, trading volumes, commodity prices and overall market trends;
- capital market developments; and
- our dividend policy.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this prospectus reflect our management's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specifically consider the factors identified in this prospectus, which could cause actual results to differ, before making any investment decision. Subject to the requirements of the Listing Rules and except as may be required by applicable laws, we undertake no obligation to revise any forward-looking statements that appear in this prospectus to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this prospectus. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and in particular the risks and uncertainties described below before making an investment in our Shares.

The occurrence of any of the following events could materially and adversely affect our business performance, financial condition, results of operations or prospects. If any of these events occurs, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our success depends, in a significant part, on the general prosperity and development of China’s overall entertainment industry, and factors affecting the entertainment industry, especially the development of the drama series market, could have a material and adverse effect on our business, financial condition and results of operations.

Our business is subject to the general prosperity and development of the overall entertainment industry in the PRC, which may fluctuate significantly from time to time. According to the Frost & Sullivan Report, the market size of the entertainment industry in the PRC grew from RMB438.3 billion in 2015 to RMB763.2 billion in 2019, representing a CAGR of 14.9%. According to the same source, the size of the drama series market in the PRC grew from RMB83.0 billion in 2015 to RMB99.1 billion in 2019, representing a CAGR of 4.5%. Such growth may not sustain in future periods, and is subject to various factors beyond our control, including the general economic conditions, people’s leisure time, spending power and demand for entertainment services, and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. See “Industry Overview.” Any fluctuation or downturn in the overall development of the entertainment industry in the PRC may reduce demand for our drama series and thus materially and adversely affect our business, financial condition and results of operations.

iQIYI was our single largest customer in 2018, 2019 and the six months ended June 30, 2020. If we fail to maintain our business relationship with iQIYI or if iQIYI loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected.

We produce made-to-order drama series for and license the broadcasting rights of our self-produced and outright-purchased drama series to iQIYI. During the Track Record Period, iQIYI was our second largest customer for the year ended December 31, 2017 and single largest customer for the years ended December 31, 2018, 2019 and the six months ended June 30, 2020. In addition, Taurus Holding, a subsidiary of iQIYI Inc., has been our substantial shareholder since November 2018. Our revenue derived from iQIYI amounted to RMB116.2 million, RMB244.7 million, RMB208.5 million and RMB401.3 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 21.4%, 36.0%, 27.2% and 69.2% of our total revenue for the same periods, respectively. According to the Frost & Sullivan Report, iQIYI, as a leading online video platform, had a market share of 29.8%, 31.6% and 30.2% in 2017, 2018 and 2019, respectively, in terms of revenue generated from membership services, online advertising services and content distribution services in the PRC. Due to iQIYI’s leading market position and popularity among

RISK FACTORS

audiences, they are in great need of, and procure a large quantity of, drama series. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we commenced production of nil, one, three and nil made-to-order drama series for iQIYI, respectively, accounting for nil, 100.0%, 75.0% and nil of the total made-to-order web series that we commenced production of for the same periods, respectively. In addition, we licensed the broadcasting rights of one, two, three and three self-produced and outright-purchased drama series to iQIYI for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 20.0%, 40.0%, 60.0% and 100.0% of the total drama series that we licensed out for the same periods, respectively. For details regarding our relationship with iQIYI, see “Business — Our Customers — Top Customers — Business Relationship with iQIYI.” To the extent we fail to maintain our business relationship with iQIYI on comparable contract terms or at all, we may have to source new online video platforms to procure our production services and the broadcasting rights of our self-produced and outright-purchased drama series, which could materially and adversely affect our business, financial condition and results of operations.

In the event that iQIYI loses its leading market position or becomes less attractive to audiences, leading to a significant decrease in its audience base and cash inflow, which in turn, would affect its budget in procuring our production services and the broadcasting rights of our self-produced and outright-purchased drama series. As a result, our business, results of operations and prospects could be materially and adversely affected.

Additionally, any negative publicity associated with iQIYI, or any negative development with respect to iQIYI’s financial condition, maintenance of its platform infrastructure or compliance with legal or regulatory requirements in the PRC, would have an adverse impact on the attractiveness of its platform, which in turn would lead to a decrease in the procurement of our production services and the broadcasting rights of our self-produced and outright-purchased drama series and would materially and adversely affect our business, results of operations and prospects.

Our income is generally project-based and non-recurring in nature and a failure to obtain new contracts could materially affect our financial performance.

Our drama series projects are generally non-recurring in nature. In general, our engagements with customers, including TV channels and online video platforms, are on a project basis. A customer that accounts for a significant portion of our income for a particular period may not generate any income to us in subsequent periods. After the completion of a drama series, our customers are not obliged to engage us again in the future for new projects. In addition, we may generate one-off income from time to time, such as revenue from IP derivatives and product placement. As such, our revenue and profitability could fluctuate significantly from period to period. We cannot guarantee that we will be able to continue to develop new drama series, continue our business relationship with our existing customers or have one-off income from time to time. Our operations and financial condition would be adversely affected if we are unable to develop new drama series successfully, secure new customers, or maintain reasonable or favorable key commercial terms in the new contracts, which may lead to a decrease in the number and the price of drama series in a particular year or period, and in turn, a decrease in revenue.

Our financial performance for a particular period highly depends on a limited number of drama series projects during the same period, which may result in wide fluctuations of financial performance.

Our results of operations are largely affected by the financial performance of a limited number of drama series. Our investment in and revenue generated from each of our drama series varied significantly.

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During the Track Record Period, our investment in a single drama series varied from RMB3.0 million to RMB209.7 million, with revenue generated ranging from RMB4.2 million to RMB352.8 million. As a result, the range of gross profits generated from such drama series projects varied significantly. In addition, profit margin generated from our drama series projects may vary depending on its investment size and the general industry environment at the time when we broadcast such drama series. Generally, a drama series with large scale of investment is more likely to generate higher revenue and gross profit to us, therefore, we may accept a relatively lower profit margin when we license the broadcasting rights of such drama series. Consequently, the revenue contribution and the corresponding profit margin of certain drama series in a given period may significantly affect our results of operations during the same period. See “Financial Information — Description of Key Statement of Profit or Loss Items — Revenue” and “Financial Information — Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin.”

Our success is primarily dependent on, among others, the popularity and audience acceptance of the drama series we produce and/or distribute, which is random and difficult to predict, and we may not be able to respond effectively to changes in market trends.

The commercial success of our drama series depends partially upon acceptance by the audience, which cannot be accurately predicted. There are no objective standards to predict the success and popularity of a particular drama series, which depend on many factors, including the critical acclaim they receive, the reputation and popularity of directors and actors involved, the appeal of the screenplays, the genre and specific subject matter, the quality of content and the preference of audiences. The commercial success of a drama series also depends upon the public’s or a distribution channel’s acceptance of its content, general economic conditions and other tangible and intangible factors, all of which can change and cannot be accurately predicted or controlled with certainty.

The commercial success of a drama series is largely determined by our ability to develop and produce content that appeals to a broad audience, to respond effectively to changes in audience preferences and to efficiently adapt to the latest market trends. The failure to achieve any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, liquidity and prospects. In addition, in the event of constant failures of our drama series, our brand and reputation would be harmed and we may not be able to maintain our well-established relationships with major TV channels and top online video platforms, which may adversely and materially affect our distribution capability.

The production and distribution of drama series are extensively regulated in the PRC, and our production and distribution of drama series are subject to various PRC laws, rules and regulations. Our failure to comply with existing laws, rules and regulations as well as evolving laws, rules and regulations could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the relevant PRC laws and regulations, TV series can only be produced by entities that hold both a Radio and Television Programs Production and Operation Permit (《廣播電視節目製作經營許可證》) and a Television Drama Production Permit (《電視劇製作許可證》). See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” and “Business — Licenses and Permits.” If we fail to obtain, maintain or renew licenses or permits required for our business, we could be subject to liabilities, penalties and operational disruption and our business could be materially and adversely affected. In particular, we were one of the 73 holders of the Television Drama

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Production Permit (Class A) (《電視劇製作許可證(甲種)》) in the PRC as of December 31, 2019, which is effective for two years and needs to be renewed by application to the NRTA upon expiration on March 31, 2021. This Television Drama Production Permit (Class A) enables us to go through simplified procedures of applications for the relevant public record and content review, having which, we do not have to apply for individual production permit prior to the commencement of production of each particular drama series. We cannot assure you that we will successfully renew this Class A production permit in the future, failing which our production schedule and efficiency, business, results of operations, financial conditions or liquidity may be adversely affected.

In addition, before distribution of a TV series, we, or other co-investors as specified in the relevant agreement, need to submit the Application for Content Examination (內容審查申請) to the relevant provincial counterpart of the NRTA, which will issue a Television Drama Distribution License (《國產電視劇發行許可證》) after passing its examination. See “Business — Our Business Process — Self-produced Drama Series — Distribution and Promotion.” The distribution license is a prerequisite requirement for the distribution and broadcast of TV series in the PRC. However, there is no assurance that competent authorities will approve the content of our TV series and issue a Television Drama Distribution License to us. According to the Administrative Regulations on Content of Television Series (《電視劇內容管理規定》), TV series in the PRC are prohibited from portraying certain themes and topics, such as superstition, defamation and those promoting obscenity, gambling or violence as well as damaging public interest, social morality or cultural traditions. In order to obtain censorship approval, we may have to incur additional costs and expenses to revise the content of our TV series based on competent authorities’ requests, and the distribution or broadcasting schedules of such TV series may be affected, which may in turn affect our results of operations and liquidity. In addition, if any of our TV series fails to obtain censorship approval, we may have to discard it, even if already completed, resulting in a total investment loss. Any of the aforesaid circumstances may materially and adversely affect our business, financial condition and results of operations.

Furthermore, even if a TV series has already been granted the Television Drama Distribution License, the NRTA may still, due to public interest concerns, require editing of or terminate the distribution or broadcast of such TV series. If any of these events occurs, our business, financial condition and results of operations would be materially and adversely affected.

Moreover, there is no assurance that the competent authorities will not impose additional or more stringent laws or regulations on the investment, development, production, distribution and broadcast of drama series in the future. For example, the NRTA has issued a policy to impose restrictions on the maximum compensation that actors can individually and collectively receive as a certain percentage of the total investment of a drama series, which may limit our capability of selecting suitable actors, and in turn may affect the appeal and popularity of our drama series. See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes — Content Examination and Distribution Licensing System.” Any such additional or more stringent laws or regulations may lead to an increase in our compliance costs, which could result in an adverse effect on our results of operations.

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We rely on major TV channels and top online video platforms for the distribution and broadcast of our drama series, with which we have limited bargaining power, and the loss of any one of them would materially and adversely affect our business, financial conditions, results of operations and prospects.

During the Track Record Period, we derived a significant portion of our revenue from a limited number of customers, mainly comprising major TV channels, including Dragon Television, Hunan Television, Jiangsu Television, Beijing Television and Zhejiang Television, and top online video platforms, including iQIYI, Youku and Tencent Video. According to Frost & Sullivan, these eight distribution channels collectively own the largest audience base and have the greatest demand and the most sufficient procurement budget for drama series in the PRC. Therefore, we have limited bargaining power in negotiating key terms, including the price per episode and the broadcasting time slot, with these eight distribution channels. For example, these top online video platforms have internally adopted strict procurement policy imposing maximum price for each episode of drama series. These top distribution channels may also delay or change their broadcasting schedules of our drama series, affecting the secondary sales and popularity of our drama series, which may have an adverse impact on our results of operations and liquidity. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our revenue derived from these eight distribution channels accounted for approximately 80.6%, 95.5%, 63.2% and 91.3% of our total revenue for the same periods, respectively.

We cannot assure you that we will be able to continue to maintain good business relationships with these major TV channels and top online video platforms or we will not lose any of them. As our contracts with these major TV channels and top online video platforms are generally on a project-by-project basis, there can be no assurance that these major TV channels and top online video platforms will continue to cooperate with us or maintain their current procurement budget level for our future projects. If we fail to identify sufficient and suitable alternative distribution channels on commercially acceptance terms, or at all, we may not be able to sustain our licensing and production revenue from our drama series, thus materially and adversely affecting our profitability, business, results of operations and prospects.

The production and distribution of a drama series are subject to uncertainties. There is no guarantee that the production or distribution of our drama series can be kept within budget and on schedule.

Unforeseen circumstances during production, such as accidents, equipment damage or malfunction, damages to cassettes (or digital files thereof), unavailability of filming locations, delay in obtaining the requisite permits or licenses, natural disasters and unavailability of producers, directors or actors due to injuries or health issues, other engagement or a ban from the entertainment industry as a result of their personal behavior, may disrupt the production progress. The distribution of our drama series may also be delayed due to the changes in production schedule or failure to obtain the relevant distribution licenses, leading to the delay in the initial broadcasting of our drama series. Any delay or adjustment in production or distribution schedule may increase the production or distribution cost. If we are unable to pass such increased cost onto our customers, our expected investment return would be reduced. In addition, a delay in production or distribution schedule may cause a breach of the agreements with our customers and enable them to terminate the agreements, which would materially and adversely affect our business, financial condition and results of operations.

In circumstances where the production cost of a drama series significantly exceeds its budget, we and other co-investors may be required to contribute additional financial resources. Failure to obtain additional financial resources for a drama series project may result in substantial delay in production progress. In addition, when we are providing production services, we may need to bear the overrun costs pursuant to the relevant agreements, unless otherwise provided in the relevant agreements. Any of the above circumstances may materially and adversely affect our business, financial condition and results of operations.

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If we are unable to compete effectively in the drama series industry, our business, financial condition and results of operations may be materially and adversely affected.

We operate in a fragmented, rapidly evolving and highly competitive market. We compete with existing drama series producers and/or distributors for audiences, distribution channels and their procurement budgets, as well as talents. We may also face competition from new market entrants in the future.

Some of our competitors may have broader audience reach, greater brand recognition, stronger relationships with leading distribution channels, longer operating histories, or greater financial, technological or marketing resources. As a result, they may have better resources, such as quality directors, cast and production crew, or be able to respond more quickly and effectively to new or changing opportunities, audience preferences, market trends, regulatory requirements or technologies than us. We cannot assure you that we will be able to compete successfully against current or future competitors. Such competition may pose challenges to our business operations, and materially and adversely affect our market share and profitability.

We rely on the contribution of industry professionals participating in the development, production and promotion of our drama series. Our failure to retain the services of such professionals, unsatisfied services provided by them or even any negative news about them in the future may materially and adversely affect our business and results of operations.

We rely on the contribution of industry professionals participating in the development, production and promotion of our drama series, including screenwriters, producers, directors and actors, filming and production crew, and promotion agencies. There can be no assurance that they will continue to work with us on acceptable terms or at all, or that the costs associated with attracting alternative talents and/or third party service providers will be reasonable. The drama series industry in the PRC also lacks quality talents, for which drama series producers compete intensively. We cannot assure you that we will be able to acquire suitable quality talents for each of our drama series. If we fail to acquire and retain highly qualified industry professionals on favorable terms or if talents with whom we work lose their current popularity, our revenue and profitability could be adversely affected. Any failure by our third party services providers to perform their obligations under the relevant agreements, comply with the applicable laws and regulations and industry standards, or satisfy our specific requirements and expectations may have an adverse and material impact on our business, financial condition and results of operations. In addition, any lawsuits, personal misbehaviors, rumors or negative news related to screenwriters, directors and major cast members of our drama series could negatively affect the distribution of corresponding drama series and may even result in termination of the licensing agreements, which will materially and adversely affect our business, financial condition and results of operations.

The production and distribution of drama series is a lengthy and capital-intensive process, and our capacity to generate cash or obtain financing on favorable terms may be insufficient to meet our anticipated cash requirements.

The production and distribution of drama series require substantial capital and may require significant time between the commencement of production and the initial broadcasting. A significant amount of time may elapse between our operating expenditure and the cash inflow after distribution of such drama series. As of the Latest Practicable Date, we had six drama series in our production pipeline. See “Business — Our Drama Series – Our Pipeline Drama Series Projects.” During the Track

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Record Period, we utilized bank and other borrowings, capital contributions from Shareholders, and cash generated from our operations to fund our drama series projects. However, there is no assurance that we will have sufficient cash flow or financial resources to fund our pipeline drama series projects. Any disagreement with, or discontinuation in the cooperation with, our co-investors may result in the delay, suspension or termination of the production of our drama series, which in turn may have a material and adverse impact on our business, reputation, results of operations and financial conditions.

To the extent that we continue to engage debt financing in the future, the incurrence of indebtedness would result in increased finance costs and could result in operating and financing covenants that may, among other things, restrict our operational flexibility or our ability to pay dividends, which could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be adversely affected.

In addition, our ability to raise additional capital may depend on our business performance, market conditions and the overall economic environment. We are unable to assure you that we will be able to obtain bank borrowings and other external financing or resources on commercially acceptable terms or in a timely manner or at all in the future. If we are unable to obtain necessary financing or if we fail to obtain such financing on favorable terms or in a timely manner due to factors beyond our control, our business, results of operations and growth prospects may be materially and adversely affected.

Any change in or discontinuation of preferential tax treatment or government grants that currently are or may be available to us in the future may have a material and adverse impact on our results of operations.

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%, except Horgos Strawbear. According to the Notice of the Preferential EIT Policy in relation to Kashgar and Horgos as Two Special Economic Development Zones in Xinjiang (《關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》), Horgos Strawbear enjoys a full-exemption of EIT during the period from 2019 to 2023. As a result, we recorded tax effect of tax exemption granted to subsidiaries of RMB4.4 million in 2019. Although such preferential tax treatment applied to Horgos Strawbear in the six months ended June 30, 2020, we did not record any tax reduction in the same period as Horgos Strawbear did not record any taxable profits.

The local governments have also granted us various financial subsidies in recognition of our contribution to the local economy and the drama series industry. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded government grants of RMB2.5 million, RMB0.9 million, RMB20.4 million and RMB2.4 million, respectively, in our consolidated statements of profit or loss. See “Financial Information — Description of Key Statement of Profit or Loss Items — Other Income and Gains.” These financial subsidies have been given on a one-off basis and at the discretion of the local government authorities.

There can be no assurances that we will continue to enjoy these preferential tax treatment or financial subsidies at the historical levels, or at all. Any change, suspension or discontinuation of these preferential tax treatment and financial subsidies to us could adversely affect our financial condition, results of operations and cash flows.

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Any increase in production costs may materially and adversely affect our profitability and results of operations.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our production costs amounted to RMB26.8 million, RMB296.2 million, RMB443.8 million and RMB417.5 million, respectively, representing approximately 6.9%, 63.1%, 67.5% and 93.9%, respectively, of our total cost of sales during the same periods. Although the NRTA has issued a policy to impose restrictions on the maximum compensation that actors can individually and collectively receive as a certain percentage of the total investment of a drama series, the costs of producing quality drama series have increased in recent years and may continue to increase in the future, which may make it more difficult for a drama series we have invested in to generate a profit. Remuneration of quality screenwriters, directors and actors and other key production crew has been increasing. Other production costs have also been increasing due to higher expenditures on filming studios and advanced filming equipment and technologies. If such increases in production costs cannot be offset by a corresponding increase in licensing revenue or production revenue, our profitability may be adversely affected, which in turn, may materially and adversely affect our results of operations.

We have a limited operating history which may make it difficult to evaluate our future prospects.

Established in 2014, we have a limited operating history. Our results of operations experienced fluctuations during the Track Record Period due to our project-based business nature. Our revenue increased at a CAGR of 18.9% from RMB542.9 million in 2017 to RMB765.1 million in 2019, and our net profit decreased at a CAGR of 11.3% from RMB64.0 million in 2017 to RMB50.4 million in 2019. Our revenue decreased by 10.5% from RMB647.7 million for the six months ended June 30, 2019 to RMB579.8 million for the six months ended June 30, 2020, and our net profit increased by 43.1% from RMB37.8 million for the six months ended June 30, 2019 to RMB54.1 million for the six months ended June 30, 2020. Our short operating history makes it difficult to assess our future prospects or forecast our future results.

The risks and challenges we might face involve our abilities to, among other things:

- complete and/or release our on-going drama series projects on schedule or at all;
- develop suitable ideas and concepts as well as quality screenplays to produce new drama series projects;
- enhance and maintain the value of our brand;
- develop and maintain relationships with our suppliers, customers and business partners, in particular these major TV channels and top online video platforms;
- successfully compete with other market players;
- continue to attract, retain and motivate skilled employees;
- generate anticipated or reasonable returns on our investments or realize synergies from our strategic acquisitions; and
- defend ourselves against litigation, regulatory interference and intellectual property claims.

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In addition, the execution of our business strategies and future plans is also expected to require management attention and efforts and incur additional expenditures. There is no assurance that we will be able to successfully implement our business strategies or future plans, and any failure to do so may have an adverse effect on our business and results of operations. In particular, we plan to continue to expand our drama series production and distribution business, acquire quality IPs, and make adequate investments or acquisitions. Our insights and expertise in existing businesses may not be as useful as we expect in implementing such plans. We cannot assure you that these efforts will be successful. Even if our business strategies or future plans are implemented, there is no assurance that they will successfully increase our market share or enhance our market position.

Information on our pipeline projects may not prove to be accurate or indicative of our future results of operations.

In this prospectus, we have disclosed our project pipeline with details such as our planned investment. See “Business — Our Drama Series — Our Pipeline Drama Series Projects.” For these pipeline projects, we have applied for public record and registered with the local counterparts of the NRTA. The project description, planned investment percentage and amounts, expected broadcasting time and other information related to our pipeline projects represent our best efforts to describe their status as of June 30, 2020 or the Latest Practicable Date, as applicable. However, such information may prove to be different from actual outcomes due to a number of factors. For example,

- we may not be able to enter into definitive agreement to distribute projects that have completed production;
- projects that we have completed production may not be distributed on time, or if they are, they may not be broadcast on time, both of which will affect the timing of recognition of revenue;
- our signed definitive distribution agreements may not be fully performed in accordance with their terms, or may be amended, modified, altered, terminated, or canceled;
- the genre, content or length of the pipeline projects may be subject to change during the production, post-production or regulatory review stages;
- the expected broadcasting time may be subject to change as a result of a delay in the production or distribution process or the broadcasting schedule of our customers; and
- the pipeline projects may not be successful or gain popularity among audiences and distribution platforms.

Our project pipeline may also be delayed or suspended due to *force majeure* events, such as the recent coronavirus outbreak in China. For details, see “— Risks Relating to Our Business and Industry — The occurrence of any *force majeure* events, natural disasters, acts of war or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business and results of operations.” As a result, investors are cautioned not to rely on our project pipeline information presented in this prospectus as an accurate indicator of our future earnings.

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Our business depends significantly on our production capabilities and brand perception, and our brand image may be materially and adversely impacted by negative publicity.

We believe that maintaining and enhancing our Strawbear (稻草熊) brand is critical to our relationships with our business partners and customers. To the extent our drama series is perceived as of low quality or otherwise not appealing, our brand perception may be adversely impacted.

We are not directly involved in certain pre-production, filming or post-production activities of the drama series production process. Instead, we rely on the cast and filming and production crew to maintain their quality of performance and services. In addition, as there are no objective standards to assess the quality of a particular drama series, when we are providing production services, there is no assurance that the quality of the content we produce will meet the requirements and expectations of the distribution channels and audiences. Any failure to do so may have a negative impact on our reputation and our ability to maintain relationships with them, which in turn may have a material and adverse effect on our business and results of operations.

Furthermore, negative publicity, whether or not justified, involving us, our management, our business partners or our industry may harm our brand. In particular, given the nature of the entertainment industry, we are more exposed and susceptible to negative publicity. Damage to our reputation and our brand may reduce demand for our content and have a material and adverse effect on our business, results of operations and financial condition. Moreover, any attempt to rebuild our reputation and restore the value of our brand may be costly and time consuming, and such efforts may not ultimately be successful.

The continuous and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services.

Our success depends on the continuous and collaborative efforts of our senior management team and other key employees, including those from production and distribution departments, in particular their familiarity with our business operations and their experience, expertise and influence in the entertainment industry in the PRC. In particular, we rely on the expertise, experience and leadership of Mr. Liu, our founder and chief executive officer, who was former manager of Phoenix Legend Films Co., Ltd. (鳳凰傳奇影業有限公司), with approximately 20 years of relevant experience in media industry. We do not maintain key person insurance. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to find suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our key personnel joins a competitor or forms a competing business, we may lose crucial technological know-how, business secrets, customers and other valuable resources. Each of our key personnel has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws. See “— Risks Relating to the PRC — The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.”

We are subject to risks of piracy and intellectual property infringement.

Due to technological advances and upgrades, acts of piracy and copyright infringement are prevalent in many parts of the world as well as the PRC, which is primarily due to (i) technological advances allowing conversion of drama series into digital formats; (ii) the availability of digital copies of drama series; and (iii) the difficulty in enforcing intellectual property rights in the PRC. This trend

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facilitates the creation, transmission and sharing of high quality unauthorized copies of drama series. The proliferation of unauthorized copies of our products may result in the loss of audience and have a negative impact on the TV viewership ratings and online video views, and in some cases, reduce our licensing revenue, which may materially and adversely affect our business and results of operations. In order to minimize the risks of piracy and infringement, we may have to incur significant financial and human resources to implement security and anti-piracy measures.

In addition, due to our business nature, we are particularly vulnerable to disputes relating to the infringement of intellectual property rights. There is no assurance that we will not face intellectual property claims relating to the creative content of our drama series or disputes over entitlements to intellectual property rights in the future. Any such claims or disputes may result in prolonged legal proceedings, which may divert our management's attention from our business and cause us to incur substantial costs. If any claim or action is asserted against us, we may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. There is no assurance, however, that under such circumstances, such license, or any other form of settlement, would be available on reasonable terms or at all. In case of such event, we may be liable for damages, which may materially and adversely affect our results of operations and financial condition.

We are exposed to credit risk arising from our large amounts of trade and notes receivables. Failure to collect our trade and notes receivables in a timely manner or at all could have a material and adverse impact on our business, financial condition, liquidity and prospects.

Our cash flow and profitability are subject to the timely settlement of payments by our customers for the drama series we licensed out and the production services we provided to them. Our customers primarily include TV channels, online video platforms and sometimes third party distributors. During the Track Record Period, we generally granted a credit period ranging from 15 days to 365 days from the date of billing to our customers. In practice, however, collection period for certain customers, particularly TV channels, may be longer than the credit period stipulated in our agreements. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our trade and notes receivables (before deduction of loss allowance) amounted to approximately RMB294.5 million, RMB185.3 million, RMB491.9 million and RMB789.0 million, respectively, of which 48.7%, 81.5%, 23.2% and 25.8%, respectively, represented trade and notes receivables due from TV channels as of the same dates. We recorded impairment on trade and notes receivables of RMB4.6 million, RMB5.0 million, RMB6.5 million and RMB12.4 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. In 2017, 2018 and 2019 and the six months ended June 30, 2020, the turnover days of our trade and notes receivables was approximately 139 days, 129 days, 162 days and 201 days, respectively. As a result, we recorded impairment losses on trade and notes receivables charged to our consolidated statements of profit or loss of approximately RMB3.8 million, RMB1.9 million, RMB1.5 million and RMB5.9 million in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We also recorded written-off of trade and notes receivables of RMB1.6 million in 2018, as a result of uncollectible trade receivables of two drama series from a provincial TV channel.

Due to our growing drama series pipeline, the long trade and notes receivables collection period for certain customers, as well as the long inventory turnover days amounting to 171 days in 2017, 331 days in 2018, 404 days in 2019 and 328 days in the six months ended June 30, 2020, our cash conversion cycle (calculated as inventory turnover days plus trade and notes receivables turnover days and minus

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trade payables turnover days) increased from 223 days in 2017 to 294 days in 2018 and further to 376 days in 2019, while decreased to 350 days in the six months ended June 30, 2020. The mismatch between our cash inflow received from customers and cash outflow paid to suppliers as a result of the long credit period we grant to our customers as well as the long cash conversion cycle as a result of the increasing balances and turnover days of our inventories and trade and notes receivables could have a material and adverse impact on our cash position and business operations.

We cannot assure you that we will be able to collect all or any of our trade and notes receivables or collect the amount for any unbilled work on time, or at all, after meeting the agreed program payment milestones. Our customers may face unexpected circumstances, including, but not limited to, financial difficulties caused by fiscal constraints or change in fiscal policy of the government or delay of the broadcast of our drama series due to the changes in government policies. Our customers, particularly TV channels, may delay or even default in their payment obligation. As a result, we may not be able to receive such customers' payment of uncollected debts in full, or at all, and we may need to make provisions for trade and notes receivables or drama series copyrights. The occurrence of such event would materially and adversely affect our financial condition and results of operations.

We recorded negative cash flow from operating activities during the Track Record Period and may be subject to liquidity risks, which could constrain our operational flexibility and materially and adversely affect our business, financial condition and results of operations.

We recorded negative operating cash flow of RMB56.7 million and RMB64.0 million, respectively, in 2017 and 2018. Our operating cash outflow was primarily due to the increases in inventories, trade and notes receivables, prepayments and other assets as well as income tax paid, as a result of more drama series produced and distributed by us in line with our business growth. For details, see "Financial Information — Liquidity and Capital Resources — Cash Flows — Operating Activities."

We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. If we record net operating cash outflows in the future, our working capital may be constrained, which may adversely affect our financial condition. Our future liquidity primarily depends on our ability to maintain adequate cash inflows from our operating activities and adequate external financing. If we fail to obtain sufficient funding in a timely manner and on reasonable terms, or at all, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to provide production services or license the broadcasting rights of our drama series to our customers in a timely manner or at all, which may subject us to refund of the production services fees or licensing fees we receive from our customers in advance.

We derive revenue mainly from licensing of the broadcasting rights of our drama series or provision of drama series production services. Generally our customers pay us the production services fees in advance and sometimes they also pay us the licensing fees in advance, both of which are initially recorded as contract liabilities and are recognized as revenue when the relevant production services or broadcasting rights are rendered or transferred to our customers. We recorded contract liabilities of RMB80.0 million, RMB41.8 million, RMB535.8 million and RMB405.4 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The delivery of the production services or broadcasting rights of our drama series to our customers may be disrupted by unforeseeable events, such as outbreak of contagious diseases, occurrence of force majeure events, regulatory changes and/or natural disasters. In such events, we may be unable to fulfil our obligation in respect of the contract liabilities and

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may need to refund a portion or all of our contract liabilities not yet recognized as revenue to our customers, which could result in an adverse impact on our cash position and expose us to liquidity risk. In the event we are unable to successfully render the production services or broadcasting rights of our drama series to our customers in the future, we may be subject to claims to refund a portion or all of our contract liabilities, which could materially and adversely affect our business, results of operations and financial condition.

We are exposed to fair value changes for financial assets at fair value through profit or loss.

During the Track Record Period, we purchased low-risk financial assets at fair value through profit or loss, which represented wealth management products that do not have a stated maturity and are redeemable at will issued by PRC commercial banks, because we believe we can make better use of such cash by making appropriate short-term investments to enhance our income without interfering with our normal business operation or capital expenditures. We purchased financial assets at fair value through profit or loss of RMB201.0 million in 2017 and have not purchased any such financial assets since 2018. The balance of our financial assets at fair value through profit or loss amounted to RMB20.0 million as of December 31, 2017, which was redeemed in 2018. The fair value of financial assets at fair value through profit or loss is valued by using observable measurements, such as the market interest rates of instruments with similar terms and risks, and net changes in their fair value are recorded as our operating income or loss, and therefore directly affect our results of operations. We did not incur any fair value losses for financial assets at fair value through profit or loss during the Track Record Period. However, we cannot assure you that we will not make similar investments in the future, and as the market interest rates of similar instruments may fluctuate, we cannot assure you that we will not incur any such fair value losses in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

We may not fully recover our prepayments, prepayments under the co-investment arrangements and loans receivables, which may affect our business, results of operation, financial condition and prospects in the future.

During the Track Record Period, we recorded significant prepayments and prepayments under co-investment arrangements. Our prepayments primarily represent production services fees and screenwriting fees we prepaid to the relevant third party services providers. We recorded prepayments of RMB44.2 million, RMB114.5 million, RMB113.0 million and RMB99.7 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our prepayments under the co-investment arrangements mainly represent the investments we made in the drama series. We recorded prepayments under the co-investment arrangements of RMB19.7 million, RMB4.3 million, RMB45.4 million and RMB74.4 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. If our suppliers fail to provide qualified production services or screenplays to us in a timely manner or at all, we may be exposed to prepayment default risk; if the drama series that we invest in are not successfully developed, produced or distributed or are loss-making, we may not be able to recover our prepayments under the co-investment arrangements in part or in full, both of which may in turn materially and adversely affect our business and financial position. Moreover, any material adverse change to the business, results of operations or financial condition of our suppliers or co-producers may subject us to prepayment default risks and have an adverse impact on us.

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In addition, we also recorded loans receivables of nil, RMB95.3 million, RMB160.7 million and RMB69.3 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, which mainly represented (i) our investments with fixed return in the drama series produced by other market players; (ii) lendings to our co-investors for the production of our self-produced drama series; and (iii) lendings to third parties. If the drama series we invest in with fixed return or our self-produced drama series where we lend money to the co-investors are not successfully developed, produced or distributed or are loss-making, or if there is any material adverse change to the business, results of operations or financial condition of the debtors, we may not be able to recover our loans receivables in part or in full, which may in turn materially and adversely affect our business and financial position.

We cannot guarantee that we can fully recover our prepayments, prepayments under the co-investment arrangements and loans receivables. Failure to recover these assets may materially and adversely affect our business, results of operations and financial position in the future.

We are exposed to inventory risks if we are not able to license the broadcasting rights of our self-produced and outright-purchased drama series according to our distribution plan.

Our inventories comprise raw materials (i.e. screenplays and IP rights), work-in-progress (i.e. drama series in production) and finished goods (i.e. drama series which have obtained the Television Drama Distribution License but yet to be distributed, and purchased broadcasting rights of drama series). As of December 31, 2017, 2018 and 2019 and June 30, 2020, our inventories amounted to approximately RMB314.5 million, RMB536.7 million, RMB919.1 million and RMB681.1 million, respectively, representing approximately 36.5%, 50.7%, 49.5% and 37.9% of our total current assets, respectively. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we recorded impairment on inventories of RMB2.9 million, RMB16.0 million, RMB16.0 million and RMB13.8 million, respectively. We also recorded write-down of inventories of RMB13.8 million in 2018 in cost of sales in our consolidated statements of profit or loss as a result of our failure to distribute one self-produced drama series.

Our planning department and distribution and promotion department set up a distribution plan for each of our drama series. However, the distribution of a drama series is subject to uncertainties, including the evolving market trends, the broadcasting schedule of TV channels or online video platforms, as well as regulatory or industry policies, which are beyond our control. In the event that we are not able to distribute our self-produced and outright-purchased drama series according to our distribution plan, the relevant inventories may become obsolete and be impaired. As a result, our financial condition and results of operations could be materially and adversely affected.

We are exposed to impairment on goodwill and other intangible assets arising from the changes in the business prospects of our acquisitions, which could adversely affect our results of operations and financial condition.

We recorded net carrying amount of goodwill of nil, nil, RMB108.3 million and RMB113.0 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, in connection with our previous acquisition of Hangzhou Yide and Nova Film. Goodwill accounted for 5.7% of our total assets as of June 30, 2020. We also recorded net carrying amount of other intangible assets, comprising primarily contract backlog and patents, of RMB28,000, RMB24,000, RMB42.9 million and RMB27.2 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, primarily in connection with our previous acquisition of Hangzhou Yide and Nova Film. We undertake impairment reviews on goodwill and other intangible assets annually or more frequently if events or changes in circumstances indicate

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that the carrying value may be impaired. We compare the carrying value of goodwill or other intangible assets to their recoverable amount, which is the higher of value in use and the fair value less costs to sell. We recognize any impairment immediately as an expense and it is not subsequently reversed. As of June 30, 2020, we did not identify any impairment indicator of our goodwill and other intangible assets, nor did we record any impairment losses on goodwill and other intangible assets. However, if the carrying value of our goodwill or other intangible assets is considered to exceed their recoverable amount and our goodwill or other intangible assets are therefore determined to be impaired in the future, we would be required to write down the carrying value or record a provision of impairment loss on goodwill or other intangible assets in our financial statements during the period in which our goodwill or other intangible assets are determined to be impaired, and this impairment would adversely affect our results of operations and our financial condition. See Notes 2.4, 15 and 16 to the Accountants' Report set forth in Appendix I to this prospectus.

The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance.

The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance. Our Series A Preferred Shares are classified as financial liabilities measured at fair value through profit or loss, or FVTPL. The fair value measurement of our preferred shares involves estimates and assumptions that are subject to significant uncertainties and risks.

The fair value of the financial liabilities at FVTPL is established by using valuation techniques, including the market approach or backsolve method. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our specific data. However, some significant unobservable inputs, such as fair value of our ordinary shares, possibilities under different scenarios such as initial public offering, liquidation and redemption, and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted when necessary. Should any of the estimates and assumptions change, it may lead to changes in the fair value of financial liabilities at FVTPL. In addition, the valuation methodologies may involve a significant degree of management judgment and are inherently uncertain, which may result in material adjustment to the carrying amounts of certain liabilities and in turn may materially and adversely affect our results of operations.

As of December 31, 2018 and 2019 and June 30, 2020, the fair value of our financial liabilities at FVTPL was RMB274.5 million, RMB289.5 million and RMB401.5 million, respectively. The losses or gains of fair value change from convertible redeemable preferred shares represent changes in the fair value of our preferred shares. We recorded a gain on fair value change of RMB1.0 million in 2018 and a loss on fair value change of RMB15.0 million and RMB3.7 million, respectively, in 2019 and the six months ended June 30, 2020, all of which take into account exchange gains or losses. We expect to continue to recognize the fair value changes of the preferred shares after June 30, 2020 to the Listing Date, which may be a loss. After the automatic conversion of all preferred shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

Any disagreements or discontinuations of co-investment arrangements for drama series production could disrupt our operations or put our assets at risk.

We co-invest or co-produce drama series through co-investment arrangements with other industry players, such as major drama series producers, from time to time. This is an important part of how we do

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business, as we believe we can leverage our co-investors' and co-producers' industry expertise and financial resources to produce high quality contents efficiently. Generally, we enter into strategic cooperation agreements with leading drama series investors and producers with terms ranging from three to five years to enhance our cooperation and relationships. While co-investment arrangements may provide various advantages, occasions may arise when we do not agree with the business goals or objectives of our co-investors or co-producers, or other factors may arise that make the continuation of the relationships unwise or untenable. Any such disagreements or discontinuation of our relationships with the co-investors or co-producers could disrupt our operations, or put assets dedicated to the co-investment arrangements at risk. If we are unable to resolve issues with co-investors or co-producers, we may need to terminate the co-investment arrangements. The unwinding of an existing co-investment arrangement could prove to be difficult or time-consuming, and the loss of revenue related to the termination or unwinding of a co-investment arrangement could adversely affect our results of operations. We cannot assure you that we will be able to maintain good relationships with our co-investors or co-producers.

If online video platforms transact with TV channels directly, we may be exposed to the risk of disintermediation and our outright-purchased drama series business may be adversely and materially affected.

We conduct our outright-purchased drama series business on a back-to-back basis. We generally purchase the licensing rights of specified drama series from online video platforms pursuant to TV channels' or third-party distributors' planned orders and license such broadcasting rights to TV channels or third-party distributors. During the Track Record Period, our revenue generated from the licensing of outright-purchased drama series in 2017, 2018, 2019 and the six months ended June 30, 2020 accounted for approximately 77.9%, 33.0%, 24.0% and 0.4% of our total revenue in the same periods. See "Business — Our Business Model — Licensing of Broadcasting Rights of Outright-purchased Drama Series." Although it is uncommon and not economically efficient for leading online video platforms to transact with TV channels directly according to Frost & Sullivan, there may be a risk that online video platforms transact with TV channels directly circumventing us. We cannot assure you that the online video platforms from which we purchase the broadcasting rights of drama series will not transact with TV channels directly in the future. Occurrence of such event may expose us to the risk of disintermediation, and our outright-purchased drama series business, results of operations and financial position would be adversely and materially affected.

Future strategic investments or mergers and acquisitions may have a material and adverse effect on our business, financial condition and results of operations.

As part of our business growth strategy, we may in the future invest in, merge with or acquire businesses that we believe can enhance our production or distribution capabilities and competitive position. Our ability to implement such strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms and the availability of financing to complete any such investment, merger or acquisition, as well as our ability to obtain any required shareholder or government approvals. Our future strategic investments or mergers and acquisitions could subject us to uncertainties and risks, including:

- high acquisition and financing costs;
- potential ongoing financial obligations and unforeseen or hidden liabilities;

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- potential loss of key business relationships and the reputation of the targets;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;
- costs associated with, and difficulties in, integrating acquired businesses and assets into our own;
- potentially significant impairment charges of goodwill and intangible assets arising from acquisitions;
- amortization expenses of other intangible assets;
- potential claims or litigation regarding our Board's exercise of its duty of care and other duties required under applicable laws and regulations in connection with any of our significant acquisitions or investments approved by the Board; and
- diversion of our resources and management attention from our existing business.

In addition, the assets or businesses we invest in, merge with or acquire may not generate results as we expect. There is no assurance that we will be able to effectively integrate the acquired business with our existing business, which would divert management and other resources. Furthermore, the acquired business may not achieve our expectations due to circumstances beyond our control, such as loss of key personnel. Our failure to address any of the above uncertainties and risks may have a material and adverse effect on our liquidity, financial condition and results of operations.

If we do not effectively manage our growth, our operating performance may deteriorate.

We have experienced stable growth in terms of our revenue since our inception. We expect continued growth in our business through organic expansion and acquisitions or strategic alliances. Our expansion has placed, and will continue to place, substantial demands on our managerial, financial, operational and other resources. Our planned expansion will also require us to maintain the consistency of the quality of our drama series to ensure that our market reputation and leadership do not suffer as a result of any deviations, whether actual or perceived. Our future results of operations depend to a large extent on our ability to manage this expansion and growth successfully. In particular, continued growth may subject us to the following additional challenges:

- challenge in the recruitment, training and retaining of highly skilled personnel and external counsels, including screenwriters, directors and actors, filming and production studios, distribution and promotion services providers and quality control specialists for our growing operations;
- challenge in successfully improving and upgrading the quality and appeal of our drama series to accommodate the evolving demands and preferences of audiences;
- challenge in maintaining effective operational, financial and management controls; and

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- challenge in responding to evolving industry standards and governmental regulations that impact our growing business, particularly in the areas of actor management and content examination.

There can be no assurances that our current procedures, resources and controls will be adequate to support our contemplated growth. If we fail to manage our growth effectively, our business, results of operations and prospects may be materially and adversely affected.

Legal disputes or proceedings may expose us to significantly liabilities, divert our management’s attention and materially and adversely impact our reputation.

During the ordinary course of our business operations, we may be involved in legal disputes or proceedings relating to, among other things, contractual disputes. Such legal disputes or proceedings may expose us to adverse publicity, subject us to substantial liabilities and may have a material and adverse effect on our reputation, business and financial condition.

If we become involved in material or protracted legal proceedings or other legal disputes in the future, we may need to incur substantial legal expenses and our management may need to devote significant time and attention to handle such proceedings and disputes, diverting their attention from our business operations. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may materially and adversely affect our financial condition and results of operations.

Any acts of bribery, corrupt practices or other improper conducts of our employees may materially and adversely affect our business, reputation, results of operations and financial condition.

In recent years, the State Council and various PRC government authorities have intensified and stepped up their efforts to combat bribery, corrupt practices and other improper conducts in the PRC. We cannot assure you that our employees will not be engaged in acts of bribery, corruption or other improper conducts. There is also no assurance that our internal control and risk management systems will prevent or detect any improper or illegal acts of our employees. The failure of our employees to comply with the PRC anti-corruption and other related laws and regulations may subject us to substantial financial losses and may have a negative impact on our reputation. In addition, if any of our co-investors are subject to investigations, claims or legal proceedings as a result of such improper or illegal acts, they may be subject to fines and penalties and thus may not be able to contribute their portion of investment funds to our projects on schedule or at all, thereby delaying the project progress. Any of the abovementioned circumstances may materially and adversely affect our business, reputation, results of operations and financial condition.

Our limited insurance coverage could expose us to significant costs and business disruption.

Insurance companies in the PRC generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. To the best of our Directors’ knowledge, no insurance products that have been specifically designed for protecting the risks related to the Contractual Arrangements have been made available on the market. In line with general industry practice in the PRC, we do not maintain business interruption insurance or key man life insurance. See “Business — Insurance.” Any disruption in our business operations, litigation or natural disasters may

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result in our incurring substantial costs and the diversion of our resources, and we have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

The occurrence of any *force majeure* events, natural disasters, acts of war or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business and results of operations.

Any occurrence of *force majeure* events, natural disasters such as earthquakes, tornadoes, floods and droughts, acts of war, or outbreaks of contagious diseases or epidemics such as avian influenza, swine influenza, severe acute respiratory syndrome (SARS), Middle East respiratory syndrome coronavirus (MERS-CoV), or coronavirus disease 2019 (COVID-19), may disrupt the production of our drama series and normal social activities, and thus may have a material and adverse effect on the production, distribution and broadcasting schedules of our drama series. In particular, the recent outbreak of COVID-19 has endangered the health of many people residing in the PRC and significantly disrupted travel and local economy. Any of the aforesaid circumstances may materially and adversely affect our business and results of operations.

Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of the other Shareholders.

Prior to and immediately following the completion of the Global Offering, our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association and the Cayman Islands Companies Act, the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they are required to abstain from voting) to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC government finds that the agreements that establish the structure for operating our businesses in the PRC do not comply with applicable PRC laws and regulations, or if these laws and regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in the TV programs and other related businesses. In particular, under the Negative List, investment in “radio and television program production and operation enterprises” is prohibited. For details, see “Regulatory Overview — Regulations in Relation to Foreign Investment.”

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On March 15, 2019, the 2nd Session of the 13th National People’s Congress (第十三屆全國人民代表大會第二次會議) approved the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”), which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as “**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. For details, see “Regulatory Overview — Regulations in Relation to Foreign Investment.”

The Company was incorporated under the laws of the Cayman Islands, and Nanjing Strawbear, our wholly-owned PRC subsidiary, is considered a foreign-invested enterprise and thereby shall be subject to the FIL. To comply with PRC laws and regulations, we conduct our drama series investment, production and distribution related businesses in the PRC through Jiangsu Strawbear, based on the Contractual Arrangements, which enable us to (i) have the power to direct the activities that most significantly affect the economic performance of Jiangsu Strawbear; (ii) receive substantially all of the economic benefits from Jiangsu Strawbear in consideration for the services provided by the Nanjing Strawbear; and (iii) have an exclusive option to purchase all or part of the equity interests and assets of Jiangsu Strawbear when and to the extent permitted by PRC laws, or request Jiangsu Strawbear or any existing shareholder of it to transfer any or part of the equity interest and assets of Jiangsu Strawbear to another PRC person or entity designated by us at any time at our discretion. Because of these Contractual Arrangements, we are the primary beneficiary of Jiangsu Strawbear and hence treat Jiangsu Strawbear as our consolidated affiliated entity, and consolidate its and its subsidiaries’ results of operations into ours. Our Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for our business operations.

In the opinion of our PRC Legal Advisors, (i) the ownership structures of our Company, Nanjing Strawbear and our Consolidated Affiliated Entities are in compliance with existing PRC laws and regulations, (ii) the Contractual Arrangements are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, and (iii) the business operations of our Company, Nanjing Strawbear and our Consolidated Affiliated Entities, as described in this prospectus, had been in compliance with existing PRC laws and regulations, including the FIL, in all material aspects during the Track Record Period and up to the Latest Practicable Date. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Particularly, the FIL stipulates that foreign investment includes “Foreign Investors investing in the PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council.” We cannot assure you that Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the above-mentioned Contractual Arrangements. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisors. If the PRC government finds that the Contractual Arrangements do not comply with its restrictions or prohibitions on foreign investment in businesses, or the Contractual Arrangements are determined as illegal or invalid by the PRC government, or if the PRC government otherwise finds that

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we, Nanjing Strawbear or any of our Consolidated Affiliated Entities are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM and NRTA, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and our Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC subsidiaries and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the proceeds from the Global Offering or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our Consolidated Affiliated Entities in our consolidated financial statements, if the PRC governmental authorities find our legal structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of our Consolidated Affiliated Entities that most significantly impact their economic performance and/or our failure to receive the economic benefits from our Consolidated Affiliated Entities, we may not be able to consolidate our Consolidated Affiliated Entities into our consolidated financial statements in accordance with the HKFRS, thus adversely affecting our results of operations.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Jiangsu Strawbear and its shareholders may fail to perform their obligations under our Contractual Arrangements.

Due to the PRC restrictions or prohibitions on foreign ownership of companies that engage in drama series investment, production and distribution related businesses in the PRC, we operate a substantial portion of our business in the PRC through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on the Contractual Arrangements to control and operate our Consolidated Affiliated Entities' business. The Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See "Contractual Arrangements" for further details.

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Although we have been advised by our PRC Legal Advisors that our Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing control over our Consolidated Affiliated Entities as direct ownership. If Jiangsu Strawbear or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in the PRC. However, there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under the PRC laws. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these Contractual Arrangements. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements and our ability to conduct our business may be negatively affected.

We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities undergo an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of their assets and we may not have priority against such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law (《中華人民共和國企業破產法》) and recover any outstanding liabilities owed by our Consolidated Affiliated Entities to Nanjing Strawbear under the applicable service agreement.

The Contractual Arrangements provide that the shareholders of Jiangsu Strawbear are prohibited from voluntarily liquidating our Consolidated Affiliated Entities without obtaining our prior consent. In addition, under the Contractual Arrangements, the shareholders of Jiangsu Strawbear do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Jiangsu Strawbear without our consent. In the event that the shareholders of Jiangsu Strawbear initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Jiangsu Strawbear without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

The shareholders of Jiangsu Strawbear may have conflicts of interest with us, which may materially and adversely affect our business.

We have designated PRC nationals to be the shareholders of Jiangsu Strawbear. These persons may have conflicts of interest with us. Our Consolidated Affiliated Entities are beneficially owned by certain members of our management team, namely, Mr. Liu, Ms. Zhang and Ms. Zhai. Conflicts of interest may arise between the roles of these individuals as shareholders, directors and/or officers of our Company and

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as shareholders, directors and/or officers of Jiangsu Strawbear. We rely on these individuals to abide by the laws of the Cayman Islands which impose fiduciary duties upon directors and officers of our Company. Such duties include the duty to act *bona fide* in what they consider to be in the best interest of our Company as a whole and not to place themselves in a position in which there is a conflict between their duties to our Company and their personal interests. On the other hand, PRC laws also provide that a director or a management officer owes a loyalty and fiduciary duty to the company he or she directs or manages. We cannot assure you that when conflicts arise, shareholders of Jiangsu Strawbear will act in the best interest of our Company or that conflicts will be resolved in our favor. These individuals may breach or cause Jiangsu Strawbear to breach the existing Contractual Arrangements. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

If we exercise the option to acquire equity ownership of Jiangsu Strawbear, the ownership transfer may subject us to certain limitations and substantial costs.

Pursuant to the Contractual Arrangements, Nanjing Strawbear or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Jiangsu Strawbear from its shareholders at a nominal price, unless the relevant PRC government authorities or PRC laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request.

The equity transfer may be subject to approvals from and filings with the MOFCOM and SAMR and/or their local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment with reference to its market value by the relevant tax authority. The shareholders of Jiangsu Strawbear will pay the equity transfer price they receive to Nanjing Strawbear or its designated person(s) under the Contractual Arrangements. The amount to be received by Nanjing Strawbear may also be subject to EIT, in which case such tax amounts could be substantial.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among our PRC subsidiaries and our Consolidated Affiliated Entities do not represent an arms-length price and adjust our Consolidated Affiliated Entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our Consolidated Affiliated Entities for under-paid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

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RISKS RELATING TO THE PRC

China's economic, political and social conditions and government policies may continue to affect our business.

Substantially all of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and the industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. The PRC government has, in recent years, taken various actions to introduce market forces for economic reform, to reduce State ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the economy and the industries by issuing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, monetary policies and preferential treatments to particular industries or enterprises.

Our performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China's economic growth. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained. The global economic slowdown and the turmoil in the global financial markets that began in the second half of 2008, continued weakness in the U.S. economy and the sovereign debt crisis in Europe have collectively added downward pressure to economic growth in the PRC.

We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social, and regulatory developments and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in the PRC.

The "Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors" (《關於外國投資者併購境內企業的規定》), or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the "Anti-Monopoly Law" (《反壟斷法》) requires that the SAMR shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the "Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors" issued by the

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MOFCOM (《商務部實施外國投資者併購境內企業安全審查制度的規定》) that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire *de facto* control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments.

We are a company incorporated under the laws of the Cayman Islands. Pursuant to the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its “de facto management bodies” within the PRC, such enterprise would generally be deemed as a “PRC resident enterprise” for tax purposes and be subject to an EIT rate of 25% on its global income. “De facto management bodies” is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, July 2011 and January 2014, the SAT issued several circulars to clarify certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises. We are currently not regarded as a PRC tax resident enterprise. However, if we are regarded as a PRC tax resident enterprise by the PRC tax authorities, we would have to pay PRC EIT at a rate of 25% for our entire global income, which may materially and adversely affect our profits and hence our retained profit available for distribution to our Shareholders.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Under the PRC Individual Income Tax law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

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If we are treated as a PRC resident enterprise as described under “— We may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments,” dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within the PRC and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-residents investors, the value of your investment in our Shares may be materially and adversely affected.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

The PRC government’s control of foreign currency conversion and restrictions on the remittance of RMB out of the PRC may limit our foreign exchange transactions and our ability to pay dividends and meet other obligations, and affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in RMB. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency out of China, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of China in 2016 due to the weakening of the RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movements. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

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PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in the PRC. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System (外商投資綜合管理信息系統) (the “FICMIS”) and registration with other governmental authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local counterparts, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities must be recorded and registered by the NDRC and the SAFE or its local counterparts. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the proceeds of this Global Offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the “Notice on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises” (《國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知》) (the “SAFE Circular 19”), which took effect on June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the “Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange” (《國家外匯管理局關於改革和規範資本專案結匯管理政策的通知》) (the “SAFE Circular 16”). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in the PRC the proceeds from this Global Offering, which may materially and adversely affect our business, financial condition and results of operations.

The heightened scrutiny over acquisitions from the PRC tax authorities may have a material and adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.

On February 3, 2015, the SAT issued the “Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises” (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “Circular 7”), which abolished certain provisions in the “Notice on Strengthening the Administration of Enterprise Income Tax on non-Resident Enterprises” (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) (the “Circular 698”), which was previously

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issued by the SAT on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the "**PRC Taxable Assets**").

For example, Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding EIT and without any other reasonable commercial purpose.

Except as provided in Circular 7, transfers of Chinese taxable property under the following circumstances shall be automatically deemed as having no reasonable commercial purpose, and are subject to EIT: (i) more than 75% of the value of the overseas enterprise is directly or indirectly from Chinese taxable properties; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise are directly or indirectly composed of investment in the PRC at any time during the year prior to the indirect transfer of Chinese taxable property, or more than 90% of the income of the overseas enterprise is directly or indirectly from China during the year prior to the indirect transfer of Chinese taxable property; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold Chinese taxable property and have registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet proved to be inadequate in their ability to perform their intended functions and withstand risks as their alleged organization forms suggest; or (iv) the income tax from the indirect transfer of Chinese taxable property payable abroad is lower than the income tax in the PRC that may be imposed on the direct transfer of such PRC Taxable Assets.

Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

Provisions of Circular 7, which impose PRC tax liabilities and reporting obligations, do not apply to "a non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market" (the "**Public Market Safe Harbor**"), which is determined by whether the parties and number and price of the shares acquired and disposed are not previously agreed upon, but determined in accordance with general trading rules in the public securities markets, according to one implementing rule for Circular 698. In general, transfers of the Shares by Shareholders on the Stock Exchange or other public markets would not be subject to the PRC tax liabilities and reporting obligations

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imposed under the Circular 7 if the transfers fall under the Public Market Safe Harbor. As stated in the section headed “Information about this Prospectus and the Global Offering,” potential investors should consult their professional advisors if they are in any doubt as to the tax implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares.

We may be subject to penalties, including restrictions on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident Shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local counterparts of the SAFE in connection with their direct or indirect offshore investment activities. The “Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round tripping by Chinese Residents through Special Purpose Vehicles” (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 37, was promulgated by the SAFE in July 2014 and requires PRC residents or entities to register with SAFE or its local counterparts in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local counterpart of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into the PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into the PRC and deemed to have been evasive or illegal and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We have requested PRC residents that to our knowledge hold direct or indirect interest in our Company to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. Each of our individual beneficial owners who is required to complete the registration under SAFE Circular 37 has duly completed the foreign exchange registrations in relation to their offshore investments as PRC residents. However, there can be no assurance that the subsequent amendment of registration, when required, can be successfully completed in a timely manner. We cannot assure you that the SAFE or its local counterparts will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment

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activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may materially and adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could materially and adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the “Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies” (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “SAFE Circular 7”), replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local counterparts and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Also, SAFE Circular 7 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local counterparts before they exercise the share options. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of this Global Offering. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options. Our PRC subsidiaries have obligations to file documents

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with respect to the granted share options with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC Government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and may adversely affect the value of your investment.

You may experience difficulties in effecting service of legal process and enforcing judgments or bringing original actions in the PRC or Hong Kong based on foreign laws against us and our Directors and management.

We are an exempted company incorporated in the Cayman Islands and substantially all of our assets are located in the PRC and substantially all of our current operations are conducted in the PRC as well. In addition, a majority of our current Directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC for disputes brought in courts outside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into the “Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned” (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and

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commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant Hong Kong court or PRC court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and there can be no assurance that an active market would develop after the Global Offering.

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible book value. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

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The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and Controlling Shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Controlling Shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

There is no assurance if and when we will pay dividends in the future.

Distribution of dividends will be at the discretion of our Board and subject to Shareholders' approval. A decision to declare or pay dividends and the amount of such dividends will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. See "Financial Information — Dividends." As a result, there can be no assurance whether, when and in what manner we will pay dividends in the future.

Since there may be a gap of several Business Days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our shareholders. We plan to use the net proceeds from the Global Offering mainly (i) to fund our drama series production; (ii) to fund potential investment in, or merger and acquisition of, companies that may enhance our market position and ramp up our drama series development, production and distribution capabilities; (iii) to acquire IPs to guarantee the stable growth of our drama series production and distribution; and (iv) for working capital and general corporate purposes. For details, see "Future Plans and Use of Proceeds — Use of Proceeds." However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, whose judgment you must depend on, for the specific uses we will make of the net proceeds from this Global Offering.

RISK FACTORS

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong.

Our corporate affairs are governed by the Articles of Association, the Cayman Islands Companies Act and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong. This may mean that the remedies available to our minority Shareholders may be different from those available under the laws of Hong Kong or other jurisdictions. A summary of the constitution of our Company and the Cayman Islands Company Act is set out in Appendix III to this prospectus.

Facts and statistics in this prospectus may come from various sources and may not be fully reliable.

Some of the facts and statistics in this prospectus are derived from various publications of governmental agencies or publicly available sources and obtained during communications with various government agencies or Independent Third Parties that our Directors believe are reliable. However, our Directors cannot guarantee the quality or reliability of such materials. Our Directors believe that the sources of the information are appropriate and have taken reasonable care in extracting and reproducing such information. They do not believe that such information is false or misleading in any material aspect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by our Group, the Joint Sponsors or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness. Due to the possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such facts and statistics maybe inaccurate or may not be comparable to official statistics. You should not place undue reliance on them. You should consider how much weight or importance such facts or statistics carry and should not place undue reliance on them.

Prospective investors should read the entire prospectus carefully and are strongly cautioned against placing any reliance on the information in any press article or other media coverage which contains information not being disclosed or which is inconsistent with the information included in this prospectus.

You are strongly advised to read the entire prospectus carefully and are cautioned against placing any reliance on the information in any press article or any other media coverage which contains information not disclosed or not consistent with the information included in this prospectus.

Prior to the completion of the Global Offering, there may be press and media coverage regarding our Group and the Global Offering. Our Directors would like to emphasize to prospective investors that we do not accept any responsibility for the accuracy or completeness of such information and such information is not sourced from or authorized by our Directors or our management team. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information or the fairness or appropriateness of any forecast, view or opinion expressed by the press or other media regarding our Group or our Shares. In making decisions as to whether to invest in our Shares, prospective investors should rely only on the financial, operational and other information included in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, our Company has applied for the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since substantially all of the business operations of our Group are managed and conducted outside of Hong Kong, and all of our executive Directors ordinarily reside in the PRC, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rules 8.12 of the Listing Rules. Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed Ms. Zhai, an executive Director, the chief operating officer of our Company and one of our joint company secretaries, and Mr. WONG Keith Shing Cheung (“**Mr. Wong**”), one of our joint company secretaries, as our authorized representatives for the purposes of Rule 3.05 of the Listing Rules to serve as our principal channel of communication with the Stock Exchange. We have provided the Stock Exchange with their contact details, and they will be available to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;
- (b) as and when the Stock Exchange wishes to contact our Directors on any matters, each of our authorized representatives will have means to contact all of our Directors promptly at all times. We will implement measures such that (i) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address to our authorized representatives and the Stock Exchange; and (ii) in the event that a Director expects to travel or otherwise be out of office, he or she will provide the phone number of the place of his or her accommodation to our authorized representatives. We have provided the Stock Exchange with the contact details of each Director to facilitate communication with the Stock Exchange;
- (c) each Director who is not an ordinary resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time;
- (d) we have appointed a compliance adviser, Messis Capital Limited, pursuant to Rules 3A.19 of the Listing Rules, which will act as our additional and alternative channel of communication with the Stock Exchange, and its representative(s) will be fully available to answer enquiries from the Stock Exchange. The compliance adviser will advise our Company on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing, and will have access at all times to our authorized representatives, our Directors and the other senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company; and
- (e) any meeting between the Stock Exchange and our Directors will be arranged through our authorized representatives or compliance adviser or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorized representatives and compliance adviser.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules and Guidance Letter HKEX-GL108-20, our company secretary must be an individual who by virtue of his or her academic or professional qualifications or relevant experience is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable.

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (a) length of employment with the listing applicant and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”);
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Ms. Zhai as one of the joint company secretaries. Ms. Zhai has abundant knowledge about our business operations and corporate culture and has extensive experience in matters concerning the Board and our corporate governance. However, Ms. Zhai does not possess the specified qualifications strictly required by Rule 3.28 of the Listing Rules. As a result, we have appointed Mr. Wong, a member of the Hong Kong Institute of Certified Public Accountants, who meets the requirements under Rule 3.28 of the Listing Rules, to act as the other joint company secretary. See “Directors and Senior Management” for more details of Ms. Zhai’s and Mr. Wong’s biographies.

Over the initial period of the three years from the Listing Date, we will implement the following measures to assist Ms. Zhai to satisfy the requisite qualifications as prescribed in Rules 3.28 and 8.17 of the Listing Rules:

- (a) Mr. Wong will assist Ms. Zhai so as to enable her to discharge her duties and responsibilities as a joint company secretary of our Company. Given Mr. Wong’s relevant experiences, he will be able to advise both Ms. Zhai and us on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) Ms. Zhai will be assisted by Mr. Wong for an initial period of three years commencing from the Listing Date, which should be sufficient for her to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;
- (c) we will ensure that Ms. Zhai has access to the relevant trainings and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Ms. Zhai has undertaken to attend such trainings;
- (d) Mr. Wong will communicate with Ms. Zhai on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to our operations and affairs. Mr. Wong will work closely with and provide assistance to Ms. Zhai with a view to discharging her duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' meetings; and
- (e) pursuant to Rule 3.29 of the Listing Rules, Mr. Wong and Ms. Zhai will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarize themselves with the requirements of the Listing Rules and other legal and regulatory requirements of Hong Kong. Both Mr. Wong and Ms. Zhai will be advised by our legal advisors as to Hong Kong laws and our compliance adviser as and when appropriate and required.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, on the condition that Mr. Wong is engaged as a joint company secretary and provides assistance to Ms. Zhai during this period. If Mr. Wong ceases to render assistance to Ms. Zhai during this period or if there are material breaches of the Listing Rules by our Company, the waiver will be immediately withdrawn. Prior to the expiry of the three-year period, we will conduct a further evaluation of the qualification and experience of Ms. Zhai to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied, and we will liaise with the Stock Exchange to assess whether Ms. Zhai, having had the benefit of Mr. Wong's assistance for three years, would have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules such that there is no need to further apply for a waiver.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions of our Company under the Listing Rules upon the Listing. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with certain requirements set out in Chapter 14A of the Listing Rules for certain continuing connected transactions. For details of such continuing connected transactions and the waiver, see "Connected Transactions."

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus 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 prospectus misleading.

GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering.

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and are subject to us and the Joint Representatives (on behalf of the Hong Kong Underwriters) agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed among us and the Joint Representatives (on behalf of the Hong Kong Underwriters) on or before Monday, January 11, 2021, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangement, see "Underwriting."

Neither the delivery of this prospectus nor any offering or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Offer Shares described in this prospectus and the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued and offered for sale pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be allotted and issued pursuant to any exercise of the Pre-IPO Share Options. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All of the Offer Shares will be registered on the Hong Kong register of members of our Company in order to enable them to be traded on the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in “Underwriting” and “Structure of the Global Offering”. Assuming that the Over-allotment Option is exercised in full, our Company may be required to issue up to an aggregate of 24,867,000 additional new Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARE REGISTER AND HONG KONG STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

Dealings in our Shares registered in our Hong Kong register will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional advice.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangements may affect their rights and interests.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and on the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

COMMENCEMENT OF DEALINGS IN SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Friday, January 15, 2021. Shares will be traded in board lots of 1,000 Shares each.

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this prospectus includes translations of certain currencies based on the exchange rate prevailing on December 21, 2020 published by the PBOC for foreign exchange transactions. Unless otherwise specified, (i) translations of Renminbi into Hong Kong dollars in this prospectus are based on the rate of RMB0.84498: HK\$1.00; (ii) translations of Renminbi into U.S. dollars are based on the rate of RMB6.5507: US\$1.00; and (iii) translations of Hong Kong dollars into U.S. dollars are based on the implied rate of HK\$7.7525: US\$1.00.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No representation is made that any amounts in Hong Kong dollars, Renminbi and U.S. dollars can be or could have been converted at the relevant dates at the above rates or any other rates at all.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. LIU Xiaofeng (劉小楓)	Room 901, Unit 3, Building 3 No. 69 Zhanjiang Road Gulou District, Nanjing Jiangsu Province PRC	Chinese
Ms. ZHANG Qiuchen (張秋晨)	Room 1208, Unit 2, Building 33 Dongfang Tianjun Garden No. 8 Shanhu West Road Qixia District, Nanjing Jiangsu Province PRC	Chinese
Mr. CHEN Chen (陳晨)	Room 1005, Building 2 Yue Heng Jun Bo No.1341 Shuanglong Street Jiangning District, Nanjing Jiangsu Province PRC	Chinese
Ms. ZHAI Fang (翟芳)	Room 2102, Building 14 Central Park No.6 Chaoyangmenwai Street Chaoyang District, Beijing PRC	Chinese
<i>Non-executive Directors</i>		
Mr. WANG Xiaohui (王曉暉)	Room 1001, Unit 1, Building 2 Zhenwu Garden Zhenwumiao Er Tiao Xicheng District, Beijing PRC	Chinese
Mr. WANG Jun (汪駿)	25E, Block 2 Scenic Heights 58A-B Conduit Road Midlevel Hong Kong	Chinese (Hong Kong)

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent Non-executive Directors</i>		
Mr. ZHANG Senquan (張森泉)	Flat B, 22F Tower 16, Pacific Palisades No.1 Braemar Hill Road North Point Hong Kong	Chinese (Hong Kong)
Mr. MA Zhongjun (馬中駿)	Room 601, Unit 1, Building 7 Dongjiasong Huawei Road Chaoyang District, Beijing PRC	Chinese
Mr. CHUNG Chong Sun (鍾創新)	G/F, Block 1, iLife 222 Shek Wu Tong Pat Heung, Yuen Long New Territories Hong Kong	Chinese (Hong Kong)

For further information regarding our Directors, see “Directors and Senior Management.”

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors and Joint Representatives	China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square 8 Connaught Place Central Hong Kong
	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
Joint Global Coordinators	China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square 8 Connaught Place Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**China Securities (International) Corporate Finance
Company Limited**

18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

China Renaissance Securities (Hong Kong) Limited

Units 8107-08, Level 81
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Joint Bookrunners

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

**China Securities (International) Corporate Finance
Company Limited**

18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

China Renaissance Securities (Hong Kong) Limited

Units 8107-08, Level 81
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

ABCI Capital Limited

11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Central
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

62/F, The Center
99 Queen's Road Central
Hong Kong

CMB International Capital Limited

45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F, United Centre
No.95 Queensway
Admiralty
Hong Kong

Joint Lead Managers

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

**China Securities (International) Corporate Finance
Company Limited**

18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

China Renaissance Securities (Hong Kong) Limited

Units 8107-08, Level 81
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

ABCI Securities Company Limited

10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

2/F, The Center
99 Queen's Road Central
Hong Kong

CMB International Capital Limited

45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F, United Centre
No.95 Queensway
Admiralty
Hong Kong

US Tiger Securities, Inc.

(Joint Lead Manager in relation to the International Offering only)
437 Madison Ave, 27/F
New York
NY 10022
United States of America

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**China Galaxy International Securities (Hong Kong)
Co., Limited**

20/F, Wing On Centre
111 Connaught Road Central
Hong Kong

Legal Advisors to Our Company

As to Hong Kong laws
William Ji & Co. LLP
in Association with
Tian Yuan Law Firm Hong Kong Office
Suites 3304-3309, 33/F
Jardine House
One Connaught Place
Central, Hong Kong

As to Cayman Islands laws
Harney Westwood & Riegels
3501 The Center
99 Queen's Road Central
Central
Hong Kong

As to PRC laws
Commerce & Finance Law Offices
6F NCI Tower
A12 Jianguomenwai Avenue
Beijing, PRC

**Legal Advisors to the Joint Sponsors
and the Underwriters**

As to Hong Kong laws
Sidley Austin
39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC laws
Tian Yuan Law Firm
10/F, CPIC Plaza B
No. 28 Fengsheng Lane
Xicheng District
Beijing, PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Auditor and Reporting Accountant	Ernst & Young <i>Certified Public Accountants</i> 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Compliance Adviser	Messis Capital Limited Room 1606, 16/F, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Industry Consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. 1018, Tower B 500 Yunjin Road Shanghai, PRC
Receiving Bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered Office	Harneys Fiduciary (Cayman) Limited 4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman, KY1-1002 Cayman Islands
Headquarters in the PRC	Room 2508, Building A Wanda Plaza, No. 98 Jiangdong Zhong Road Jianye District Nanjing, Jiangsu PRC
Principal Place of Business in Hong Kong	40/F, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Company's Website	<u>www.strawbearentertainment.com</u> <i>(the information contained on the website does not form part of this prospectus)</i>
Joint Company Secretaries	Ms. ZHAI Fang (翟芳) Room 2102, Building B14, No.6 Chaoyangmenwai Street Chaoyang District, Beijing PRC Mr. WONG Keith Shing Cheung (王承鐸) <i>(member of the Hong Kong Institute of Certified Public Accountants)</i> 40/F, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Ms. ZHAI Fang (翟芳) Room 2102, Building B14, No.6 Chaoyangmenwai Street Chaoyang District, Beijing PRC

CORPORATE INFORMATION

	Mr. WONG Keith Shing Cheung (王承鐸) 40/F, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Audit Committee	Mr. ZHANG Senquan (張森泉) (<i>Chairperson</i>) Mr. WANG Jun (汪駿) Mr. CHUNG Chong Sun (鍾創新)
Remuneration Committee	Mr. MA Zhongjun (馬中駿) (<i>Chairperson</i>) Mr. LIU Xiaofeng (劉小楓) Mr. CHUNG Chong Sun (鍾創新)
Nomination Committee	Mr. MA Zhongjun (馬中駿) (<i>Chairperson</i>) Mr. LIU Xiaofeng (劉小楓) Mr. CHUNG Chong Sun (鍾創新)
Principal Share Registrar and Transfer Office	Harneys Fiduciary (Cayman) Limited 4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal Bankers	Bank of Nanjing Co., Ltd. Nanjing Chengdong Sub-branch No. 99-1 Zhongshanmen Avenue Xuanwu District Nanjing, Jiangsu PRC East West Bank (China) Ltd. 33/F, Jin Mao Tower No. 88 Century Boulevard Pudong New Area, Shanghai PRC

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this prospectus are derived from various government and other publicly available sources and from the market research report prepared by Frost & Sullivan. Frost & Sullivan is an independent industry consultant engaged by us, and we commissioned Frost & Sullivan to prepare a market research report. The information extracted from the Frost & Sullivan Report should not be considered to be a basis for investments in Offer Shares or an opinion of Frost & Sullivan with respect to the value of any securities or the advisability of investing in our Company. We believe that the sources of such information are appropriate for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false in any material respect or misleading or that any fact has been omitted that would render such information false in any material respect or misleading. No independent verification has been carried out on such information by our Company or any other parties involved in the Global Offering (excluding Frost & Sullivan), or their respective directors, officers or representatives, and no representation is given as to the accuracy or completeness of such information.

Accordingly, you should not place undue reliance on such information. For discussions of risks relating to our industry, see “Risk Factors — Risks Relating to Our Business and Industry.”

INTRODUCTION

We engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report on, the drama series market in the PRC for use in this prospectus. The information from Frost & Sullivan disclosed in the prospectus is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB450,000, and is disclosed with the consent of Frost & Sullivan. The Frost & Sullivan Report has been prepared by Frost & Sullivan independently without any influence from us or other interested parties. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York and its services include, among others, industry consulting, market strategic consulting and corporate training. Its industry coverage includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

SOURCE AND RELIABILITY OF INFORMATION

Frost & Sullivan conducted (i) primary research, which involved discussing the status of the industry with certain leading industry participants; and (ii) secondary research, which involved reviewing company reports, independent research reports and data based on its own research database.

Frost & Sullivan adopted the following primary assumptions while making projections: (i) global social, economic and political environment is likely to remain stable in the forecast period; (ii) purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions; and (iii) related industry key drivers are likely to drive the market in the forecast period.

Frost & Sullivan had also fully taken the impact of the COVID-19 on drama series market into consideration in the assumptions regarding the market sizing forecast, which was reflected in the following aspects (i) most drama series to be filmed or being filmed were temporarily halted in the first quarter of 2020 due to the strict measures adopted by some provinces in the PRC to limit the access to public spaces, and the completion time of the production was expected to be postponed; (ii) the revenue generated from the production and distribution of drama series was expected to decrease in 2020 as the distribution licenses of the TV series could not be obtained as originally planned; and (iii) considering the revenue decline during the outbreak of COVID-19, the brand owners may decrease their marketing and advertising budget in 2020, which may lead to the decrease in the advertising revenues of TV channels

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and online video platforms and then limit the abilities of these broadcasting channels to purchase or invest in new drama series. The aforementioned factors are likely to affect the growth of the drama series market in the short term; therefore, the growth rate of the market slows down during the forecast period. Since the operation of drama series market has gradually recovered in the second quarter of 2020, including the filming work and distribution and marketing activities, the negative impact of COVID-19 on the market is expected to reduce in 2021. It is expected that the market size and growth rate of drama series market will return to its previous level.

THE PRC DRAMA SERIES MARKET

Overview

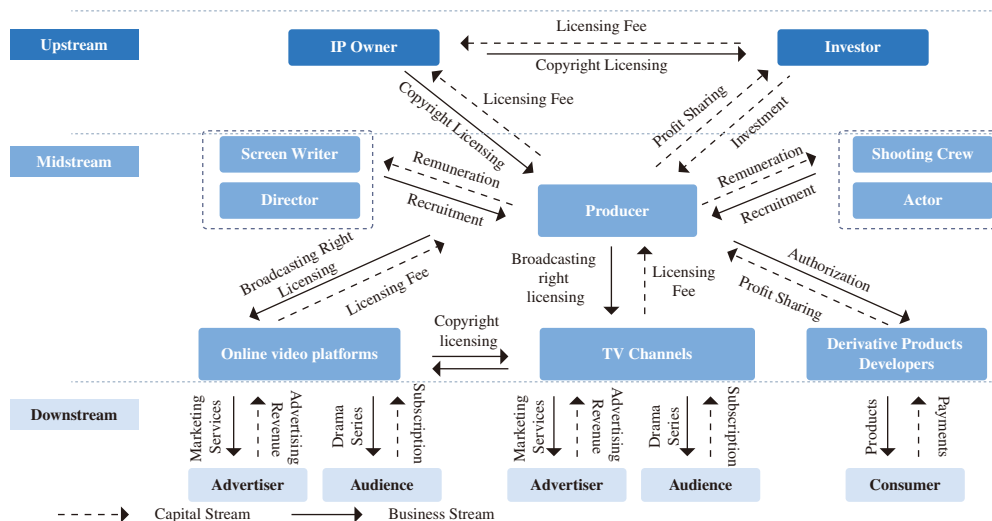
Definition and Segmentation of the Drama Series Market in the PRC

The drama series market in the PRC consists of two sub-segments, namely, the TV series market and the web series market. According to the Frost & Sullivan Report, TV series is defined as drama series with distribution license issued by the NRTA which could be broadcast on either TV channels or online video platforms; while web series is defined as drama series that needs to be filed and reviewed by the NRTA, which could be broadcast only on online video platforms.

Value Chain Analysis of the Drama Series Market in the PRC

According to the Frost & Sullivan Report, the value chain of the drama series market in the PRC could be generally divided into (i) upstream — IP exploitation and capital preparation; (ii) midstream — production and distribution, and (iii) downstream — TV and Web series broadcasting.

Initiated by producers or investors who purchase the copyrights of stories or IPs, drama series production starts from IPs exploitation and transaction as well as project funds raising. Producers play a core role in coordinating with multiple parties including shooting crew, directors, actors as well as distribution channels. Leading players usually have their own distribution teams and have built up deep cooperation with TV channels and online video platforms to make sure the produced drama series delivered to audience via diverse channels. The chart below illustrates the value chain analysis of the drama series market in the PRC:



Source: Frost & Sullivan Report

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Size and Growth of the Drama Series Market in the PRC

Drama series, consisting of both TV and web series, flexibly incorporating comprehensive artistic factors to achieve the purpose of narratives, have become a popular entertainment activity in the fragmented spare time in the PRC. The market size of drama series market in the PRC, as measured by licensing, distribution and advertising revenues, experienced rapid growth rate at a CAGR of approximately 4.5% between 2015 and 2019, expanding from approximately RMB83.0 billion to approximately RMB99.1 billion. Along with the increasing penetration of internet, particularly on mobile terminal, the favorable nature of internet including unlimited geography coverage, inclusivity and promptness effectively diversified the broadcasting channels of drama series, which allows the audiences to enjoy the freedom to engage with drama series contents in their fragmented spare time. In this case, the market size of drama series is forecasted to reach approximately RMB121.3 billion in 2024, attaining an estimated CAGR of approximately 4.1% between 2019 and 2024.

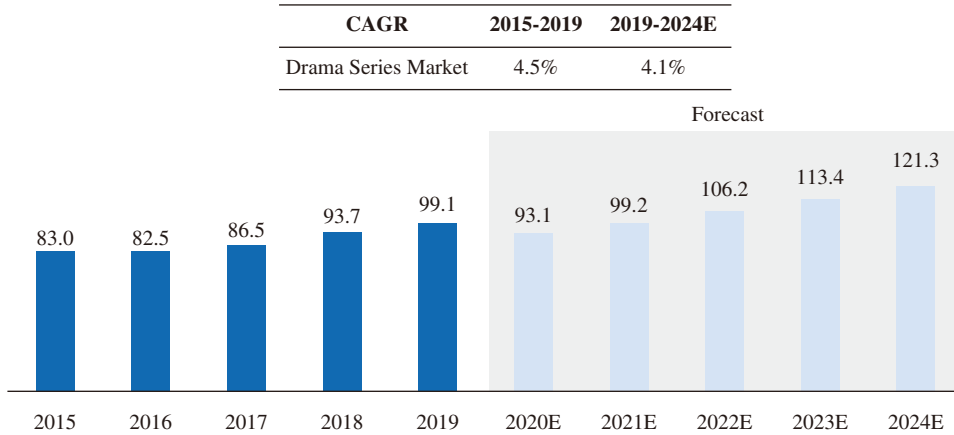
Given the abundant industry experience as well as the stable audience base accumulated by TV channels, TV channels served as the major channel for distribution and broadcasting of TV series in past decades. Affected by new rule in 2015 pursuant to which the same TV series should be broadcast on no more than two satellite TV channels each night during prime time, and each channel can broadcast at most two episodes per night, the landscape of drama series market has changed. Although this policy to some degree increased the number of TV series that could be broadcast through TV channels, it intensified the competitiveness among the companies focusing on production and distribution of TV series. Meanwhile, riding the wave of internet proliferation, the online video platforms, iQIYI, Youku and Tencent Video in particular, rapidly attracted a massive user base with tremendous user engagement in the past few years, and generated significant monetization opportunities. In this case, the web series market witnessed rapid growth between 2015 and 2019 at a CAGR of approximately 23.9%, reaching approximately RMB18.1 billion in 2019. The fast growth of the web series market is forecasted to maintain in the following years, at an estimated CAGR of approximately 11.1% between 2019 and 2024. Meanwhile, the TV series market increased from approximately RMB75.3 billion in 2015 to approximately RMB81.0 billion in 2019 at a CAGR of approximately 1.8%, and is expected to grow at an estimated CAGR of approximately 2.3% between 2019 and 2024, reaching approximately RMB90.7 billion in 2024.

In 2019, although the revenue of drama series generated from TV channels still take the major proportion of approximately 54.9% of the total market size, the decreasing of the advertising revenue of TV channels in recent years limited its capacity to purchase new TV series at competitive prices and many TV channels turned to purchase the second/third-run TV series with relatively lower prices. As such, the revenue of drama series generated from TV channels has recorded slight decrease between 2015 and 2019, from approximately RMB60.5 billion to approximately RMB54.4 billion. Meanwhile, the online video platforms placed increasing emphasis on web series in the past few years through continuously investments in self-produced web series or made-to-order web series with sufficient capital which lead to the rapid growth of the revenue of drama series generated from online video platforms, increasing from approximately RMB22.5 billion in 2015 to approximately RMB44.7 billion in 2019 at a CAGR of approximately 18.7%. The revenue of drama series generated from online video platforms is expected to grow at an estimated CAGR of approximately 8.9% from 2019 to 2024, reaching

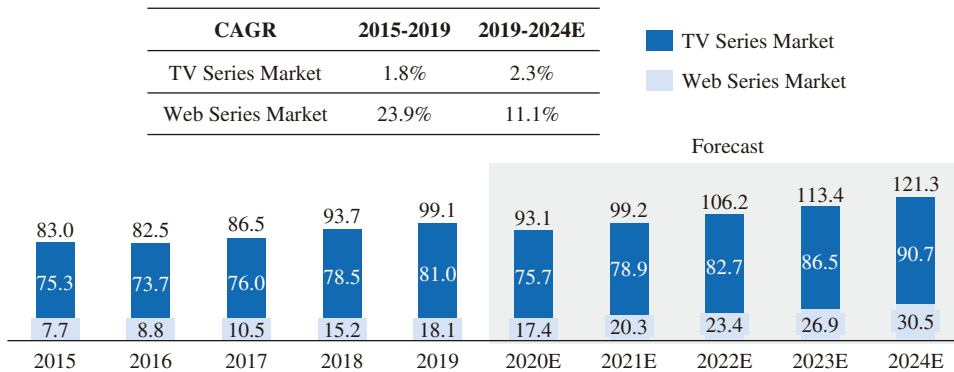
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approximately RMB68.3 billion in 2024. The charts below illustrate the market size of drama series and the breakdown by category and by channel from 2015 to 2024, respectively:

Market Size⁽¹⁾ of Drama Series Market, the PRC
RMB Billion; 2015-2024E



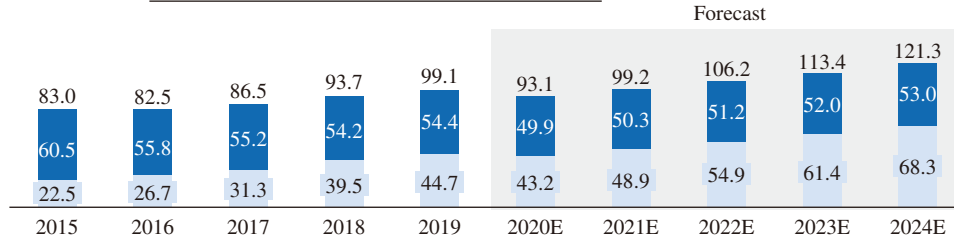
Market Size⁽¹⁾ Breakdown of Drama Series Market by Category, the PRC
RMB Billion; 2015-2024E



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Market Size⁽¹⁾ Breakdown of Drama Series Market by Channel, the PRC RMB Billion; 2015-2024E

	CAGR	2015-2019	2019-2024E
TV Channel		-2.6%	-0.5%
Online Video Platform		18.7%	8.9%



Source: Frost & Sullivan Report

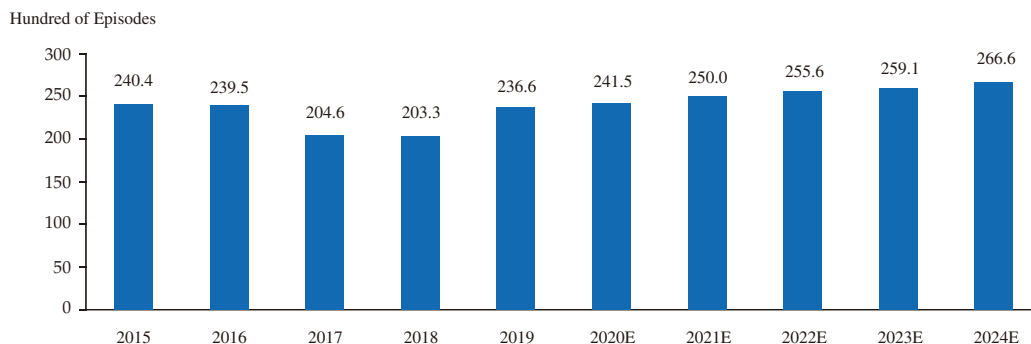
Note:

- (1) The market size refers to the licensing, distribution and advertising revenues generated from TV series and web series, or generated through TV channels and online video platforms, as applicable.

The number of episodes of drama series distributed for the first-run and re-run broadcast decreased from 240.4 hundred in 2015 to 203.3 hundred in 2018, and increased to 236.6 hundred in 2019, primarily because the decreasing of the advertising revenue of TV channels in recent years limited its capacity and procurement budget to purchase the first-run TV series, while the web series market has rapidly developed and served as the major driving force for the growth of the episodes of drama series distributed for the first-run and re-run broadcast since 2017. The number of episodes of drama series distributed for the first-run and re-run broadcast is expected to further increase to 266.6 hundred in 2024, representing a CAGR of 2.4%. Between 2019 and 2024, the episodes of TV series distributed for the re-run broadcast and the episodes of web series distributed for both the first-run and re-run broadcast are expected to serve as the major underlying driving force to promote the growth, while the number of episodes of the TV series distributed for the first-run broadcast is projected to remain relatively stable. The table below sets forth the number of episodes of drama series distributed for the first-run and re-run broadcast from 2015 to 2024:

Episodes of Drama Series Distributed for the First-run and Re-run Broadcast Hundred Episodes; 2015-2024E

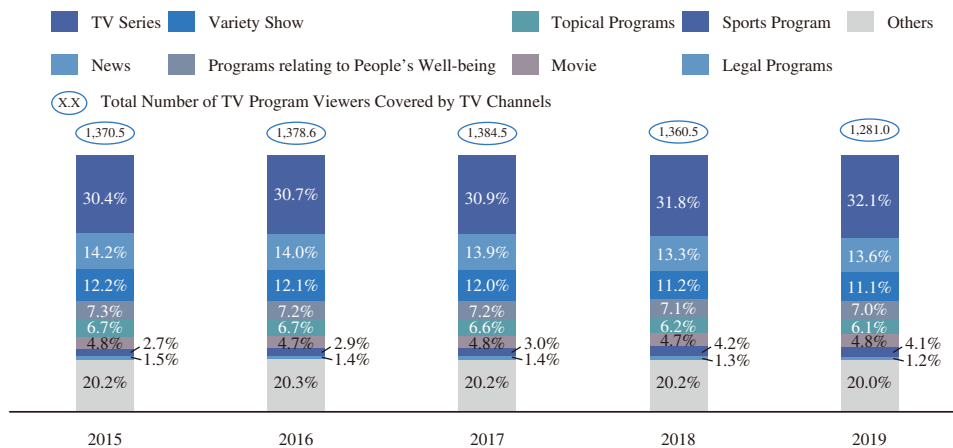
	CAGR	2015-2019	2019-2024E
Episode of Drama Series		-0.4%	2.4%



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The number of TV program viewers covered by TV channels in the PRC remained relatively stable from 2015 to 2017. Since 2017, the total number of TV programs viewers covered by TV channels slightly decreased from approximately 1,384.5 million in 2017 to approximately 1,281.0 million in 2019, primarily due to the fierce competition from online video platforms. Among all types of TV programs broadcast on the PRC TV channels, TV series are most popular, the market share of which increased from 30.4% in 2015 to 32.1% in 2019 in terms of viewership rating. The chart below illustrates the total number of TV program viewers covered by TV channels in the PRC and the market share of TV programs broadcast on the PRC TV channels in terms of viewership rating between 2015 and 2019.

Total Number of TV Program Viewers Covered by TV Channels and Market Share of TV Programs by Types in terms of Viewership Rating⁽¹⁾, the PRC
Million; Percentage %; 2015-2019



Source: Frost & Sullivan Report

Note:

- (1) The market share of different types of TV programs in terms of viewership rating refers to the percentage of the total number of audience who are watching a certain type of TV program out of the total number of the audience who are watching TV programs during the whole day.

Analysis of the Cost of Drama Series

The cost of drama series mainly comprises of the purchase or creation of scripts, cost during the production process such as the remuneration of actors, purchase of costume and related equipment, and the marketing and distribution expenditures. Attributed to the standardization of the whole industry development, it is expected that the production cost of drama series is likely to remain stable or slightly decrease to some extent in the following years.

The production of drama series may last for a long period of time with many different parties being involved. During the production of drama series, the capabilities of the drama series production companies to manage the overall schedule at all levels, control the budget and coordinate different working groups are viewed as critical factors to guarantee the overall process could be implemented in a cost-effective manner. Considering the better resources allocation, drama series production companies tend to outsource part of filming work, post-production work as well as advertising activities to third-party studios with extensive practical experiences and abundant industry resources.

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In the past, the high remuneration of actors which accounted for a major portion of the total cost indeed posed a negative impact on the production of drama series due to the budget limitation and imbalanced allocation. In order to prompt the health development of drama series market, the regulators and industry associations jointly published the official instructions, such as the Notifications on Prospering and Developing the TV and Web Series Industry (《關於支持電視劇繁榮發展若干政策的通知》) and the Opinions on the Allocation of Production Costs of TV Series and Web Series (《關於電視劇網絡劇製作成本配置比例的意見》), to adjust the budget allocation, so that the remuneration of actors could be controlled within a reasonable range.

In addition, the expenditure on marketing and distribution is an important component of cost structure of the drama series market. In general, in-house marketing and distribution departments of drama series companies or third-party professional and experienced marketing and distribution companies are responsible to distribute the drama series to TV channels or online video platforms. In some cases, the drama series companies are willing to reasonably increase the marketing budget of the drama series to promote the drama series to attract more audience and achieve better feedbacks. The cost of marketing and distribution of drama series is related to many factors including but not limited to the choice of marketing channels, time windows and length of the campaigns, as well as the staffing arrangement.

Policies and Regulations of the PRC Drama Series Market

The production and distribution of drama series are extensively regulated in the PRC, and the production and distribution of drama series are subject to various PRC laws, rules and regulations. Please see “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” and “Regulatory Overview — Regulations in Relation to Production of Web Series.”

While, in recent years, the PRC government has released several favorable policies towards the drama series market, including but not limited to the Notice on Promoting Self-innovation Radio and TV Programs Production (《關於大力推動廣播電視節目自主創新工作的通知》) issued by the SAPPRFT (a predecessor of the NRTA) on June 20, 2016, the Notifications on Prospering and Developing the TV and Web Series Industry (《關於支持電視劇繁榮發展若干政策的通知》) jointly issued by the SAPPRFT, the NDRC, the MOFCOM, etc. on September 9, 2017, and the Opinion about Cost Allocation of TV Series and Web Series (《關於電視劇網絡劇製作成本配置比例的意見》) issued by the SAPPRFT on September 22, 2017, which may lower the proportion of our cost on actors’ remuneration, and the Notice for Further Strengthening the Administration on Radio or Television Programmes and Online Audio-visual Entertainment Programmes (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》) issued by the NRTA on October 31, 2018.

The PRC TV Series Market

Production and Distribution of TV Series in the PRC

Pursuant to the Administrative Provisions on the Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》) promulgated by the SARFT (a predecessor of NRTA) on July 19, 2004, which became effective on August 20, 2004, drama series companies are required to obtain the Television Drama Production Permit (《電視劇製作許可證》) Class A or Class B in order to produce and distribute drama series legally in the PRC. Class A and Class B Television Drama Production Permits vary in many aspects, such as effective terms and the drama series production application requirements.

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Obtaining the Television Drama Production Permit (Class A) may speed up the production and distribution of drama series, and the broadcasting channels prefer to cooperate with holders of the Television Drama Production Permit (Class A). In 2019, there were only 73 companies out of more than 18,000 companies holding the Television Drama Production Permit (Class A), which represent the recognition on their past performance by relevant regulatory departments and the overall market. In 2019, among all the holders of the Television Drama Production Permit (Class A), 29 companies were non-state-owned enterprises, accounting for 39.7% of the total, and our Company was one of such holders.

TV series were overproduced in the PRC in the past several years. In 2019, 905 TV series that had applied for public record and registered with the NRTA were produced, which is 21.3% less than that in 2015. In 2019, the number of TV series that had obtained distribution licenses was 254 and only accounted for approximately 28.1% of TV series that had applied for a distribution license, indicating the overproduction in the PRC drama series market. Under such circumstance, the market competition has intensified and leading drama series production and distribution companies are more likely to distribute their high-quality works to leading broadcasting channels such as the top five TV channels and the top three online video platforms.

Licensing and Distribution Revenues of TV Series

Licensing and distribution revenues of TV series generated by drama series production and distribution companies are the major component of the PRC TV series market. Attributed to the improvement of the quality of TV series together with the increasing investment in the PRC TV series, the licensing revenue of TV series witnessed a moderate growth at a CAGR of approximately 6.3% between 2015 and 2019, increasing from approximately RMB22.9 billion to approximately RMB29.1 billion and accounting for approximately 36.0% of the total PRC TV series market in 2019. Since the TV series could be distributed to both TV channels and online video platforms, the licensing revenue from TV series could be further breakdown by channels. In the past few years, the decreasing of advertising revenues of TV channels limited its capacity to purchase new TV series at competitive prices, which lead to the negative growth of the licensing revenue of TV series from TV channels. Besides, the licensing revenue of first-run TV series generated from TV channels reached approximately RMB12.9 billion in 2019, accounting for approximately 84.6% of the total licensing revenue of TV series from TV channels. The emergence and fast growth of online video platforms along with the proliferation of internet, particularly on mobile terminal, effectively diversified the broadcasting channel for TV series. Between 2015 and 2019, the licensing revenue of TV series generated from online video platforms had recorded a CAGR of approximately 19.2%, increasing from approximately RMB6.9 billion in 2015 to approximately RMB13.8 billion in 2019, and this figure is forecasted to reach approximately RMB19.0 billion in 2024.

The implementation of “One TV Series, Two Satellite TV Channels” policy intensified the competitions among TV channels for superior TV series, which directly drove up the per episode licensing revenue of new TV series on TV channels, rising from approximately RMB1.6 million in 2015 to approximately RMB2.0 million in 2019, attaining a CAGR of approximately 5.1%. The per episode licensing revenue of new TV series on TV channels is estimated to further increase at an estimated CAGR of 2.1% between 2019 and 2024, reaching to approximately RMB2.2 million in 2024. Meanwhile, the proliferation of internet and development of related mobile intelligent devices expand broadcasting channels for TV series. The favorable characteristics of internet, including its unlimited geography coverage, inclusivity and promptness allow itself to be the critical traffic source for TV series to maximize its commercial value. Under such conditions, the licensing fee for per episode of TV series paid

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by online video platforms witnessed rapid growth between 2015 and 2019, increasing from approximately RMB1.8 million to approximately RMB2.4 million, representing a CAGR of approximately 7.6% between 2015 and 2019. This figure is estimated to further increase to approximately RMB2.8 million by 2024.

However, the licensing fee per episode of TV series with large scale investment (investment size of over RMB100.0 million) paid by both online video platforms and TV channels declined from 2018 to 2019 due to the relevant PRC national regulations and policies to restrict actors' remunerations issued in 2018. Specifically, the average licensing fee per episode of TV series with large scale investment paid by online video platforms decreased by 21.1% from RMB4.8 million in 2018 to RMB3.8 million in 2019 while the average licensing fee of such TV series paid by TV channels decreased by 9.1% from RMB2.8 million in 2018 to RMB2.5 million in 2019. The difference between the two declining rates as discussed above is because (i) many online video platforms significantly increased their budget on purchasing copyrights of exclusively professionally-produced drama series in order to compete with TV channels for audience and maintain and strengthen existing customers' loyalty, which substantially drove up the market price per episode of the first-run TV series with large-scale investment paid by online video platforms from 2015 to 2018; while (ii) the increments of the licensing fee per episode of the first-run TV series with large scale investment paid by TV channels is relatively lower than that paid by online video platforms due to the weak profitability of such TV channels, especially the stagnant growth of advertising revenue; therefore (iii) when both online video platforms and TV channels proportionately reduced the licensing fee per episode of TV series with large-scale investment paid by them in 2019 from the respective base prices in 2018, the decline in the licensing fee per episode of TV series with large scale investment paid by online video platforms seems more notable compared with the decline of that paid by TV channels.

The PRC Web Series Market

Size of Online Video Users and Online Video Subscribers

The popularity of online video platforms increased a lot in the past few years with its diversity and interactivity. In 2019, the number of online video users reached approximately 646.6 million, accounting for 73.2% of internet users. Online video platforms are increasingly functioning as key aggregators and distributors of video content, which provide a broad range of content that caters to different users, to effectively compete for a greater share of user's fragmented leisure time. Professionally-produced and rich video content creates monetization opportunities for these platforms from membership service and advertising service. The number of online video subscribers witnessed impressive increase at a CAGR of 31.9% between 2015 and 2019, expanding from approximately 128.5 million in 2015 to approximately 389.1 million in 2019 and taking up 60.2% of the total online video users in 2019. Along with the shift of the business model of online video platforms from heavy reliance on online advertising revenue to a more balanced and diversified combining of advertising and membership services, the number of online video subscribers is forecasted to reach approximately 689.9 million in 2024 and its percentage is projected to reach 82.9% in 2024.

Chinese audience is increasingly willing to pay for the access to the premium content and quality service. The revenue generated from providing membership services by online video platforms experienced dramatic growth in the past years, climbing from approximately RMB6.5 billion in 2015 to approximately RMB44.6 billion in 2019, representing a CAGR of 62.0% between 2015 and 2019. The payments from subscribers can be re-invested by the online video platforms to produce or acquire more

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premium content, attracting more subscribers. Additionally, subscribers are likely to visit the platforms more often, increasing user stickiness and creating more monetization opportunities. The payment of online video subscribers is forecasted to reach approximately RMB132.9 billion in 2024, representing an estimated CAGR of 24.4% between 2019 and 2024.

Broadcast Web Series in the PRC

The number of broadcast web series in the PRC increased at a CAGR of 10.1% between 2015 and 2019 from 85 to 125, and is estimated to reach 156 in 2024. Over the long-term operation, online video platforms have accumulated massive end user data, which could be utilized to analyze the viewing hotspot and audiences' preference which contribute to its investment optimization on web series.

Market Trend of the Production of Web Series

In recent years, along with the rapid growth of online video platforms in terms of the revenue as well as the investment on video content, the role of online video platforms is more than just a broadcasting channel. In order to enhance its competitive edge and gain more initiative in drama series market, the online video platforms proactively extent the business into the drama series production sectors. It is observed that increasing number of third-party drama series production and distribution companies strengthened their cooperation with online video platforms in the aspect of web series production mainly through producing made-to-order web series for online video platforms. The emergence and development of made-to-order web series create a win-win situation for third-party production companies and online video platforms. Online video platforms are able to make full use of external resources to produce web series while having relatively high degree of participation during the whole process ranging from script creation and production to marketing and distribution, thereby the quality of the works could be ensured. Made-to-order web series positively enrich the content library of online video platforms. Meanwhile, under the made-to-order drama series business model, drama series producers could reduce their working capital pressure, to certain extent, at the early stage of the drama series production and secure the production profit by the capital injection or investment from online video platforms, lock the distribution channel of drama series produced at relatively early stage of the whole production and distribution process, and in turn speed up their investment return.

COMPETITIVE LANDSCAPE OF DRAMA SERIES IN THE PRC

Ranking and Market Share of Leading Drama Series Production and Distribution Companies in the PRC

The PRC drama series market is highly competitive with more than 18,000 market players with differentiated background and capabilities in 2019. Although there are plenty of market players being involved in this market, leading drama series production and distribution companies have obtained superior industry resources and established long-term cooperation business relationships with leading broadcasting channels such as the top five TV channels and the top three online video platforms. Therefore, the top 10 market players accounted for approximately 24.8% of the total licensing and distribution revenues in the PRC drama series market with approximately RMB10.8 billion in 2019. Our Company, as one of the few non-state owned companies holding Television Drama Production Permit (Class A), has already formed a high entry barrier. The channel resources of and the quality content provided by our Company have well positioned us in the market competition.

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Our Company ranked sixth in terms of the revenue generated from the drama series production and distribution in 2019, accounting for a market share of approximately 1.8%. The table below sets forth the top 10 drama series production and distribution companies in the PRC in terms of revenue in 2019:

Leading Drama Series Production and Distribution Companies in Terms of the Revenue in the PRC, 2019

Ranking	Company	Revenue (RMB Million)	Market Share ⁽¹⁾	Background
1	Company A	1,981.0	4.6%	Established in 2005, a listed company on the Shanghai Stock Exchange, and focusing on the production and distribution of drama series and TV variety programs
2	Company B	1,500.0	3.4%	Established in 2011, and focusing on the production and distribution of drama series
3	Company C	1,400.0	3.2%	Established in 2014, and focusing on the production and distribution of drama series
4	Company D	1,210.0	2.8%	Established in 2007, a subsidiary of a listed company on the Hong Kong Stock Exchange, and mainly focusing on the production and distribution of drama and films
5	Company E	1,060.0	2.4%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
6	Our Company	765.1	1.8%	
7	Company F	730.5	1.7%	Established in 2004, a listed company on the Shenzhen Stock Exchange, and focusing on the production and distribution of drama series and films and business related to Internet Entertainment and live entertainment
8	Company G	720.0	1.7%	Established in 2012, and covering the business of production and distribution of drama series and talent management
9	Company H	715.0	1.6%	Established in 1998, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series and talent management
10	Company I	689.0	1.6%	Established in 2003, a listed company on the Shanghai Stock Exchange, and mainly covering the production and distribution of drama series and films, artist management and the sales of molybdenum product

Source: Frost & Sullivan Report

Note:

- (1) The market share refers to the percentage of the revenue of each market player in the total production, licensing and distribution revenue in the PRC drama series market, the figure of which was approximately RMB43.5 billion in 2019.

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Our Company ranked fourth in terms of the number of first-run TV series broadcast between 2017 and 2019, accounting for approximately 5.4% of total number of first-run TV Series broadcast during the same period. In addition, our Company ranked third, fourth and fourth in terms of the number of first-run TV series broadcast in 2017, 2018 and 2019, respectively, with a market share of 4.8%, 5.4%, and 6.0% for the same years, respectively. The table below sets forth the top five drama series production and distribution companies in the PRC in terms of the number of first-run TV series broadcast between 2017 and 2019:

Leading Drama Series Production and Distribution Companies in Terms of the Number of First-run TV Series Broadcast in the PRC, 2017-2019

Ranking	Company	Number of First-run TV Series ⁽¹⁾	Market Share	Background
1	Company A	31	11.1%	Established in 2005, a listed company on the Shanghai Stock Exchange, and focusing on the production and distribution of drama series and TV variety programs
2	Company E	24	8.6%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
3	Company J	22	7.9%	Established in 2005, a listed company on the Shanghai Stock Exchange, and mainly covering the business of production and distribution of films and drama series
4	Our Company	15	5.4%	
5	Company K	14	5.0%	Established in 2012, and covering the business of production and distribution of drama series and other TV programs

Source: Frost & Sullivan Report

Note:

- (1) The number of first-run TV series refers to the number of TV series in which the relevant company was involved as either a producer, a co-producer or a distributor. The number of the first-run TV series broadcast between 2017 and 2019 was 280.

The top five TV channels play critical roles in the PRC drama series market. In 2019, the licensing and distribution fee paid by the top five TV channels for first-run TV series was approximately RMB6.7 billion, accounting for approximately 51.8% of the total first-run licensing and distribution fee paid by all TV channels, which indicates the strong purchasing power of the top five TV channels compared with other TV channels.

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Our Company ranked third in terms of the number of first-run TV series in which the companies engaged as producers, co-producers or distributors broadcast on the top five TV channels during the prime time in the PRC in 2019. The table below sets forth the top five drama series production and distribution companies in the PRC in terms of the number of first-run TV series broadcast on the top five TV channels during the prime time in 2019:

Leading Drama Series Production and Distribution Companies in Terms of the Number of First-run TV Series Broadcast on the Top Five TV Channels during the Prime Time in the PRC, 2019⁽¹⁾

Ranking	Group Name	Number of First-run TV Series Broadcast on the Top Five TV Channels during the Prime Time ⁽²⁾	Market Share	Background
1	Company E	8	14.8%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
2	Company J	6	11.1%	Established in 2005, a listed company on the Shanghai Stock Exchange, and mainly covering the business of production and distribution of films and drama series
3	Our Company	5	9.3%	
4	Company A	5	9.3%	Established in 2005, a listed company on the Shanghai Stock Exchange, and focusing on the production and distribution of drama series and TV variety programs
5	Company D	3	5.6%	Established in 2007, a subsidiary of a listed company on the Hong Kong Stock Exchange, and mainly focusing on the production and distribution of drama and films

Source: Frost & Sullivan Report

Notes:

- (1) In 2019, there were 54 first-run TV series broadcast on the top five TV channels during the prime time.
- (2) The number of first-run TV series broadcast on the top five TV channels during the prime time here refers to the number of first-run TV series in which the relevant company was involved as either a producer, a co-producer or a distributor. If the number of first-run TV series here does not include those in which the relevant company was involved only as a co-producer, we will rank first in the market.

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Our company ranked sixth in terms of the number of episodes of drama series distributed for the first-run and re-run broadcast in 2019, accounting for a market share of approximately 2.1%. The table below sets forth the top 10 drama series production and distribution companies in terms of the number of episodes of drama series distributed for the first-run and re-run broadcast in 2019:

Leading Drama Series Production and Distribution Companies in Terms of the Number of Episodes of Drama Series Distributed for the First-run and Re-run Broadcast in the PRC, 2019

Ranking	Company	Number of Episodes of Drama Series Distributed for the First-run and Re-run Broadcast ⁽¹⁾	Market Share	Background
1	Company L	1,623	6.9%	Established in 2013, a listed company on the Hong Kong Stock Exchange, and mainly focusing on the business of production and distribution of drama series
2	Company K	1,144	4.8%	Established in 2012, a listed company on the National Equities Exchange and Quotations, and mainly covering the business of production and distribution of drama series and variety programs
3	Company M	838	3.5%	Established in 2013, a listed company on Hong Kong Stock Exchange, and mainly focusing on the business of production and distribution of drama series
4	Company E	629	2.7%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
5	Company A	523	2.2%	Established in 2005, and focusing on the production and distribution of drama series and TV variety programs
6	Our Company	499	2.1%	

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Ranking	Company	Number of Episodes of Drama Series Distributed for the First-run and Re-run Broadcast ⁽¹⁾	Market Share	Background
7	Company J	341	1.4%	Established in 2005, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series and films, and operation of movie theatres.
8	Company N	211	0.9%	Established in 1997, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series, and artist management
9	Company I	210	0.9%	Established in 2003, a listed company on the Shanghai Stock Exchange, and mainly covering the production and distribution of drama series and films, artist management and the sales of molybdenum product
10	Company O	172	0.7%	Established in 2002, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of production and distribution of drama series, films and variety programs and marketing services

Source: Frost & Sullivan Report

Note:

- (1) In 2019, there were 585 drama series (23,655 episodes, including TV series and web series) that has been distributed for the first run and re-run broadcast.

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In 2019, our Company obtained the distribution license for one of our TV series, the produced hours of which are approximately 39.0 hours, accounting for approximately 0.5% of the total produced hours of TV series that obtained the distribution license in the market during the same period. In addition, our co-investors or co-producers or production services providers for our TV series obtained the distribution licenses for another four of our self-produced and made-to-order TV series in 2019. The total produced hours of the five TV series are approximately 170.3 hours, accounting for a market share of approximately 2.1%. The table below sets forth the top five drama series production and distribution companies in terms of the produced hours of TV series that obtained the distribution license by the respective companies in 2019:

Leading Drama Series Production and Distribution Companies in Terms of the Produced Hours of TV Series that Obtained the Distribution License in the PRC, 2019

Ranking	Company	Produced Hours of TV Series that Obtained the Distribution License ⁽¹⁾	Market Share	Background
1	Company Q	252.8	3.2%	Established in 2005, a listed company on the Shenzhen Stock Exchange, and covering the business of production and distribution of drama series, production of variety shows and online video platform operation
2	Company A	165.0	2.1%	Established in 2005, and focusing on the production and distribution of drama series and TV variety programs
3	Company E	129.0	1.6%	Established in 1999, a listed company on the Shenzhen Stock Exchange, and mainly covering the business of the production and distribution of variety program, drama series, movie and online gaming
4	Company B	85.8	1.1%	Established in 2011, and focusing on the production and distribution of drama series
5	Company P	81.8	1.0%	Established in 2007, and focusing on the business of production and distribution of drama series and talent management

Source: Frost & Sullivan Report

Note:

- (1) The produced hours of TV series that obtained the distribution license are estimated by multiplying the total number of episodes of the TV series that obtained the distribution license during the same period by 45 minutes, as the length of each episode of each TV series shall not exceed 45 minutes in accordance with the relevant guidance implemented by the SARFT.

Market Drivers of the PRC Drama Series Market

According to the Frost & Sullivan Report, the PRC drama series market is primarily driven by the following factors:

- *Sustainable growth of demands for premium video content in spare time.* The PRC has stepped into a new era of growth under the “new norm,” in which the economic growth model has begun to shift from an investment-driven model towards a consumption-driven model. Meanwhile, the cumulative effect of decades of rising disposable income and living standards has caused significant changes in general consumption patterns in the PRC. Chinese consumers start to seek high-quality and spiritual enjoyment products, rather than basic living necessities. Such favorable macro circumstances and sustainable growth of entertainment demands provide massive opportunities for the development of video entertainment industry. Gradually, watching video programs, such as TV series, web series, and films, has become popular daily entertainment activities.
- *The prevalence of internet and mobile internet.* Riding the wave of the “internet plus” concept advocated by the central government, year 2016 is the golden year for the flourishing of internet and mobile internet. The characteristics of internet, including its unlimited geography coverage, inclusivity and promptness allow itself to be the major traffic source for many business activities as well as for the video entertainment industry. To expand channels and also cover more audience, the majority of TV Series are broadcast on internet platforms. Many internet platforms also invest or produce drama series by themselves to attract users and traffic. Given the interactivity and mobility of internet, online video platforms have gradually overtaken TV channels’ leading status in broadcasting and become the preferred choice for audiences. Considering the huge opportunities provided by the internet and mobile internet, the development of the PRC video entertainment market is expected to accelerate.
- *Innovations in drama series.* To better fulfill audience’ rising expectations on the quality of drama series, such as script authoring, shooting technology, post production level, and the performance of actors, drama series producers and online video platforms have intensively devoted their efforts on innovations. Some have established in-house research team focusing on content authoring, audience behaviors analysis and so forth to enhance the quality of drama series, so that the audience rating of drama series can improve in such competitive market. Besides, technological innovations are viewed as one key success factors. For example, new special effects technology is supposed to enhance visual appreciation. In addition, technologies such as big data analytics have been widely utilized in the process of content designing, marketing, and distributing. The relentless efforts made by various market players have stimulated the further development of the market as a whole.

Entry Barriers of the PRC Drama Series Markets

According to the Frost & Sullivan Report, the entry barriers of the PRC drama series market are relatively high and primarily consist of the following factors:

- *Capital and resources.* Normally, drama series business involves a great amount of working capital for overhead expenditures across whole process, such as remunerations for actors and creators, costs of post-production, and expenses of marketing and distribution. High capital investment positively correlates with high quality and considerable profit income. Apart from the direct investment, some producers may utilize financial leverage through bank loans, funds or internet financing, which requires strong integrating skills in negotiating with various resources. The lack of sufficient budget and rich resources is likely to pose challenges to the new entrants.
- *Industry expertise.* Industry expertise and experience, including capability to coordinate all parties effectively, ability to keep abreast of the latest market trends and satisfy the audiences' ever-changing preferences, as well as the experience in managing regulatory bodies are extremely critical for drama series producers to distinguish themselves from other competitors. In addition, experienced production companies generally have a well-recognized image, which is more likely for them to access to talented script writer, directors and casts for the production of drama series.
- *Strong distribution capacity and cooperation with broadcasting channels.* Normally, drama series are distributed through TV channels and online video platforms. The experienced drama series distributors are required to keep track of the market evolving, including trends of drama series and view hotspots. Besides, the distributors thoroughly understand the targeted audience of different broadcasting channels and their viewing preferences. Under such conditions, the quality drama series could be distributed through appropriate channels within befitting timing. In addition, it is important to maintain stable business relationships with different distribution channels. It is acknowledged that communication and cooperation with major distribution channels is time-consuming and difficult for new entrants.

Future Trends of the PRC Drama Series Market

- *Export of the PRC drama series will accelerate.* Along with the promotion of Chinese culture around the world and the progress in drama series production, in recent years, the distribution of PRC drama series overseas continues to expand in terms of the quantity of products and transaction value. TV channels and internet media have been jointly shaping the pattern of drama series export landscape. On many overseas internet platforms, the impacts of Chinese drama series improve remarkably, and the profit is primarily generated from the selling of copyright and on-demand services. With the progress in drama series production technology and the innovations in the promotion of drama series overseas, such as establishing localized PRC TV channels, the export of the PRC drama series will accelerate.

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- *Diversification of drama series content and business models.* Rapid development of drama series market attracts a wide range of players to participate in this business. Online literature, internet game, and comics are the major sources of drama series content. In addition, accumulated experiences about content operation and audience analysis of internet media allow them to produce quality drama series directly targeted at audience in order to satisfy their ever-changing preferences. Advertisement is the major profit stream for particularly online video platforms. Traditional media has adopted new advertising models, such as flexible AD placement, multi-screen interaction and data-based marketing solution, to diversify the business models. Apart from the advertising income, with the gradually enhanced protection on intellectual property and the decrease in pirated editions, online media platforms are able to generate profit from users paying for on-demand services.
- *Integration and interaction of online and offline broadcasting channels.* In the past years, distribution channels, particularly TV channels, have become major distribution channels for drama series. However, the number of drama series which can be broadcast through TV channels is limited due to policy restrictions. Meanwhile, with the increasing internet penetration rate particularly on mobile terminal, given the accessibility and convenience of internet, including unlimited geography coverage, inclusivity and promptness, internet platforms gradually become competitive in respect to the content distribution. In addition, the broadcasting schedule of drama series on internet platforms is almost synchronized with TV channels. Generally, both distribution channels have their own advantages. In the future, TV channels and online video platforms are likely to form strategic cooperation in sharing resources and ultimately improve efficiency and effectiveness.

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REGULATIONS IN RELATION TO FOREIGN INVESTMENT

The establishment, operation and management of companies in PRC are governed by the PRC Company Law which was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會 (the "SCNPC")) on 29 December 1993, came into effect on 1 July 1994 and was last revised on 26 October 2018. Under the PRC Company Law, companies are generally classified into two categories, i.e. limited liability companies and companies limited by shares. Each a limited liability company or a company limited by shares is an enterprise legal person, and liable for its debts with all its assets. PRC Company Law is also applicable to foreign-invested companies, except otherwise set out in any other regulations.

Pursuant to the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") promulgated by the NPC on March 15, 2019 and came into effect on January 1, 2020, the "Foreign Investment" refers to the investment activity directly or indirectly conducted by the foreign natural person, enterprise or other organization (hereinafter referred to as the "foreign investors"), including the following circumstances: (i) A foreign investor establishes a foreign-invested enterprise within the territory of China, independently or jointly with any other investor; (ii) a foreign investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China; (iii) a foreign investor makes investment to initiate a new project within the territory of China, independently or jointly with any other investor; and (iv) a foreign investor makes investment in any other way stipulated by laws, administrative regulations or provisions of the State Council. The state applies the administrative system of pre-establishment national treatment plus negative list to foreign investment. Foreign Investors shall not invest in any field prohibited by the Negative List and shall meet the investment conditions stipulated for any field restricted by the Negative List, while for foreign investments outside the Negative List, national treatment will be given. The business forms, structures, and rules of activities of foreign-funded enterprises shall be governed by PRC Company Law, the Partnership Law of the People's Republic of China (《中華人民共和國合夥企業法》) and other laws. In conducting production and distribution activities, foreign-funded enterprises shall comply with the provisions of laws and administrative regulations pertaining to labour protection and social insurance, conduct taxation, accounting, foreign exchange, and other affairs according to laws, administrative regulations, and the relevant provisions issued by the state, and accept the supervisory inspection legally conducted by the appropriate departments.

Pursuant to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (《外商投資准入特別管理措施(負面清單)(2020年版)》), which was promulgated by the NDRC and the MOFCOM jointly on 23 June 2020 and became effective on 23 July 2020 (the "**Negative List**"), foreign investors shall not invest in any of the prohibited fields specified in the Negative List, and they must obtain permit for investment in other fields set out in the Negative List that are not prohibited. The establishment of foreign-invested partnerships is prohibited if they intend to invest in the fields subject to limitation of foreign investment proportion.

REGULATIONS IN RELATION TO PRODUCTION AND DISTRIBUTION OF TELEVISION PROGRAMMES

According to the Regulations on Radio and Television Administration (Revised in 2017) (《廣播電視管理條例》(2017年修訂)) promulgated by the State Council on 11 August 1997 and was last revised on 1 March 2017, radio and television programmes shall be made by radio stations, TV stations, radio and television programmes production and distribution institutions whose establishment has been approved

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by the departments of radio and television administration at or above the provincial level governments. Radio station or TV station shall not broadcast programmes produced by institutions without the licences for radio and television programme production and distribution.

Pursuant to the Administrative Provisions on the Production and Distribution of Radio and Television Programmes (《廣播電視節目製作經營管理規定》), which was promulgated by SARFT on 19 July 2004 and came into effect on 20 August 2004, and was last revised on 31 October 2018, the NRTA is responsible for formulating the development plan, layout and structure of the national radio and television program production industry, managing, guiding and supervising the production and operation activities of national radio and television programs. The administrative departments for radio and television under the local governments at or above the county level shall be responsible for managing the production and operation activities of radio and television programs within their respective administrative regions. Establishment of a radio and television programs production institution or entities that produce and operate radio and television programs must first obtain a Radio and Television Program Production and Operation Permit (the “Permit”) (《廣播電視節目製作經營許可證》), which is subject to the licensing system applied by the PRC Government. Central organizations in Beijing and the agencies directly subordinate thereto shall directly file the application with the NRTA while the other organization shall file an application to the relevant administrative department of radio and television at the domicile of the organization. The application shall be verified and approved level by level and finally be submitted to the provincial radio and TV administrative department for examination and approval. The approving authority will decide whether to grant the approval or not within 20 working days of its receipt of the complete set of documents. In the case of approval which is accorded with the Administrative Provisions on the Production and Operation of Radio and Television Programs, the NRTA will issue the Permit; in the case of disapproval, it will state the reasons. The decision of granting the approval or not shall be record-filed with the NRTA by provincial radio and TV administrative department within a week after the decisions are made. The Permit uniformly printed by the NRTA has an effective term of two years. The TV series producers must obtain either a TV Series Production Licence (Class A) (《電視劇製作許可證(甲種)》) or a TV Series Production Licence (Class B) (《電視劇製作許可證(乙種)》) before the shooting and production of TV series. TV Series Production Licence (Class B), issued by the administrative department of radio and television at or above province level, only applies to the television play it indicates with the validity of 180 days and may be extended appropriately when approved by the licence issuing authority under exceptional circumstance. Applicants that have produced six or more single-episode TV shows or three or more TV series (three episodes or more per series) for two consecutive years may apply to the NRTA for TV Series Production Licence (Class A), which has an effective term of two years and may apply to all TV series produced by the holder during the effective term. Radio and television broadcasting institutions shall not broadcast television series produced by institutions without the Permit or the relevant distribution license. For violations against the aforesaid provisions, the penalty provisions of the Administrative Regulations on Radio and Television (《廣播電視管理條例》) shall be applied mutatis mutandis.

Record-filing and Announcing System

Pursuant to the Administrative Provisions for Contents of TV Series (《電視劇內容管理規定》) which was promulgated by SARFT on 14 May 2010 and came into effect on 1 July 2010, and was last revised on 31 October 2018, the record-filing and announcing system, and the content examination and distribution licensing system shall be implemented for the domestically produced TV series. NRTA is responsible for announcing the TV series produced in the PRC. The radio and television administrative department of provincial government is responsible for accepting the record-filing of the TV series

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produced by the production entities within its administrative region, and upon its examination, report them to NRTA. When applying for record-filing of the TV series, the production institutions shall submit, among other materials, a brief introduction which truthfully and accurately describes the theme, main characters, background, stories and other contents of the TV series. If the TV series involves any significant theme or any sensitive content involving politics, military affairs, diplomacy, national security, united front, ethnic issues, religion, judicial issues, public security, etc., the written opinions issued by the relevant competent department of the government at or above the level of province shall be provided. The NRTA shall examine the application materials and announce them on its website. The announced contents shall include the name of the TV series, the production entity, the number of episodes, the abstract, etc.

Administrative Measures for the Filing and Announcement of the Production of TV Series (《電視劇拍攝製作備案公示管理辦法》), which was promulgated by SAPPRFT on 22 September 2013 and came into effect on 1 December 2013, detailed the measures regarding the record-filing and announcing system of the TV series. TV series shall be produced in accordance with the announced content. If it is necessary to make a substantial adjustment to the theme, main characters and main plot, the producing institution shall go through record-filing and announcing procedure again. The production of TV series shall be completed within two years since the date of announcement.

Content Examination and Distribution Licensing System

Pursuant to the Administrative Provisions for Contents of TV Series, upon completion of the production of TV series, the production institutions shall file an application for content examination and apply for the Licence for Distribution of TV Series. The TV series without the Licence for Distribution of TV Series shall not be distributed, broadcast or appraised for awards. The institutions shall apply for the content examination to the radio and television administrative department of provincial government and submit, among other materials, a valid certification of the qualification of the production institution, the printed text of the announcement of the TV series, an abstract for each episode, a complete set of the sample TV series, and written opinions of the competent department and the parties concerned on special themes. The said administrative department shall make a decision of approval or disapproval within fifty days. After making a decision of approval, it shall issue the Licence for Distribution of TV Series. TV series which has obtained a distribution licence shall be distributed and broadcast based on the contents which passed the examination. If the name, principal characters and stories, length of the episodes or any other aspect of the TV series is modified, the original production institution shall reapply for examination. On 15 April 2014, the SAPPRFT announced on its 2014 national TV series broadcasting work conference that it shall modify the TV series broadcasting pattern during prime time on satellite television channels. Starting from 1 January 2015, one TV series can only be broadcast on maximum two satellite channels at the same time, and shall not be broadcast for more than two episodes on such satellite television channels every night during the prime time.

On 22 September 2017, the China Alliance of Radio, Film and Television, the China Netcasting Services Association and the China Television Drama Production Industry Association jointly issued the Opinions on the Allocation of Production Costs of TV Series and Web Series (《關於電視劇網絡劇製作成本配置比例的意見》) (the “**Opinion**”). Pursuant to the Opinion, the TV series production institutions shall limit the payment for the artists to a reasonable allocation of overall production costs. The total payment for all artists shall not exceed 40% of the total production costs of a TV series, and the payment for principal artists shall not exceed 70% of the total payment of all artists. If the total payment for all artists exceeds 40% of the total production costs, the production institution shall file an explanation with the relevant associations.

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On 31 October, 2018, the NRTA issued the Notice for Further Strengthening the Administration on Radio or Television Programmes and Online Audio-visual Entertainment Programmes (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》). For the purpose of ensuring the sound and orderly development of radio, television and network audiovisual entertainment programmes, the NRTA requires that, among other things, the total payment for all artists of a television series or web series (including online movies) shall not exceed 40% of the total production costs, and the payment for principal artists shall not exceed 70% of the total payment of all artists. If the aforesaid allocation is violated with no justification or concealment is conducted, the NRTA shall, according to the circumstances, adopt punitive measures according to the regulation such as suspension and cancellation of broadcast of the series or production qualifications of production entities. TV series and web series of which the artists' payment exceeds the required cap shall not participate in the election or awards, nor be entitled to government funding or subsidies. Furthermore, broadcasting institutions are strictly prohibited from requesting a television rating covenant from production institutions, and the signing of a valuation adjustment mechanism agreement as to television ratings shall be strictly prohibited. Institutions or individuals shall be strictly prohibited from disrupting or falsifying television rating (click-through rate) data.

In addition, foreign investment in television programme production and distribution companies is prohibited pursuant to the Negative List.

REGULATIONS IN RELATION TO PRODUCTION OF WEB SERIES

Pursuant to Circular on Further Strengthening the Administration of Online Audio-visual Programmes Including Web Series and Micro Films (《關於進一步加強網絡劇、微電影等網絡視聽節目管理的通知》) promulgated by the SARFT and Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) jointly on 6 July 2012, Internet audio-visual programme service institutions shall report the information on examined and approved web series, micro films and other online audio-visual programmes to the provincial radio, film and television administration for record-filing. Pursuant to the Notice about Upgrading the Information Recording Filing System of the Internet Audio-visual Programme (《關於網絡視聽節目信息備案系統升級的通知》) promulgated by NRTA on 27 December 2018, the producing institutions shall, before the production of major web series (including online series, films and cartoons), which includes web series (cartoons), the investment amount of which exceeds RMB5 million, and major online films, the investment amounts of which exceeds RMB1 million, register the programme information through the information recording filing system. Upon the completion of production, the producing institutions shall register through the system as well and submit the completed dramas to NRTA or its provincial counterpart. Record-filing numbers would be issued to qualified web series and only web series with the record-filing numbers can be broadcast and popularized on audio-visual website.

Pursuant to Supplemental Notice of Circular on Further Strengthening the Administration of Online Audio-visual Programmes Including Web Series and Micro Films (《關於進一步完善網絡劇、微電影等網絡視聽節目管理的補充通知》) promulgated by the SAPPRFT on 2 January 2014, enterprise engaged in production of web series and micro films shall obtain the Licence for Produce and Distribute Radio or Television Programmes. Internet audio-visual programme service institutions shall not broadcast web series and micro films produced by enterprise without the above Licence.

The distribution license refers to the Television Drama Distribution License (《國產電視劇發行許可證》) which is issued by NRTA according to the Administrative Provisions for Contents of TV Series. Pursuant to the Administrative Provisions for Contents of TV Series, upon completion of the production

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of TV series, the production institutions shall file an application for content examination and apply for the distribution license from the NRTA. The TV series without the distribution license shall not be distributed, broadcast or appraised for awards.

“TV series” means a series of scripted episodes aiming to be broadcast on TV channels which is required to obtain the distribution license from the NRTA. TV series may be broadcast on TV channels and also on new media channels such as online video platforms. “Web series” means a series of scripted episodes which can only be broadcast on new media channels such as online video platforms in the Prospectus.

In conclusion, web series is different from TV series and shall only be broadcast online instead of on TV channels. Thus, production institution of web series is not required to apply for or obtain any distribution license from the NRTA prior to the distribution and broadcast of web series.

REGULATIONS IN RELATION TO THE MERGE AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Pursuant to the M&A Rules, mergers and acquisitions of domestic enterprises by foreign investors refers to: a foreign investor converts a non-foreign invested enterprise (domestic company) to a foreign invested enterprise by purchasing the equity interest from the shareholder of such domestic company or the increased capital of the domestic company; this is defined as “equity merger and acquisition”; or a foreign investor establishes a foreign invested enterprise to purchase the assets from a domestic enterprise by agreement and operates the assets therefrom; or foreign investor purchases the assets from a domestic enterprise by agreement and uses these assets to establish a foreign invested enterprise for the purpose of operation of such assets; this is defined as “assets merger and acquisition”. Pursuant to the M&A rules, mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person, the merger and acquisition applications shall be submitted to the MOFCOM for approval. The person concerned may not evade from the above requirements by domestic investment of the foreign-invested enterprises or by other means.

REGULATIONS IN RELATION TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

According to the Regulations on Foreign Exchange Administration of the PRC (Revised in 2008) (《中華人民共和國外匯管理條例》(2008年修訂)) which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and was last revised on 5 August 2008, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interests and dividends. Current account foreign exchange income may, in accordance with relevant provisions of the PRC, be retained or sold to any financial institution engaged in foreign exchange settlement and sales business. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from the SAFE or its local branches. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies may repatriate foreign currency payments received

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from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local branches.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 59**”) which was promulgated by the SAFE on 19 November 2012, and became effective on 17 December 2012 and was last revised on 30 December 2019, the approval is not required for the opening of an account entry in foreign exchange accounts under direct investment or for domestic transfer of the foreign exchange under direct investment. SAFE Circular No. 59 also simplifies the capital verification and confirmation formalities for foreign invested enterprises, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equity interests and foreign exchange registration formalities required for the foreign investors to acquire the equity interests of Chinese party, and further improves the administration on exchange settlement of foreign exchange capital of foreign invested enterprises.

In light of SAFE Circular 13, to improve the efficiency on foreign exchange management, the SAFE has cancelled the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, SAFE Circular 13 simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange for the direct domestic investment and direct overseas investment.

The Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Circular No. 19**”), which was promulgated by the SAFE on 30 March 2015, came into effect as of 1 June 2015 and was last revised on 30 December 2019, adopts the approach of discretionary foreign exchange settlement. The discretionary settlement of the foreign exchange capital of foreign-invested enterprises refers to that the settlement of foreign exchange capital in the capital accounts of foreign-funded enterprises that have been subject to the confirmation of cash capital contribution at foreign exchange authorities (or the entry registration of cash contribution at banks) may be handled at banks based on the enterprises’ actual requirements for business operation. The proportion of discretionary settlement of foreign exchange capital of foreign-funded enterprises is temporarily determined as 100%. The SAFE may, based on the international balance of payments, adjust the aforesaid proportion at appropriate times.

The Notice of the State Administration of Foreign Exchange on Reforming and Standardising the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Circular 16**”) was promulgated and became effective on 9 June 2016 by the SAFE. According to the SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts, funds recovered from overseas listing, etc.) on self-discretionary basis, which applies to all enterprises registered in China. The SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within China unless otherwise specifically provided. In addition, the converted Renminbi may not be used to make loans for non-affiliated enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

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REGULATIONS IN RELATION TO OFFSHORE INVESTMENT

Pursuant to SAFE Circular 37, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle (the “SPV”), apply to the foreign exchange office for foreign exchange registration of overseas investments. In addition, in the event of any change of basic information of the overseas SPV such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the modification of foreign exchange registration procedures for offshore investment. After the completion of the overseas financing, the SPV shall comply with the related provisions on Chinese foreign investment and foreign debt administration if the capital financed is repatriated for use within the territory of China. Failure to comply with the registration procedures as set out in SAFE Circular 37 may result in penalties. SAFE Circular 13 has further revised SAFE Circular 37 by requiring domestic residents to register with qualified banks rather than the SAFE or its local counterparts in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

TAXATION LAWS

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was promulgated by the NPC on 16 March 2007 and came into effect on 1 January 2008, and was last revised by SCNPC on 29 December 2018, and the Implementation Regulations of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “Implementation Rules”) which were promulgated by the State Council on 6 December 2007 and came into effect as of 1 January 2008 and was last revised on 23 April 2019, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within China. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside China, but have established institutions or premises in China, or have no such established institutions or premises but have income generated from inside China. Under the EIT Laws and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable.

However, if non-resident enterprises have not formed permanent establishments or premises in China, or if they have formed permanent establishment institutions or premises in China but there is no actual relationship between the relevant income derived in China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside China. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “Double Tax Avoidance Arrangement”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws,

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the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from competent tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice No. 81**”) issued by the SAT on 20 February 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

According to the Several Opinions of the State Council on Supporting the Construction of Kashgar and Horgos Economic Development Zones (《國務院關於支持喀什霍爾果斯經濟開發區建設的若干意見》), which was promulgated by the State Council on 30 September 2011, and the Notice of the Preferential Policies of Enterprise Income Tax in the Two Special Economic Development Zones of Kashgar and Horgos in Xinjiang (《財政部、國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》), which was promulgated by MOF and the SAT on 29 November 2011, from the year 2010 to 2020, the enterprises newly established in the Kashgar and Horgos within the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》) (the “**Catalogue of Income Tax Preferences**”) shall be granted the preferential treatment of five-year enterprise income tax exemption since the taxable year when the first business income is obtained. Radio, film and television production, distribution, transaction, projection, publication and creation of derivative production are included in Catalogue of Income Tax Preferences.

VALUE ADDED TAX

Pursuant to the Interim Regulations of the PRC on Value-added Tax (Revised in 2017) (《中華人民共和國增值稅暫行條例》) (the “**VAT Regulations**”) which was promulgated by the State Council on 13 December 1993 and was last revised on 19 November 2017, all entities and individuals engaging in the sale of goods, provision of processing, repair and fitting services, and importation of goods within the territory of the PRC are taxpayers of VAT, and shall pay VAT in accordance with the VAT Regulations. According to the VAT Regulations, a VAT tax rate at 6%, 11% or 17% applies to the PRC enterprises unless otherwise exempted or reduced according to the VAT Regulations and other relevant regulations.

According to the Notice of the MOF and the SAT on Adjusting the Value-added Tax Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), which was promulgated on 4 April 2018 and became effective on 1 May 2018, where a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to 16% and 10% respectively.

According to the Announcement of the Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》), which was promulgated on 20 March 2019 and became effective on 1 April 2019, the VAT rate was further adjusted as follows: (1) VAT rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%. (2) The deduction rate of 10% applicable to any taxpayer’s purchase of agricultural products shall be adjusted to 9%.

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Where a taxpayer purchases agricultural products used for the production or consigned processing of goods to which the tax rate of 13% applies, the amount of import tax shall be calculated at the deduction rate of 10%. (3) As for exported goods and labour services to which the tax rate of 16% applies and whose export tax refund rate is 16%, the export tax refund rate shall be adjusted to 13%. As for exported goods and cross-border taxable acts to which the tax rate of 10% applies and whose export tax refund rate is 10%, the export tax refund rate shall be adjusted to 9%.

REGULATIONS IN RELATION TO EMPLOYMENT AND SOCIAL WELFARE

Labor

The Labour Law and the Labour Contract Law

According to the Labour Law of the PRC (Revised in 2008) (《中華人民共和國勞動法(2008年修訂)》) which was promulgated by the SCNPC on 5 July 1994 and came into effect on 1 January 1995, and was last revised on 29 December 2008, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate labourers in labour safety and sanitation in China. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide labourers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

The principal regulations governing the employment contract is the PRC Labor Contracts Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2008 and was revised on 28 December 2008. Pursuant to the PRC Labor Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

Social Insurance and Housing Fund Regulations

According to the Social Insurance Law of the PRC (Revised in 2010) (《中華人民共和國社會保險法(2010年修訂)》) which was promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011 and was revised on 29 December 2018, employers are required to provide their employees in the PRC with welfare schemes covering pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. If an employer does not pay the full amount of social insurance premiums as required by law, the social insurance premium collection institution shall order the employer to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If such overdue payment is not made within the stipulated period, the relevant administration government department shall impose a fine from one to three times the amount of overdue payment. Pursuant to the Regulations of Housing Fund (《住房公積金管理條例》), which was promulgated by State Council and came into force in 3 April 1999, and was last revised on 24 March 2019, enterprises must complete registration at the competent administrative centre of housing fund and go through the procedures of opening the account of housing fund for their employees at the relevant bank upon the examination by such administrative centre of housing fund. Enterprises as employers are also obliged to timely pay and deposit housing fund for their employees in full amount.

REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY

Copyright

According to Copyright Law of the PRC (Revised in 2010) (《中華人民共和國著作權法(2010年修訂)》) (the “**Copyright Law**”) which was promulgated by SCNPC on 7 September 1990 and came into effect on 1 June 1991 and was last revised on 26 February 2010, works of Chinese citizens, legal persons or other organisations, whether published or not, enjoy copyright protection under Copyright Law. Works of non-Chinese nationals or stateless persons which were first published in the territory of China enjoy copyright protection under Copyright Law. The term “copyright” shall include the following personal rights and property rights: 1) the right of publication; 2) the right of authorship; 3) the right of modification; 4) the right of integrity; 5) the right of reproduction; 6) the right of distribution; 7) the right of rent; 8) the right of exhibition; 9) the right of performance; 10) the right of projection; 11) the right of broadcasting; 12) the right of communication of information via network; 13) the right of cinematization; 14) the right of adaptation; 15) the right of translation; 16) the right of compilation; and 17) the other rights to which a copyright owner is entitled. The right stipulated above in items 1) and 5) to 17) of the Copyright in respect of a cinematographic work, a work created by a process analogous to cinematography or a photographic work shall be protected for a period of 50 years, ending on December 31st of the 50th year after the date on which the work is first published, but if such work is not published within 50 years after its completion, it shall no longer be protected under Copyright Law. An author’s rights of authorship, revision and integrity shall continue in perpetuity.

The copyright in a cinematographic work or a work created by a process analogous to cinematography vests in the producer of such work. However, the screenwriter, director, cinematographer, lyricist, composer, and other authors also enjoy the right of authorship in the work, and have the right to receive remuneration pursuant to the contract entered into with the producer. The authors of the script, musical work and other works that form part of a cinematographic work or a work created by a process analogous to cinematography and can be used separately have the right to exercise their copyright independently.

Pursuant to Implementation Regulations of the Copyright Law of the PRC (Revised in 2013) (《中華人民共和國著作權法實施條例(2013年修訂)》) which was promulgated by State Council on 2 August 2002 and came into effect on 15 September 2002, and was revised on 30 January 2013, copyright shall be generated on the date when the creation of a work is completed. Where a joint work cannot be used separately, the copyright shall be jointly enjoyed by, and exercised through consultation between or among, the co-authors. Where they fail to reach an agreement and have no justified reasons for the failure, no party may hinder any of the other parties from exercising all the rights, except the right of assignment. However, the income generated from the joint work shall be fairly distributed between or among the co-authors.

Trademarks

Both Trademark Law of the PRC (Revised in 2019) (《中華人民共和國商標法(2019年修訂)》), which was promulgated by the SCNPC on 23 August 1982 and was last revised on 23 April 2019, and the Implementation Regulations of Trademark Law (Revised in 2014) of the PRC (《中華人民共和國商標法實施條例(2014年修訂)》) which was promulgated by the State Council on 3 August 2002, and was revised on 29 April 2014 and became effective on 1 May 2014 provide protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certificate trademarks.

REGULATORY OVERVIEW

A registered trademark is valid for ten years and is renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may licence its registered trademark to another party by entering into a trademark licence contract. Trademark licence agreements must be filed with the Trademark Office for record.

Domain Name

The MIIT promulgated the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) on 24 August 2017, which became effective on 1 November 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first apply, first register” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure.

REGULATIONS ON LEASE

Pursuant to the Law of the People’s Republic of China on the Administration of the Urban Real Estate (《中華人民共和國城市房地產管理法》), promulgated by the SCNPC on July 5, 1994 and last amended on 26 August 2019 and effective on 1 January 2020, in the lease of a house, the leaser and the lessee shall conclude a written lease contract defining such matters as the term, purpose and price of the lease, liability for repair, as well as other rights and obligations of both parties, and shall register the lease contract with the department of housing administration for the record. Pursuant to the Administrative Measures on Commodity Housing Leasing (《商品房屋租賃管理辦法》), issued by Ministry of Housing and Urban-Rural Development on December 1, 2010 and became effective in February 1, 2011, without the mentioned registration above, the leaser and the lessee may be imposed a fine by the development (real estate) department.

In accordance with the Contract Law of PRC (《中華人民共和國合同法》), which was promulgated on 15 March 1993 and effective on 1 October 1993, the lessee may, with consent of the lessor, sub-let the leased item to a third party. The leasing contract between the lessee and the lessor shall continue to be valid if the lessee sub-lets the leased item. In the event that the lessee sub-lets the leased item without consent of the lessor, the lessor may terminate the lease contract. In addition, any change of ownership to the lease item does not affect the validity of the lease contract.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

OUR HISTORY

Overview

The history of our Group can be traced back to June 2014 when Jiangsu Strawbear, a principal operating entity of our Group in the PRC, was established by Mr. Liu, our founder and one of our Controlling Shareholders. See “Directors and Senior Management” for the relevant industry experience of Mr. Liu.

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 3, 2018, and as a result of the Reorganization, our Company became the offshore holding company of the current business of our Group.

Key Milestones

The following table sets forth the key milestones of our Group:

<u>Year</u>	<u>Milestones</u>
2014	Jiangsu Strawbear, one of our principal operating entities in the PRC, was established by Mr. Liu.
2015	We released Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), our first TV series.
2016	We released The Impossible Mission (不可能完成的任務), one of our signature TV series, winner of various awards conferred by Zhejiang, Shenzhen, Henan, Shanghai and Beijing TV. Horgos Strawbear, one of our principal operating entities in the PRC, was established.
2017	Jiangsu Strawbear first obtained the Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》). We released Starry April (繁星四月), winner of Excellence Award of Television Category of the 34th Jiangsu Literary and Art Award • Television Award (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎) conferred by Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) and Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會).
2018	Our Company was incorporated as an exempted company with limited liability in the Cayman Islands. We entered into contractual arrangements with Jiangsu Strawbear and its registered shareholders, pursuant to which we obtained effective control over the Consolidated Affiliated Entities.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Year	Milestones
	<p>We received series A-1 investment from Taurus Holding, a wholly-owned subsidiary of iQIYI, Inc.</p> <p>We released Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌), winner of Excellence Award of Television Category of the 34th Jiangsu Literary and Art Award • Television Award (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎) conferred by Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) and Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會).</p>
2019	<p>We acquired Hangzhou Yide, one of our principal operating entities in the PRC.</p> <p>We released Treasure Adventure (國寶奇旅), winner of Five-one Project Award of Jiangsu (江蘇省五個一工程獎), Second Prize of the Jiangsu TV Series Award (江蘇省電視劇獎二等獎) and First Prize of the 2019 Jiangsu Outstanding Copyright Work (2019年江蘇省優秀版權作品一等獎).</p>
2020	<p>We received series A-2 investment from Taurus Holding, a wholly-owned subsidiary of iQIYI, Inc.</p> <p>We acquired Nova Film, one of our principal operating entities in the PRC.</p> <p>We released The Love Lasts Two Minds (兩世歡), one of the most popular web series in the PRC in 2020.</p> <p>We released Inside Man (局中人), which was appraised and recommended by the People's Daily (人民日報).</p>

CORPORATE DEVELOPMENT

As of the Latest Practicable Date, we had four principal operating entities in the PRC to carry out our business, namely Jiangsu Strawbear, Horgos Strawbear, Hangzhou Yide and Nova Film, details of which are set out below.

Jiangsu Strawbear

As of the Latest Practicable Date, Jiangsu Strawbear principally engaged in (i) licensing the broadcasting rights of our self-produced drama series to TV channels and online video platforms or third party distributors, (ii) licensing the broadcasting rights of outright-purchased drama series from online video platforms or drama series producers to TV channels or third party distributors or online video platforms, and (iii) production services for made-to-order drama series per online video platforms' orders.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Establishment and early development

On June 13, 2014, Jiangsu Strawbear was established as a limited liability company in the PRC with an initial registered capital of RMB10 million. In order to facilitate the SAMR registration process, Jiangsu Strawbear was then registered as held by Mr. Liu as to 100%, while 20% and 1% equity interest in Jiangsu Strawbear were held by Mr. Liu on behalf of Ms. Liu and Ms. Zhao, respectively.

On December 22, 2015, Mr. Liu entered into an equity transfer agreement with Ms. Liu and Ms. Zhao respectively, pursuant to which Mr. Liu transferred 20% and 1% equity interest in Jiangsu Strawbear to Ms. Liu and Ms. Zhao at considerations of RMB2 million and RMB100,000, respectively with reference to the then registered capital of Jiangsu Strawbear, and the abovementioned shareholding entrustment arrangement was terminated accordingly. Upon the completion of such equity transfer, Jiangsu Strawbear was held by Mr. Liu, Ms. Liu and Ms. Zhao as to 79.0%, 20.0% and 1.0%, respectively.

Investment by Hainan Alibaba Investment Fund

With a view to enriching our general working capital in support of our further business development, Mr. Liu, Ms. Liu, Ms. Zhao, Jiangsu Strawbear and Hainan Alibaba Pictures Entertainment Industry Investment Fund (Limited Partnership) (海南阿里巴巴影業文化產業基金合夥企業(有限合夥)) (“**Hainan Alibaba Investment Fund**”) entered into a capital increase agreement on October 21, 2016 (the “**Alibaba Investment Agreement**”), pursuant to which Hainan Alibaba Investment Fund subscribed for 15% equity interest in Jiangsu Strawbear by way of capital injection at a consideration of RMB225 million, among which RMB1,764,706 was recorded as the registered capital with the remaining funds allocated to the capital reserve. Such consideration was determined based on arm’s length negotiation between the parties with reference to (i) the profitability and growth prospects of Jiangsu Strawbear and (ii) the valuation multiples of comparable companies in the market, and was fully settled on September 14, 2017. Upon the completion of such investment, Jiangsu Strawbear was held by Mr. Liu, Ms. Liu, Hainan Alibaba Investment Fund and Ms. Zhao as to approximately 67.15%, 17.00%, 15.00% and 0.85%, respectively.

Hainan Alibaba Investment Fund is a limited liability partnership established in the PRC on August 1, 2016 and an Independent Third Party. The general partner of Hainan Alibaba Investment Fund is Hainan Alibaba Pictures Investment Management Limited (海南阿里巴巴影業投資管理有限公司), which was established in the PRC on June 29, 2016 and is held as to 40% by Zhejiang Dongyang Alibaba Films Co., Ltd. (浙江東陽阿里巴巴影業有限公司), a company ultimately controlled by Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司).

Reduction in the registered capital

In consideration of our continued growth and our future business strategy, as well as to allow our Group greater access to the international capital markets, we commenced our preparation to set up an offshore holding structure in early 2018. As it was not feasible for Hainan Alibaba Investment Fund, as an RMB investment fund, to roll over its interest in Jiangsu Strawbear to offshore shareholding in a relatively cost-effective manner within a short period of time to conform with our overall group restructuring plan, after deliberate considerations and upon mutual consensus between our Group and Hainan Alibaba Investment Fund, it was determined that Jiangsu Strawbear shall repurchase the 15% equity interest held by Hainan Alibaba Investment Fund in Jiangsu Strawbear to facilitate our restructuring process. Accordingly, on February 1, 2018 and July 31, 2018, Jiangsu Strawbear and Hainan

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Alibaba Investment Fund entered into a registered capital reduction agreement and a supplemental agreement thereof, respectively, pursuant to which Jiangsu Strawbear repurchased the 15% equity interest held by Hainan Alibaba Investment Fund in Jiangsu Strawbear at a consideration of RMB270 million. Such consideration was determined based on arm's length negotiation between the parties with reference to (i) the then financial positions of our Group and (ii) the valuation multiples of comparable companies in the market, and was fully settled on August 10, 2018 by us utilizing borrowings from our Controlling Shareholders, which had been fully repaid as of the Latest Practicable Date.

Our PRC Legal Advisors have confirmed that such reduction in the registered capital of Jiangsu Strawbear was effectively completed on August 16, 2018 and all the shareholders' rights of Hainan Alibaba Investment Fund in Jiangsu Strawbear ceased on the same day. Upon completion, the registered capital of Jiangsu Strawbear was decreased from RMB11,764,706 to RMB10,000,000 and Jiangsu Strawbear was held by Mr. Liu, Ms. Liu, and Ms. Zhao as to 79.0%, 20.0%, and 1.0%, respectively.

Horgos Strawbear

On August 4, 2016, Horgos Strawbear was established as a limited liability company in the PRC with a registered capital of RMB3 million. Since its establishment and up to the Latest Practicable Date, Horgos Strawbear had been wholly owned by Jiangsu Strawbear.

As of the Latest Practicable Date, Horgos Strawbear principally engaged in the business of production and distribution of TV series and web series.

Hangzhou Yide

Hangzhou Yide is a limited liability company established in the PRC on June 25, 2015. On January 31, 2019, Jiangsu Strawbear entered into an equity transfer agreement with Hangzhou Yide and its then existing shareholders, all being Independent Third Parties, pursuant to which Jiangsu Strawbear agreed to acquire the entire equity interest in Hangzhou Yide from its then existing shareholders at a total consideration of RMB180 million. Such consideration was determined after arm's length negotiation between the parties with reference to a valuation report issued by an Independent Third Party valuer. Pursuant to a written confirmation issued by Jiangsu Strawbear, Nanjing Strawbear (one of our wholly-owned subsidiaries in the PRC) was designated by Jiangsu Strawbear to acquire the entire equity interest in Hangzhou Yide.

As of the Latest Practicable Date, RMB164 million out of the abovementioned consideration had been settled, and Nanjing Strawbear currently expects to pay the remaining consideration of RMB16 million utilizing our Group's internal financial resources within seven business days following the provision of the written confirmation for completion of filming of certain drama series developed based on the IP licensed by Hangzhou Yide by the end of 2021.

Despite the above outstanding consideration, as confirmed by our PRC Legal Advisors, the equity transfer of Hangzhou Yide was completed on January 31, 2019 when Nanjing Strawbear was recorded as the sole shareholder of Hangzhou Yide in its registry of shareholders filed with the SAMR. Therefore, Hangzhou Yide became our wholly-owned subsidiary on the same day, and the financial statements of Hangzhou Yide have been consolidated into that of our Group since then.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

As of the Latest Practicable Date, Hangzhou Yide principally engaged in the business of literature copyright agency and development. As IP development is one of the backbones of our drama series business, we believe that the acquisition of Hangzhou Yide, which possesses sizeable premium IP resources, will further expand our IP sources and enhance our capabilities of IP development.

Nova Film

Nova Film is a limited liability company established in the PRC on May 29, 2012. On December 31, 2019, Jiangsu Strawbear entered into an investment agreement (the “**Nova Investment Agreement**”) with Nova Film and certain of its then existing shareholders, all being Independent Third Parties then, pursuant to which Jiangsu Strawbear agreed to acquire 89% equity interest in Nova Film from Mr. Mi Chunlin (米春林), one of its then existing shareholders, at a consideration of RMB12.5 million. Such consideration was determined after arm’s length negotiation between the parties with reference to the net assets value of Nova Film as of December 31, 2019 and was settled without any actual cash payment through offsetting our previous loan of an equivalent amount to Nova Film, which was thereafter lent to Mr. Mi Chunlin for his repurchase of certain equity interest in Nova Film then held by an Independent Third Party. Pursuant to a tripartite agreement entered into among Jiangsu Strawbear, Mr. Mi Chunlin and Nova Film on May 16, 2020, Nova Film transferred to Jiangsu Strawbear its creditor’s right against Mr. Mi Chunlin under the above loan, and pursuant to an agreement entered into between Jiangsu Strawbear and Mr. Mi Chunlin on May 16, 2020, the consideration payable by Jiangsu Strawbear to Mr. Mi Chunlin under the Nova Investment Agreement shall be deemed as fully settled when the filing of the updated registration with the competent local counterpart of the SAMR for the equity transfer of Nova Film is completed. Such filing was completed on June 23, 2020 and the consideration payable by Jiangsu Strawbear under the Nova Investment Agreement was therefore deemed as fully settled on the same day. Also on June 23, 2020, Jiangsu Strawbear made a capital contribution of RMB1 million to Nova Film. Upon the completion of such equity transfer and capital contribution, the registered capital of Nova Film increased from RMB9 million to RMB10 million, which was held by Jiangsu Strawbear and an Independent Third Party as to 90.1% and 9.9%, respectively.

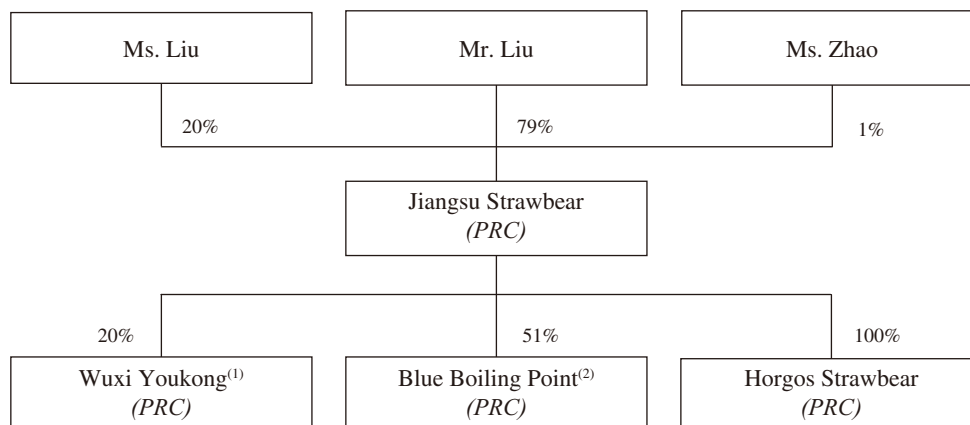
As an industry-leading visual arts post-production studio, Nova Film provided visual effects post-production services to our Group since 2015 and up to our acquisition in June 2020. Mr. Mi Chunlin was a former director of Nova Film who resigned from his directorship at Nova Film with effect from May 16, 2020. Save as disclosed in this prospectus, our Company has no other past or present relationships with Mr. Mi Chunlin. As of the Latest Practicable Date, Nova Film principally engaged in the business of special effects editing and other post-production work for films and drama series. We believe that our acquisition of Nova Film will enable us to further enhance our comprehensive drama series production capabilities.

REORGANIZATION

In order to optimize our corporate structure to further develop the business of our Group and to more readily access the international capital markets, we underwent the Reorganization in preparation for the Global Offering and the Listing, details of which are set out below.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

The following chart sets forth the corporate and shareholding structure of our Group prior to the Reorganization:



Notes:

- (1) The remaining 80% equity interest in Wuxi Youkong was held by four individuals, all being Independent Third Parties.
- (2) The remaining 49% equity interest in Blue Boiling Point was held by Ms. Zhao. We deregistered Blue Boiling Point on December 20, 2019, as it had no executable projects at the time and we had no further development plan for it.

Offshore Reorganization

Incorporation of shareholders' SPVs

Each of Mr. Liu, Ms. Liu, Ms. Zhao and Ms. Zhai (all being the registered shareholders of Jiangsu Strawbear and ultimate beneficial owners of our Company after completion of the Reorganization) incorporated a wholly-owned investment holding company in the BVI, details of which are set out below:

<u>Company name</u>	<u>Date of incorporation</u>	<u>Shareholder</u>	<u>Equity interest</u>
Master Sagittarius	December 18, 2017	Mr. Liu	100%
Gold Pisces	December 19, 2017	Ms. Liu	100%
Ice Princess	December 19, 2017	Ms. Zhao	100%
Gold Fish	January 30, 2018	Ms. Zhai	100%

Incorporation of our Company

On January 3, 2018, our Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorized share capital of US\$50,000 divided into 50,000 Shares with a par value of US\$1.00 each. Immediately thereafter, (i) one Share was allotted and issued at par value to the initial subscriber, and was subsequently transferred to Master Sagittarius; and (ii) 789 Shares, 200 Shares and 10 Shares were allotted and issued at par value to Master Sagittarius, Gold Pisces and Ice Princess, respectively. Upon completion, our Company was held by Master Sagittarius, Gold Pisces and Ice Princess as to 79.0%, 20.0% and 1.0%, respectively, and became the offshore holding company of our current business.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Incorporation of offshore subsidiaries

On January 9, 2018, Strawbear Pictures was incorporated in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On the same day, 1,000 shares were allotted and issued to our Company for a consideration of US\$1,000.00, and Strawbear Pictures became a directly wholly-owned subsidiary of our Company. On January 31, 2018, Strawbear Film was incorporated in Hong Kong with a total issued share capital of US\$1,000 divided into 1,000 shares with a par value of US\$1.00 each. On the same day, 1,000 shares were allotted and issued to Strawbear Pictures for a consideration of US\$1,000, and Strawbear Film became an indirectly wholly-owned subsidiary of our Company. Both Strawbear Pictures and Strawbear Film are investment holding companies without substantive business operations.

Share allotment and transfer of our Company

On March 5, 2018, our Company allotted and issued an aggregate of 9,000 Shares at par value to the then existing Shareholders of our Company. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	7,900 Shares	79.0%
Gold Pisces	2,000 Shares	20.0%
Ice Princess	100 Shares	1.0%
Total	10,000 Shares	100%

On March 5, 2018 and November 1, 2018, Master Sagittarius, Gold Pisces and Ice Princess transferred an aggregate of 200 Shares, and Master Sagittarius and Gold Pisces further transferred an aggregate of 600 Shares, respectively to Gold Fish at nil consideration. Such share transfers are recorded as share-based compensation in our financial statements, details of which are set out in Note 34 to the Accountants' Report as set out in Appendix I to this prospectus. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	7,262 Shares	72.62%
Gold Pisces	1,840 Shares	18.40%
Gold Fish	800 Shares	8.00%
Ice Princess	98 Shares	0.98%
Total	10,000 Shares	100%

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Series A-1 investment of Taurus Holding

On November 29, 2018, Taurus Holding subscribed for 1,765 Series A Preferred Shares at a consideration of US\$40 million. See “— Pre-IPO Investments” below for details. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	Shares	7,262	61.73%
Gold Pisces	Shares	1,840	15.64%
Taurus Holding	Series A Preferred Shares	1,765	15.00%
Gold Fish	Shares	800	6.80%
Ice Princess	Shares	98	0.83%
Total		11,765	100%

Share subdivision of our Company

On May 11, 2020, our Company’s issued and unissued 50,000 shares of a par value of US\$1.00 each were subdivided into 2,000,000,000 shares with a par value of US\$0.000025 each. As a result, (i) the authorized share capital of our Company shall be US\$50,000 divided into 2,000,000,000 shares of US\$0.000025 par value each, and (ii) the issued share capital of our Company shall be 400,000,000 Shares and 70,600,000 Series A Preferred Shares of US\$0.000025 par value each. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	Shares	290,480,000	61.73%
Gold Pisces	Shares	73,600,000	15.64%
Taurus Holding	Series A Preferred Shares	70,600,000	15.00%
Gold Fish	Shares	32,000,000	6.80%
Ice Princess	Shares	3,920,000	0.83%
Total		470,600,000	100%

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Series A-2 investment of Taurus Holding

On May 21, 2020, Taurus Holding subscribed for 26,720,000 Series A Preferred Shares at a consideration of US\$15,138,810.52. See “— Pre-IPO Investments” below for details. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	Shares	290,480,000	58.41%
Taurus Holding	Series A Preferred Shares	97,320,000	19.57%
Gold Pisces	Shares	73,600,000	14.80%
Gold Fish	Shares	32,000,000	6.43%
Ice Princess	Shares	3,920,000	0.79%
Total		497,320,000	100%

Onshore Reorganization

Equity transfer of Jiangsu Strawbear

In order for Ms. Zhai to indirectly hold the Shares of our Company through Gold Fish in compliance with the requirements of SAFE Circular 37, Ms. Zhai entered into an equity transfer agreement with Mr. Liu on September 7, 2018, pursuant to which Mr. Liu transferred 0.1% equity interest in Jiangsu Strawbear to Ms. Zhai at a consideration of RMB211,516.98. Such consideration was determined with reference to the net assets value of Jiangsu Strawbear as of August 31, 2018 and was fully settled on February 19, 2019.

On September 7, 2018, Ms. Zhang entered into an equity transfer agreement with Mr. Liu, pursuant to which Ms. Zhang acquired 1% equity interest in Jiangsu Strawbear from Mr. Liu at a consideration of RMB2,115,169.84. Such consideration was determined with reference to the net assets value of Jiangsu Strawbear as of August 31, 2018 and was fully settled on March 2, 2019.

Upon the completion of the abovementioned equity transfers, Jiangsu Strawbear was held by Mr. Liu, Ms. Liu, Ms. Zhao, Ms. Zhang and Ms. Zhai as to 77.9%, 20.0%, 1.0%, 1.0% and 0.1%, respectively.

During the Reorganization, Ms. Zhang subsequently decided not to roll over her abovementioned interest in Jiangsu Strawbear to offshore shareholding as she did not complete the relevant registration under SAFE Circular 37 within the timeframe under the reorganization plan. Nonetheless, Ms. Zhang, as the registered shareholder and ultimate beneficial owner of the 1% equity interest in Jiangsu Strawbear, has duly executed all requisite agreements and documents underlying the Contractual Arrangements together with the other registered shareholders of Jiangsu Strawbear such that our Company has been able to assert management control over the operations of and enjoy all economic benefits of the Consolidated Affiliated Entities. See “— Reorganization — Onshore Reorganization — Contractual arrangements” and “Contractual Arrangements” for further details. As a compensation for Ms. Zhang’s loss, Mr. Liu has made a one-off cash payment to Ms. Zhang, the amount of which is the same as Ms. Zhang’s initial

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

acquisition costs and agreed by Ms. Zhang in view of the very short period of time between her acquisition of equity interest in Jiangsu Strawbear in September 2018 and the execution of the Contractual Arrangements in November 2018. Such arrangement was considered as the most efficient way to facilitate the reorganization process of our Group, which was beneficial to both of our Group and Ms. Zhang as one of our Directors and senior management members whose interests are aligned with our Group. Save as disclosed above, there was no side arrangement between Mr. Liu and Ms. Zhang regarding the 1% equity interest in Jiangsu Strawbear. As confirmed by our PRC Legal Advisors, such separate cash compensation between Mr. Liu and Ms. Zhang does not affect Ms. Zhang's status as the shareholder of and her shareholder's rights attaching to the 1% equity interest in Jiangsu Strawbear, or the completion of the reorganization of the Group (including the Contractual Arrangements) in compliance with the applicable PRC laws and regulations.

Establishment of Nanjing Strawbear

On September 17, 2018, Nanjing Strawbear was established in the PRC as a wholly foreign-owned enterprise with limited liability with a registered capital of US\$1 million. As of the Latest Practicable Date, the registered capital of Nanjing Strawbear had not been paid up, and as advised by our PRC Legal Advisors, it shall be fully contributed before September 6, 2048. Since its establishment and up to the Latest Practicable Date, Nanjing Strawbear had been wholly owned by Strawbear Film.

As of the Latest Practicable Date, Nanjing Strawbear principally engaged in the business of brand integration, marketing agency and technical consulting services.

Contractual arrangements

In order for us to conduct the TV/web series and web films production and distribution business in compliance with applicable PRC laws and regulations, Nanjing Strawbear, our indirectly wholly-owned subsidiary in the PRC, entered into series of contractual arrangements with Jiangsu Strawbear and its registered shareholders on November 20, 2018, which were amended and restated on February 20, 2019, to assert management control over the operations of and enjoy all economic benefits of Jiangsu Strawbear and its subsidiaries. For further details, see "Contractual Arrangements."

Disposal of equity interest in Wuxi Youkong and establishment of Wuxi Strawbear

Wuxi Youkong was established as a limited liability company in the PRC on November 1, 2017 principally engaging in the business of screenplay development and assessment, which, as advised by our PRC Legal Advisors, is not subject to the foreign investment restriction under the Negative List. To ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, on May 6, 2020, Jiangsu Strawbear disposed its entire 20% equity interest in Wuxi Youkong to an individual, who is an Independent Third Party, at a consideration of RMB355,694.03, which represents the book value of the net assets of Wuxi Youkong as of December 31, 2019 and was fully settled on July 6, 2020. As Jiangsu Strawbear was merely a minority shareholder of Wuxi Youkong before the above disposal, Wuxi Youkong was not our subsidiary and the financial statements of Wuxi Youkong were never consolidated into that of our Group. During the period when Jiangsu Strawbear was a shareholder of Wuxi Youkong, our Group was not involved in the daily operation of Wuxi Youkong and was not aware of any material non-compliance incidents involving Wuxi Youkong.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

With an aim to strengthen our ability of producing high-quality upstream original content sources in house for our drama series, while maintaining our established business relationship with Wuxi Youkong, our Group and Wuxi Youkong jointly set up Wuxi Strawbear as a limited liability company in the PRC on June 4, 2020 with its equity interest held by Nanjing Strawbear and Wuxi Youkong as to 60% and 40%, respectively, such that our Group is able to carry out the business of screenplay development and assessment at our subsidiary level through Wuxi Strawbear and leverage the experience and resources of Wuxi Youkong in the meantime.

The registered capital of Wuxi Strawbear is RMB1 million, which had not been fully paid up as of the Latest Practicable Date, and as advised by our PRC Legal Advisors, it shall be fully contributed before December 31, 2039.

As of the Latest Practicable Date, Wuxi Strawbear principally engaged in the business of screenplay development and assessment.

PRC Regulatory Compliance

As confirmed by our PRC Legal Advisors, our Group has obtained all regulatory approvals in connection with the Reorganization as required under the relevant PRC laws and regulations, and the Reorganization has been properly and legally completed in compliance with all applicable PRC laws and regulations.

VOTING ARRANGEMENT AND LOCK-UP ARRANGEMENTS

Pursuant to the Voting Arrangement Agreements, Ms. Liu, Ms. Zhai, Ms. Zhao, Ms. Zhang and their respective wholly-owned holding companies (where applicable) had confirmed and agreed that they had and would continue to, for so long as they are interested in the Shares and/or hold any interest in any member of our Group, directly or indirectly, defer their voting powers to and follow the directions of Mr. Liu and/or his wholly-owned holding companies (where applicable) at the shareholders' meetings of the members of our Group. By entrusting their voting powers to Mr. Liu and/or his wholly-owned holding companies (where applicable), the other signing parties of the Voting Arrangement Agreements believe that the consistent leadership and management supported with stronger control will be beneficial to the overall strategic planning and decision-making process of our Group.

Save as disclosed above, there is no side arrangement among Mr. Liu, Ms. Liu, Ms. Zhai, Ms. Zhao, Ms. Zhang and their respective wholly-owned companies in relation to the voting arrangement.

Each of Golden Basin (through which Ms. Zhai holds the Shares in the Company) and Glesason Global (through which Ms. Liu holds the Shares in the Company) has entered into a deed of lock-up undertaking in favor of, among others, the Company, to give certain lock-up undertakings in respect of their Shares in the Company. See "Underwriting — Undertakings by Other Shareholders" for details.

MAJOR ACQUISITIONS

On January 31, 2019, Nanjing Strawbear acquired the entire equity interest in Hangzhou Yide from its then existing shareholders at a total consideration of RMB180 million. Upon the completion of such acquisition, Hangzhou Yide became a wholly-owned subsidiary of Nanjing Strawbear. See "— Corporate Development — Hangzhou Yide" for further details.

On June 23, 2020, Jiangsu Strawbear acquired 89% equity interest in Nova Film from one of its then existing shareholders at a consideration of RMB12.5 million. Upon the completion of such acquisition, Nova Film became a non-wholly-owned subsidiary of Jiangsu Strawbear. See "— Corporate Development — Nova Film" for further details.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Except for the remaining consideration of RMB16 million for the acquisition of Hangzhou Yide to be paid by Nanjing Strawbear, our PRC Legal Advisors have confirmed that each of the abovementioned acquisitions has been properly and legally completed and settled in compliance with all applicable PRC laws and regulations, and our Group has obtained all regulatory approvals in connection with such acquisitions.

PRE-IPO SHARE OPTION SCHEME

Our Company adopted the Pre-IPO Share Option Scheme on May 11, 2020. Following the adoption of the Pre-IPO Share Option Scheme and as of the Latest Practicable Date, 37,648,000 Pre-IPO Share Options, representing 5.68% of the issued share capital of our Company immediately after the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), had been conditionally granted to Mr. Liu, our founder, an executive Director and the chief executive officer of our Company, to recognize his significant contribution to our Group. On November 18, 2020, Mr. Liu transferred all of the 37,648,000 Pre-IPO Share Options to Gorgeous Horizon which is indirectly wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary. Pursuant to the terms of the Pre-IPO Share Option Scheme, Mr. Liu shall not exercise the outstanding options granted to him under the Pre-IPO Share Option Scheme prior to the Listing. No further options may be granted under the Pre-IPO Share Option Scheme after the Listing. For details, see "Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme."

ESTABLISHMENT OF PERSONAL TRUSTS

The LXF Family Trust was established by Mr. Liu as the settlor and the protector and Family Trust Singapore as the trustee. On November 18, 2020, Leading Glory allotted and issued 9,900 shares at par value of US\$1.00 each to Master Genius which is wholly owned by Family Trust Singapore, representing 99% of the enlarged share capital of Leading Glory. The LXF Family Trust is a discretionary trust and the beneficiary of which is Master Sagittarius, a wholly-owned holding company of Mr. Liu.

The LSS Family Trust was established by Ms. Liu as the settlor and the protector and Family Trust Singapore as the trustee. On November 18, 2020, Glesason Global allotted and issued 9,900 shares at par value of US\$1.00 each to Beyond Vast which is wholly owned by Family Trust Singapore, representing 99% of the enlarged share capital of Glesason Global. The LSS Family Trust is a discretionary trust and the beneficiary of which is Gold Pisces, a wholly-owned holding company of Ms. Liu.

The Gold Fish Trust was established by Ms. Zhai as the settlor and the protector and Family Trust Singapore as the trustee. On November 18, 2020, Golden Basin allotted and issued 9,900 shares at par value of US\$1.00 each to Smart Century which is wholly owned by Family Trust Singapore, representing 99% of the enlarged share capital of Golden Basin. The Gold Fish Trust is a discretionary trust and the beneficiary of which is Gold Pisces, a wholly-owned holding company of Ms. Zhai.

Under all three trusts, certain discretions of Family Trust Singapore as the trustee are only exercisable by it at the direction of the respective settlors, namely Mr. Liu, Ms. Liu and Ms. Zhai (the "Settlor(s)"). Under each of the trust deeds, the Settlor has the power to appoint protector who has the power to appoint or remove trustees. Based on the terms of all three trust deeds, for so long as Family Trust Singapore holds or controls any Shares, all voting rights attaching to such Shares shall be exercised by the Settlor and/or such other person(s) as the Settlor may wish to appoint.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

PRE-IPO INVESTMENTS

Pursuant to a series A preferred share purchase agreement entered into by and among, *inter alia*, our Company and Taurus Holding on each of November 29, 2018 and May 18, 2020, our Company issued and allotted 1,765 Series A Preferred Shares of a par value of US\$1.00 each and 26,720,000 Series A Preferred Shares of a par value of US\$0.000025 each to Taurus Holding, a wholly-owned subsidiary of iQIYI, Inc., respectively.

The following table sets forth other key particulars of the Pre-IPO Investments:

	<u>Series A-1 Investment</u>	<u>Series A-2 Investment</u>
Number of Shares subscribed for	1,765 Series A Preferred Shares of a par value of US\$1.00 each	26,720,000 Series A Preferred Shares of a par value of US\$0.000025 each
Date of relevant agreement with the Pre-IPO Investor	November 29, 2018	May 18, 2020
Date on which the consideration was fully settled	December 27, 2018	May 28, 2020
Percentage of shareholding upon completion of the Pre-IPO Investments	15%	19.57% ⁽¹⁾
Percentage of shareholding upon completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options)	10.65%	14.68% ⁽¹⁾
Consideration paid	US\$40,000,000	US\$15,138,810.52
Cost per share paid by the Pre-IPO Investor ⁽²⁾	US\$0.57 (equivalent to approximately HK\$4.39)	US\$0.57 (equivalent to approximately HK\$4.39)
Discount to the Offer Price ⁽³⁾	21.98%	21.98%
Basis of determination of the consideration	The consideration of the series A-1 investment was determined after arm's length negotiation among the parties, taking into account the valuation conducted by the Pre-IPO Investor based on the business prospect, results of operation and financial condition of our Group and the potential add-value it could bring to our Group as a top online video platform. The consideration of the series A-2 investment was determined with reference to the consideration of the series A-1 investment.	

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

	<u>Series A-1 Investment</u>	<u>Series A-2 Investment</u>
Use of proceeds from the Pre-IPO Investments	The proceeds from the Pre-IPO Investments were mainly used for the repayment of our certain outstanding loans. As of the Latest Practicable Date, substantially all of the proceeds from the Pre-IPO Investments had been utilized.	
Lock-up	The Shares held by the Pre-IPO Investor are subject to a lock-up period of six months after the Listing.	
Strategic benefits of the Pre-IPO Investments	Our Directors are of the view that our Company can benefit from the commitment of the Pre-IPO Investor which is a top online video platform in the PRC to our Company and can achieve synergies from our enhanced strategic cooperation. The continuing series of investments from the Pre-IPO Investor demonstrate its confidence in the operation of our Group and serve as an endorsement of our Group's performance, strength and prospects.	

Notes:

- (1) The percentage of shareholding is calculated based on the total number of Series A Preferred Shares held by the Pre-IPO Investor after the Pre-IPO Investments.
- (2) The cost per share paid has taken into account the Share Subdivision, details of which are set out in “— Reorganization — Offshore Reorganization — Share subdivision of our Company.”
- (3) Assuming the Offer Price is fixed at HK\$5.63, being the mid-point of the indicative Offer Price range.

Special Rights Granted to the Pre-IPO Investor

Taurus Holding was granted certain special rights under the Pre-IPO Investments including, among others, (i) the right to elect Directors and the right of participation in the meetings of the Board; (ii) the right to receive financial statements and other information about our Company and inspect facilities, records and books of each member of our Group. (iii) registration rights including demand and piggyback registration rights; (iv) the pre-emptive right to purchase up to all of any new securities which our Company may propose to issue; (v) rights of first refusal and co-sale in certain circumstances; (vi) the drag along right to force non-approving shareholders to join in the sale of our Company's shares on same terms as Taurus Holding approved in certain circumstances; (vii) the right to convert outstanding Series A Preferred Shares into ordinary shares and adjust the applicable conversion ratios under certain circumstances (the “**Conversion Rights**”); (viii) the right to request our Company to redeem all or part of the outstanding Series A Preferred Shares in certain circumstances (the “**Redemption Rights**”); (ix) certain liquidation and dividend preferences attached to the Series A Preferred Shares; and (x) veto rights over certain corporate actions.

Except for (i) the Redemption Rights which were terminated immediately prior to the first submission of the listing application form and other relevant documents by our Company to the Stock Exchange for the purpose of the Global Offering; and (ii) the Conversion Rights which will automatically be exercised in full so that all the Series A Preferred Shares will be converted into the Shares on 1:1 basis upon completion of the Global Offering, all the other special rights granted to Taurus Holding will be automatically terminated immediately prior to the Listing.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Information about the Pre-IPO Investor

Taurus Holding was incorporated in the BVI with limited liability on November 28, 2018 and is wholly owned by iQIYI, Inc. (Stock Code: IQ. NASDAQ).

Public Float

Immediately following the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), Taurus Holding will be interested in approximately 14.68% of the total issued share capital of our Company and will be a substantial Shareholder of our Company. Therefore, Taurus Holding will be a core connected person of our Company and the Shares held by Taurus Holding will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules upon the Listing.

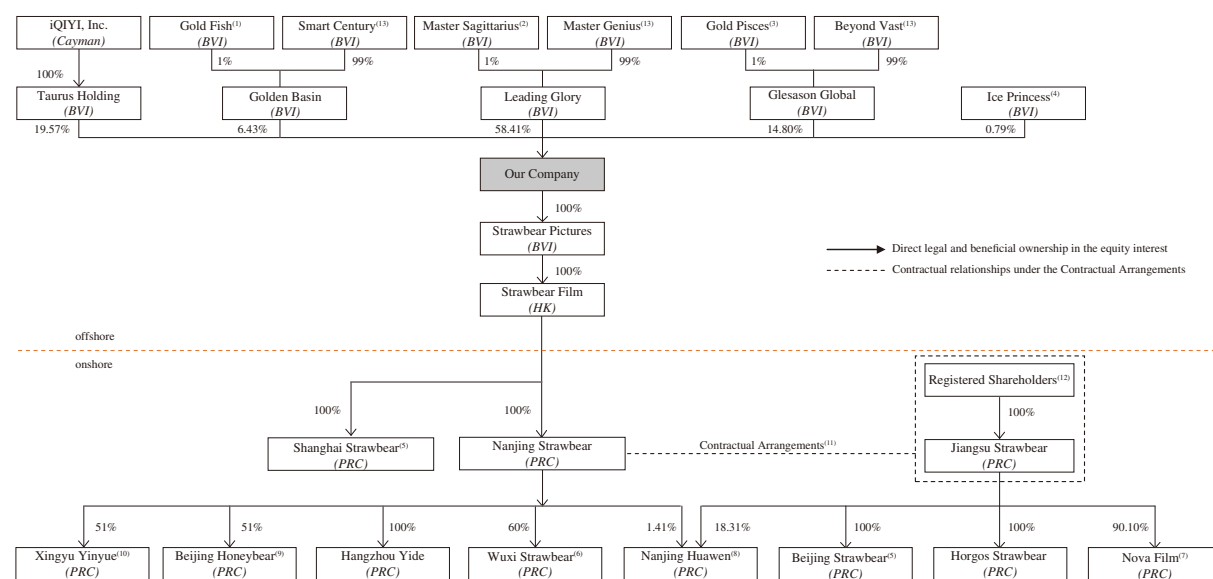
Compliance with Interim Guidance and Guidance Letters

The Joint Sponsors have confirmed that the Pre-IPO Investments are in compliance with the Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017, the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

CORPORATE STRUCTURE

Corporate Structure before the Global Offering

The following chart sets forth the shareholding structure of our Group after the Reorganization and the Pre-IPO Investments and immediately before the Global Offering:



HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

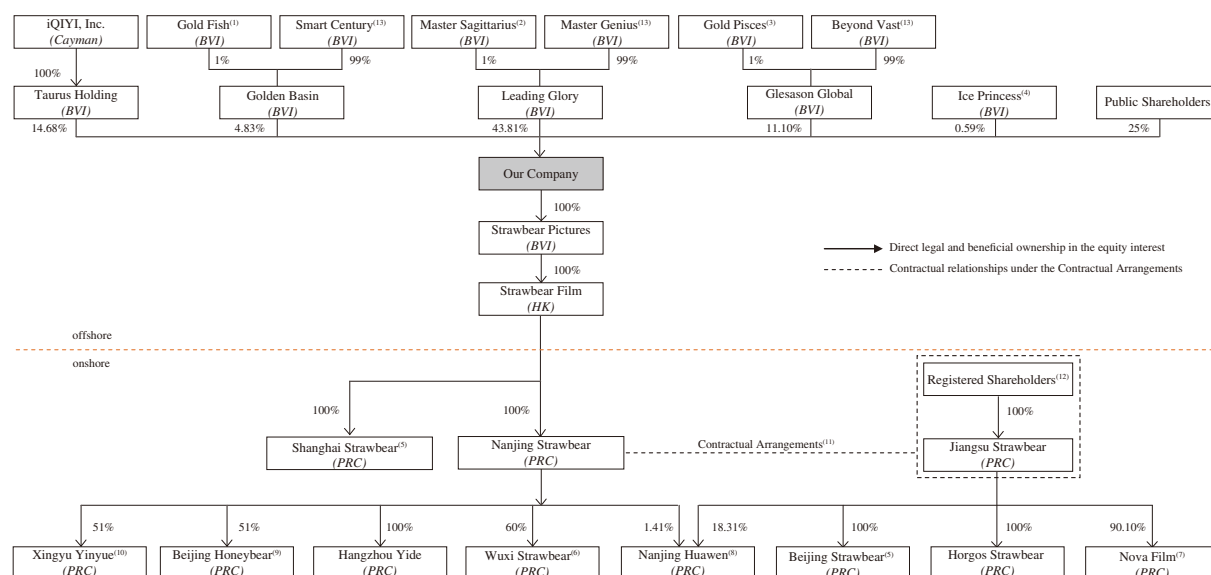
Notes:

- (1) Gold Fish is wholly owned by Ms. Zhai. On June 18, 2020, Gold Fish transferred its entire equity interest in the Company at par value to Golden Basin.
- (2) Master Sagittarius is wholly owned by Mr. Liu. On June 18, 2020, Master Sagittarius transferred its entire equity interest in the Company at par value to Leading Glory.
- (3) Gold Pisces is wholly owned by Ms. Liu. On June 18, 2020, Gold Pisces transferred its entire equity interest in the Company at par value to Glesason Global.
- (4) Ice Princess is wholly owned by Ms. Zhao.
- (5) Shanghai Strawbear and Beijing Strawbear were established along with the Reorganization and had been our wholly-owned subsidiaries since establishment. Neither of them is a principal operating subsidiary of our Group.
- (6) The remaining 40% equity interest in Wuxi Strawbear is held by Wuxi Youkong, which is in turn held by five individuals, all being Independent Third Parties.
- (7) The remaining 9.9% equity interest in Nova Film is held by an individual, being an Independent Third Party.
- (8) Details of the remaining equity interest in Nanjing Huawen are set out in “Contractual Arrangements — Background.” The financial statements of Nanjing Huawen are not consolidated into that of our Group.
- (9) Beijing Honeybear had been our non-wholly-owned subsidiary since its establishment on September 10, 2020 and is not a principal operating subsidiary of our Group. The remaining 49% equity interest in Beijing Honeybear is held by an Independent Third Party.
- (10) Xingyu Yinyue had been our non-wholly-owned subsidiary since its establishment on November 19, 2020 and is not a principal operating subsidiary of our Group. The remaining 49% equity interest in Xingyu Yinyue is held by an Independent Third Party.
- (11) We entered into the Contractual Arrangements with Jiangsu Strawbear and its registered shareholders. See “Contractual Arrangements” for details.
- (12) For details of the Registered Shareholders, see “Contractual Arrangements.”
- (13) Each of Smart Century, Master Genius and Beyond Vast is wholly owned by Family Trust Singapore, the trustee of the Gold Fish Trust, the LXF Family Trust and the LSS Family Trust.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Corporate Structure Immediately following the Global Offering

The following charts set forth the shareholding structure of our Group immediately after the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options):



Notes:

(1) – (13): Please refer to the corresponding notes to the chart set out in “— Corporate Structure — Corporate Structure before the Global Offering.”

PRC REGULATORY REQUIREMENTS

M&A Rules

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”) jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Pursuant to article 11 of the M&A Rules, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM.

Our PRC Legal Advisors are of the opinion that prior CSRC and MOFCOM approvals for the Listing and trading of our Shares on the Stock Exchange is not required because (i) none of our PRC subsidiaries was established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company and (ii) no provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules.

SAFE Registration in the PRC

Pursuant to the SAFE Circular 37, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas SPV that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the overseas SPV, including, among other things, a change of overseas SPV's PRC resident shareholder(s), the name of the overseas SPV, terms of operation, or any increase or reduction of the overseas SPV's capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Pursuant to the SAFE Circular 13, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisors, each of our individual beneficial owners who are PRC citizens has duly completed the relevant registrations as required under SAFE Circular 37 and SAFE Circular 13 as of September 11, 2018.

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BACKGROUND

We conduct our TV/web series and web films production and distribution business in the PRC (the “**Relevant Businesses**”) through our Consolidated Affiliated Entities which hold the requisite licenses and permits, including the Radio and Television Programs Production and Operation Permit (《廣播電視節目製作經營許可證》) and the Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》) (the “**Relevant Licenses**”). Under the applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in any enterprise conducting the production and operation (including distribution) of TV series including made-for-internet programs. Please refer to the section headed “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” for further details.

In order for our Group to conduct the Relevant Businesses in compliance with the applicable PRC laws and regulations, as part of the Reorganization, we entered into the Contractual Arrangements with Jiangsu Strawbear and the Registered Shareholders (as defined below) on November 20, 2018, which were amended and restated on February 20, 2019, pursuant to which we are able to assert management control over the operations of the Consolidated Affiliated Entities and are entitled to all the economic benefits derived from their operations.

In addition to the Relevant Businesses, we also (i) generate revenue from investment in drama series as a non-executive producer and IP derivatives; and (ii) hold through Jiangsu Strawbear 18.31% passive minority partnership interests in Nanjing Huawen (the “**VIE Minority Interests**”).

Pursuant to the partnership agreement of Nanjing Huawen, the purpose of establishment and principal business of Nanjing Huawen is to jointly develop, together with Jiangsu Strawbear, the made-to-order drama series ordered by Beijing iQIYI without participation in the production and/or distribution process (e.g. to provide consultation on and upfront capital injection in the production of specific TV/web series), while Jiangsu Strawbear is responsible for the production of such drama series. As advised by our PRC Legal Advisors, such principal business of Nanjing Huawen is not subject to foreign investment restriction under the Negative List. The following table sets out the partnership structure of Nanjing Huawen as of the Latest Practicable Date:

<u>Name of partner</u>	<u>Type of partnership</u>	<u>Percentage of interest</u>
Jiangsu Wentou Capital Management Co., Ltd. (江蘇文投資本管理有限公司) (“ Jiangsu Wentou ”)	Executive General partner ¹	42.25%
Nanjing Strawbear	General partner ²	1.41%
Beijing iQiyi	Limited partner	9.86%
Jiangsu Strawbear	Limited partner ³	18.31%
Jiangsu Culture Assets and Equity Exchange (江蘇省文化產權交易所有限公司)	Limited partner	28.17%

Notes:

1. Pursuant to the limited partnership agreement of Nanjing Huawen, Jiangsu Wentou is the executive general partner of Nanjing Huawen, which has been designated by all partners with exclusive rights of management and operation of Nanjing Huawen.

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2. Pursuant to the partnership agreement of Nanjing Huawen, Nanjing Strawbear is obligated to cooperate with Jiangsu Wentou and responsible for recommending high-quality target projects to Nanjing Huawen. Nonetheless, Nanjing Strawbear is not involved in the daily operation or management of Nanjing Huawen.
3. Pursuant to the partnership agreement of Nanjing Huawen, Jiangsu Strawbear, as a limited partner, is obliged to make capital contributions to Nanjing Huawen according to the percentage of its partnership interests. Jiangsu Strawbear is not involved in the daily operation or management of Nanjing Huawen.

We are of the view that the Contractual Arrangements are narrowly tailored for the following reasons:

- (i) each segment of the Relevant Businesses belongs to certain business sectors that fall within the “prohibited” category under the Negative List, therefore, foreign investment in the Relevant Businesses is strictly forbidden and the Group is required to carry out the Relevant Businesses through the Contractual Arrangements;
- (ii) the Relevant Licenses are required for the businesses that belong to the sector of “radio and television program production and operating (including import business) companies.” According to the interview with Jiangsu Provincial Radio and Television Administration, Horgos Bureau of Culture, Sports, Radio, Television and Tourism conducted by our PRC Legal Advisors, the Joint Sponsors’ PRC legal advisors and the Joint Sponsors on June 23, 2020 and July 3, 2020 and the interview with NRTA conducted by the Joint Sponsors’ PRC legal advisors on August 2, 2019, respectively, which are the competent authorities in charge of applications for the aforementioned licenses as confirmed by our PRC Legal Advisors, none of these authorities has accepted, or will in the foreseeable future, accept any application for the aforementioned licenses made by a wholly-foreign-owned enterprise or a sino-foreign equity joint venture, and we are therefore required to carry out our Relevant Businesses through the Contractual Arrangements;
- (iii) our currently on-going co-investment in drama series with the role of non-executive producer involves our participation in the production process of such drama series, which falls within the “prohibited” category under the Negative List as advised by our PRC Legal Advisors, and thus are conducted by Jiangsu Strawbear, one of our Consolidated Affiliated Entities. We will ensure that (a) our future co-investments in drama series involving participation of production and/or distribution process will be conducted by the Consolidated Affiliated Entities; and (b) if we engage in any business of making pure financial investment in drama series without participation in their production and/or distribution process, which does not fall within restricted or prohibited foreign investment business as advised by our PRC Legal Advisors, such business will be conducted by the wholly-foreign-owned enterprises of our Group or their subsidiaries;
- (iv) as advised by our PRC Legal Advisors, our IP derivative projects relating to our self-produced drama series shall be deemed as the “operation activities of radio and television programmes” as regulated by the Administrative Provisions on the Production and Distribution of Radio and Television Programmes (《廣播電視節目製作經營管理規定》), which falls within the “prohibited” category under the Negative List, and thus are conducted by Jiangsu Strawbear, one of the Consolidated Affiliated Entities. We will ensure that (a) if we engage in any business of IP derivatives relating to our self-produced drama series, such

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business will be conducted by the Consolidated Affiliated Entities; (b) if we engage in any business of IP derivatives not relating to drama series, which does not fall within restricted or prohibited foreign investment business, such business will be conducted by the wholly-foreign-owned enterprises of our Group or their subsidiaries;

- (v) we have compelling reasons to continue holding the VIE Minority Interests through the Contractual Arrangements and have demonstrated genuine efforts to comply with the applicable PRC laws and regulations:

- *Passive minority investment in Nanjing Huawen*

The operation and management rights of Nanjing Huawen have been exclusively designated to and controlled by its executive general partner, whereas we are merely a passive minority investor in Nanjing Huawen and are not involved in its daily operation or management. Furthermore, we will not increase our partnership interests in Nanjing Huawen or acquire any executive rights with respect to the operation or management of Nanjing Huawen in the future. As such, the influence we could exert on other partners in relation to the transfer of the VIE Minority Interests is very limited and we are not in a position to reorganize the structure of Nanjing Huawen in a flexible manner.

- *Lack of consent/cooperation of other partners of Nanjing Huawen*

The principal business of Nanjing Huawen is to jointly develop, together with Jiangsu Strawbear, the made-to-order drama series ordered by Beijing iQIYI, which is also one of the limited partners of Nanjing Huawen. In addition, it is a requirement of both of the executive general partner of Nanjing Huawen and Beijing iQIYI that Jiangsu Strawbear, which holds the Relevant Licenses and is involved in the development and production process of such made-to-order drama series, shall retain its partnership interests in Nanjing Huawen, such that Nanjing Huawen would be able to conduct its principal business in line with the purpose of its establishment by the relevant partners. Therefore, the consents from Jiangsu Wentou and Beijing iQIYI are essential for the business development and sustainability of Nanjing Huawen should the partnership interests held by Jiangsu Strawbear are to be transferred.

We have engaged in several rounds of communication with Jiangsu Wentou and Beijing iQIYI in respect of our proposal to transfer a portion or all of the VIE Minority Interests, but such requests were explicitly rejected and the partnership interests held by Jiangsu Strawbear are required by them to remain unchanged, as the respective percentage of the partnership interests held by each of Jiangsu Strawbear and Nanjing Strawbear was agreed among all partners as a precondition for the establishment of Nanjing Huawen with reference to the following factors: (a) Jiangsu Strawbear holds the Relevant Licenses and plays an irreplaceable role in the development and production process of the made-to-order drama series jointly developed by Nanjing Huawen and ordered by Beijing iQIYI; and (b) compared with Nanjing Strawbear, considerably higher percentage of partnership interests held by Jiangsu Strawbear represents larger amount of capital injection and risk exposure which is commercially in conformity with its significance and level of participation in the development and production process of the drama series as mentioned above. Nevertheless, we will transfer the VIE Minority Interests to other members of the Group that are held by us through equity shareholding once the consents from Jiangsu Wentou and Beijing iQIYI are obtained in the future.

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- *Immaterial contributions to the Group*

The VIE Minority Interests are passive and non-controlling interests classified as investment in a joint venture in our financial statements. As of June 30, 2020, the aggregate carrying value of the VIE Minority Interests amounted to approximately RMB14.0 million, accounting for approximately 0.70% of our total assets as of the same date. Furthermore, we barely recorded any gain or loss from the VIE Minority Interests for the year ended December 31, 2019 and the six months ended June 30, 2020. As advised by our PRC Legal Advisors, Nanjing Huawen, as a limited partnership, can only conduct its business in accordance with its purpose of establishment as stipulated in its partnership agreement (i.e. to jointly develop the made-to-order drama series ordered by Beijing iQIYI together with Jiangsu Strawbear). Therefore, Nanjing Huawen cannot conduct its business with any other party but Jiangsu Strawbear. As of the Latest Practicable Date, we only had one on-going drama series jointly developed with Nanjing Huawen, i.e. *Breath of Destiny* (一起深呼吸) which is expected to be broadcast on the platform of iQIYI in the first quarter of 2021. We currently do not have any intention to either increase our partnership interests in Nanjing Huawen or jointly develop any new drama series with Nanjing Huawen except for the above-mentioned one on-going drama series, therefore the contribution of the VIE Minority Interests to our profit before tax or total assets are expected to remain less than 1%.

- *Internal control measures*

Pursuant to the partnership agreement of Nanjing Huawen, the term of business operation of Nanjing Huawen is limited to two years from its date of registration on November 29, 2019, therefore we will cease to hold the VIE Minority Interests through Jiangsu Strawbear after November 28, 2021. Until then, we will closely monitor the VIE Minority Interests through our relevant internal control measures, which include that, without limitation, (a) major issues in relation to the VIE Minority Interests including any changes in the VIE Minority Interests or any amendments to the partnership agreement of Nanjing Huawen are subject to review and approval of our Board; and (b) our legal and compliance department will work with our financial department to conduct quarterly review on the financial results of the VIE Minority Interests. Furthermore, in the event that we propose to acquire any equity interest in any other company whose business is not subject to foreign investment restrictions under the applicable PRC laws and regulations, we will only do so through our wholly-foreign owned subsidiaries.

Our Directors also believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between Nanjing Strawbear, Jiangsu Strawbear and the Registered Shareholders (as defined below); (ii) by entering into the Exclusive Business Cooperation Agreement with Nanjing Strawbear, which is a PRC subsidiary of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

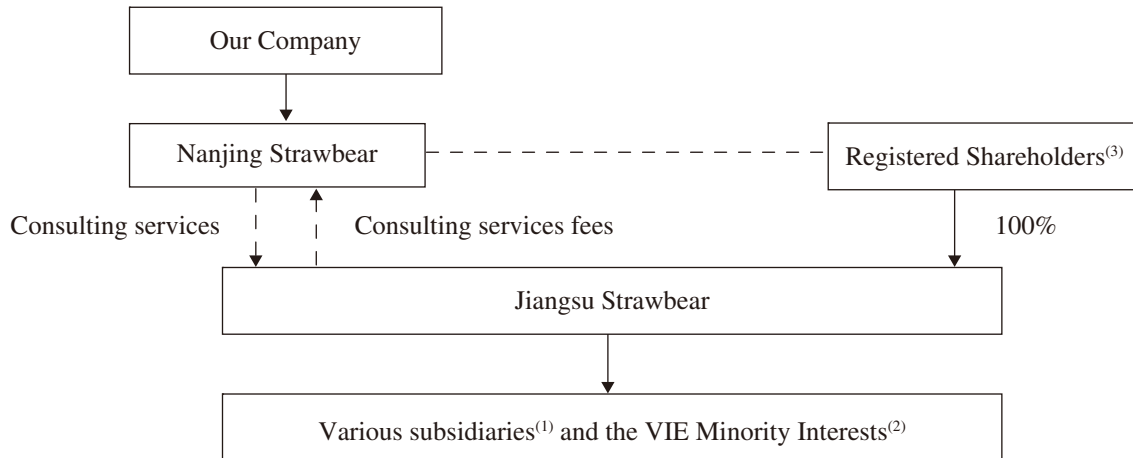
We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment. If we engage in any new business that is not subject to any foreign investment restrictions under the applicable PRC laws and regulations, such new business will be carried out by the wholly-foreign-owned enterprises of our Group or their subsidiaries after the Listing.

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For further details of the licensing and approval requirements applicable to the Relevant Businesses under the PRC laws and regulations, see “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes.”

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The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



Notes:

—> denotes direct legal and beneficial ownership in the equity interest.

-> denotes contractual relationship.

- - - denotes the control by Nanjing Strawbear over our Consolidated Affiliated Entities through (i) powers of attorney to exercise all shareholders’ rights in Jiangsu Strawbear, (ii) exclusive options to acquire all or part of the equity interests in Jiangsu Strawbear and (iii) equity pledges over the equity interest in Jiangsu Strawbear.

(1) These include Horgos Strawbear, Beijing Strawbear and Nova Film.

(2) These refer to the 18.31% partnership interests held by Jiangsu Strawbear in Nanjing Huawen.

(3) As of the Latest Practicable Date, Jiangsu Strawbear was held as to 100% by the following persons (collectively, the “Registered Shareholders”):

Shareholder	Registered capital (RMB)	Percentage of shareholding
Mr. Liu	7,790,000	77.9%
Ms. Liu	2,000,000	20.0%
Ms. Zhao	100,000	1.0%
Ms. Zhang	100,000	1.0%
Ms. Zhai	10,000	0.1%
Total	10,000,000	100%

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Exclusive Business Cooperation Agreement

Nanjing Strawbear and Jiangsu Strawbear entered into an exclusive business cooperation agreement on November 20, 2018 which was amended and restated on February 20, 2019 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which, in exchange for a service fee, Nanjing Strawbear agreed to provide Jiangsu Strawbear and its controlled subsidiaries with comprehensive management consulting services, including but not limited to:

- providing technical support and business consultation services;
- providing brand placement marketing agent and marketing consultation services;
- providing intellectual properties licensing;
- providing human resource management services;
- providing financial support permitted under applicable PRC laws and regulations;
- other services reasonably requested by Jiangsu Strawbear and its controlled subsidiaries, permitted under applicable PRC laws and regulations.

The service fee under the Exclusive Business Cooperation Agreement shall consist of 100% of the total consolidated profits of Jiangsu Strawbear and its controlled subsidiaries under HKFRS, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions, and Nanjing Strawbear has the right to adjust the service fee at any time based on the complexity, actual time required, content and commercial value of the services provided to Jiangsu Strawbear and market price of services of the same nature.

Nanjing Strawbear shall entrust the above services to Jiangsu Strawbear on an exclusive basis, which means that not only does Jiangsu Strawbear agree to accept the above services provided by Nanjing Strawbear, it also agrees that, during the term of the Exclusive Business Cooperation Agreement, without prior written consent of Nanjing Strawbear, Jiangsu Strawbear shall not and shall procure its subsidiaries not to accept professional consultancy and services provided by any third party other than the cooperating banks, that are identical or similar to the services contemplated in the Exclusive Business Cooperation Agreement so as to wholly or partially invalidate the rights and obligations of Nanjing Strawbear to provide services to Jiangsu Strawbear in accordance with the terms of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement shall be effective upon execution and shall remain valid for 10 years. Subject to compliance with the Listing Rules, the Exclusive Business Cooperation Agreement shall be automatically renewed for a term of 10 years upon its expiration, unless terminated in accordance with the terms therein.

Exclusive Option Agreement

Nanjing Strawbear, Jiangsu Strawbear and the Registered Shareholders entered into an exclusive option agreement on November 20, 2018 which was amended and restated on February 20, 2019 (the “**Exclusive Option Agreement**”), pursuant to which Nanjing Strawbear (or its designees) was granted an

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irrevocable, unconditional and exclusive right (the “**Exclusive Option Rights**”) to purchase from the Registered Shareholders all or any part of their equity interests in Jiangsu Strawbear for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Registered Shareholders shall return any amount of the purchase price they have received to Nanjing Strawbear or its designees. Upon receiving the notice issued by Nanjing Strawbear (or its designees) to exercise their Exclusive Option Rights (the “**Notice**”), the Registered Shareholders and Jiangsu Strawbear will take all necessary actions to engage in and complete the approval, filing, or registration procedures with regulatory authorities without any delay, so that the relevant equity interest in Jiangsu Strawbear as set out in the Notice, without any security interest attached to them, can be effectively registered under the name of Jiangsu Strawbear (or its designees).

Jiangsu Strawbear and the Registered Shareholders, separately and jointly, irrevocably covenant and warrant, among other things, that they:

- shall not supplement, change, or amend the business scope and the articles of association of Jiangsu Strawbear, or increase or reduce the registered capital of Jiangsu Strawbear, or otherwise change the structure of the registered capital of Jiangsu Strawbear, or separate, dissolve or otherwise change the corporate form of Jiangsu Strawbear, without prior written consent of Nanjing Strawbear;
- shall maintain the standing of Jiangsu Strawbear, operate its business and handle its affairs prudently and effectively, in accordance with good financial and commercial standards and practice, and shall procure Jiangsu Strawbear to perform the obligations under the Exclusive Business Cooperation Agreement;
- shall not sell, transfer, gift, mortgage, or otherwise dispose of, create any encumbrance over the legitimate interest or beneficial interest of any assets, business, or incomes of Jiangsu Strawbear (other than disposal of any asset with a value of less than RMB1 million for daily operation purposes only) at any time since the date of the Exclusive Option Agreement, without prior written consent of Nanjing Strawbear;
- unless required by PRC laws and regulations, Jiangsu Strawbear shall not be dissolved or liquidated without the consent of Nanjing Strawbear;
- shall not incur or allow the incurrence of any debts to Jiangsu Strawbear, unless (i) the debts are incurred in normal or ordinary course of business; or (ii) the debts have been disclosed to and consented (in writing) by Nanjing Strawbear;
- shall operate Jiangsu Strawbear in the ordinary course of business so as to maintain Jiangsu Strawbear’s asset value, and shall not carry out any action or omission which may affect the operational situation or asset value of Jiangsu Strawbear;
- shall not cause Jiangsu Strawbear to enter into any material contracts with the amount exceeding RMB5 million without prior written consent of Nanjing Strawbear (except for contracts entered into in the normal course of business and contracts entered into between Jiangsu Strawbear and the offshore holding company of Nanjing Strawbear or its subsidiaries);

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- shall not provide any loan or guarantee to any person without prior written consent of Nanjing Strawbear;
- shall, at the request of Nanjing Strawbear, provide, among others, all information on the operation and financial conditions of Jiangsu Strawbear;
- shall purchase and maintain insurance over the assets and business of Jiangsu Strawbear from an insurance carrier acceptable to Nanjing Strawbear, at an amount and type of coverage typical for companies carrying on similar businesses in the PRC;
- procure or consent to the spin-off of Jiangsu Strawbear, or the merger or the association with, or the investment into any entity by Jiangsu Strawbear;
- shall immediately notify Nanjing Strawbear of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the assets, business and revenue of Jiangsu Strawbear, and take all necessary measures in accordance with the reasonable request of Nanjing Strawbear;
- shall, for the purpose of safeguarding Jiangsu Strawbear of its ownership over its assets, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate claims or raise necessary and appropriate defenses against all claims;
- acknowledge, in the event that Jiangsu Strawbear or any of its shareholders fails to fulfill his/her/its tax obligations under applicable laws, leading to an impediment on the exercise of the Exclusive Option Rights by Nanjing Strawbear, Nanjing Strawbear has the right to request Jiangsu Strawbear or its shareholders to fulfill such tax obligation, or request Jiangsu Strawbear or its shareholders to pay such amount of tax to Nanjing Strawbear such that Nanjing Strawbear shall pay such amount on behalf of Jiangsu Strawbear or its shareholders; and
- shall not, without prior written consent of Nanjing Strawbear, in any manner distribute dividends, distributable interests, and/or any other income arising from any assets or shares held by the Registered Shareholders; provided that, upon written request of Nanjing Strawbear, Jiangsu Strawbear shall immediately distribute all distributable interests to its shareholders.

The Registered Shareholders, separately and jointly, irrevocably covenant and warrant that, without prior written consent of Nanjing Strawbear, they shall, among other things:

- not sell, transfer, pledge, or otherwise dispose of, or allow any encumbrance to be placed on the legitimate or beneficial interest of any share of Jiangsu Strawbear held by them, except the pledge set on the shares of Jiangsu Strawbear in accordance with the Equity Pledge Agreement;

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- not vote in favor of or support or execute any resolutions on meetings of shareholders and/or board meetings of Jiangsu Strawbear to approve to sell, transfer, pledge, or otherwise dispose of the legitimate or beneficial interest of any share, or to allow any encumbrance (except the pledge set on the shares of Jiangsu Strawbear in accordance with the Equity Pledge Agreement) to be placed on it;
- not vote in favor of or support or execute any resolutions on meetings of shareholders and/or board meetings of Jiangsu Strawbear to approve the merger, partnership, joint venture or the association with, or the investment into any entity by Jiangsu Strawbear, or the separation, amendment of articles of association, or the change in registered capital or corporate form of Jiangsu Strawbear; and
- procure Jiangsu Strawbear to hold the meeting of shareholders and/or board meeting in a timely manner and vote in favor of the transfer of the purchased shares purchased under this Agreement.

Should the events of default (as provided in the Exclusive Option Agreement) by Jiangsu Strawbear or the Registered Shareholders occur, unless otherwise required by PRC laws and regulations, Nanjing Strawbear shall have the right to terminate the Exclusive Option Agreement and require Jiangsu Strawbear or the Registered Shareholders to compensate for the damages.

Equity Pledge Agreement

Nanjing Strawbear, Jiangsu Strawbear and the Registered Shareholders entered into an equity pledge agreement on November 20, 2018 which was amended and restated on February 20, 2019 (the “**Equity Pledge Agreement**”), pursuant to which the Registered Shareholders agreed to pledge all of their respective equity interest in Jiangsu Strawbear to guarantee the performance of the obligation of, and the representations, undertakings, and warrants provided by Jiangsu Strawbear and the Registered Shareholders under the Contractual Arrangements.

The pledge under the Equity Pledge Agreement shall take effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until the earlier of: (i) the last secured debt and contractual obligations guaranteed by the pledge are fully paid and fulfilled; (ii) Nanjing Strawbear decides to purchase all the equity interests of Jiangsu Strawbear held by the Registered Shareholders in accordance with the Exclusive Option Agreement permitted by PRC law, the Registered Shareholders’ equity interests Jiangsu Strawbear has been transferred to Nanjing Strawbear and/or its designated party, and Nanjing Strawbear, its subsidiaries and branches can legally engage in the business of Jiangsu Strawbear; (iii) Nanjing Strawbear unilaterally requests to terminate this agreement; and (iv) termination in accordance with applicable PRC laws and regulations. The registration of the pledge of equity interests has been completed as of April 2020 in accordance with the terms of the Equity Pledge Agreement and the applicable PRC laws and regulations.

Should the events of default (as provided in the Equity Pledge Agreement) occur, unless satisfactorily rectified within 30 days after Nanjing Strawbear requests rectification in writing, Nanjing Strawbear shall have the right to require the Registered Shareholders and/or Jiangsu Strawbear to immediately pay all outstanding payments due and payable under the Exclusive Business Cooperation Agreement, all arrears under transaction agreements and all other payments due and payable to Nanjing Strawbear, and/or repay the loan, and/or dispose of the pledged equity in accordance with the Equity Pledge Agreement and/or to the extent permitted by law.

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Voting Rights Proxy Agreement and Powers of Attorney

Nanjing Strawbear, Jiangsu Strawbear and the Registered Shareholders entered into a voting rights proxy agreement on November 20, 2018 which was amended and restated on February 20, 2019 (the “**Voting Rights Proxy Agreement**”) with an annexure of the powers of attorney (the “**Powers of Attorney**”) executed by the Registered Shareholders, pursuant to which the Registered Shareholders unconditionally and irrevocably appoint Nanjing Strawbear and its designees as their attorney-in-fact, to exercise all the rights that they have as the shareholders of Jiangsu Strawbear as set out in the then-valid articles of association of Jiangsu Strawbear, including but not limited to:

- proposing to convene and attend the general meeting of shareholders, executing meeting minutes and resolutions, exercising voting rights on all matters that need to be discussed and resolved in the general meeting of shareholders (including but not limited to the appointment, election, or removal of the legal representative, directors, supervisors, and senior management of Jiangsu Strawbear) of Jiangsu Strawbear, and executing any documents that need to be executed by the shareholders of Jiangsu Strawbear and submitting any document to the company registration authority for filing purposes;
- resolving on the disposals of the assets of Jiangsu Strawbear;
- resolving on the bankruptcy, dissolution and liquidation of Jiangsu Strawbear, and distribute the remaining assets after the bankruptcy, liquidation, dissolution or termination of Jiangsu Strawbear;
- deciding to transfer, pledge or dispose of the shares held by the Registered Shareholders;
- deciding to submit and register documents related to Jiangsu Strawbear to government departments; and
- other shareholders’ rights stipulated by applicable PRC laws and regulations (including the amendments, modifications, supplements, and re-enactments, whether entering into force before or after the execution of the Voting Rights Proxy Agreement and Powers of Attorney) and the articles of association (as amended) of Jiangsu Strawbear.

The Registered Shareholders undertook that they will not revoke the appointment of Nanjing Strawbear and its designees as their attorney-in-fact, and there are no potential conflicts of interest in relation to such appointment.

The Voting Rights Proxy Agreement and Powers of Attorney shall be effective upon execution, and shall remain effective ever after, until Nanjing Strawbear unilaterally terminates the Voting Rights Proxy Agreement and Powers of Attorney or all of the Registered Shareholders’ equity interests in Jiangsu Strawbear have been legally and effectively transferred to Nanjing Strawbear and/or its designees.

Spouse Undertakings

The spouse of each of the Registered Shareholders, where applicable, has signed an undertaking (collectively, the “**Spouse Undertakings**”) to the effect that, among others, (i) the shares of Jiangsu Strawbear held and to be held by each of the Registered Shareholders do not fall within the scope of communal properties; and (ii) he or she waives any rights or interests that may be granted to him or her under the applicable laws of any jurisdictions, and he or she undertakes not to claim such rights or interests.

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The spouse of each of the Registered Shareholders, where applicable, has also consented to the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement, the Equity Pledge Agreement and the Voting Rights Proxy Agreement and Powers of Attorney. Our PRC Legal Advisors are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of any relevant individual Registered Shareholders; and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and Nanjing Strawbear or our Company can still enforce their right under each of the agreements under the Contractual Arrangements (the “**Structured Contracts**”) against the Registered Shareholders.

Confirmation from the Registered Shareholders

Each of the individual Registered Shareholders undertakes to Nanjing Strawbear that, in the event of death, incapacity, divorce, or other circumstances regarding the Registered Shareholders which may affect the exercise of his or her direct or indirect equity interests (together with any other interests therein) in Jiangsu Strawbear, the Registered Shareholder’s respective spouse, successor, custodian, creditor, and any other person/entity which may as a result of the above events claim rights or other benefits on the equity interests (together with any other interests therein) in Jiangsu Strawbear directly or indirectly shall not prejudice or hinder the enforcement of the Contractual Arrangements.

Dispute Resolution

Each of the Structured Contracts stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party’s request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then-effective arbitration rules. The arbitration shall be conducted in Beijing. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Structured Contracts also provides that (i) the arbitral tribunal may award remedies over the equity interests or assets of Jiangsu Strawbear, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Jiangsu Strawbear; and (ii) the courts of the PRC, Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and other jurisdictions (being the places where the principal assets of Nanjing Strawbear or Jiangsu Strawbear are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of Jiangsu Strawbear.

However, our PRC Legal Advisors have advised that (i) the agreement that the relevant arbitration organization can make an award according to its authority and require the dissolution of Jiangsu Strawbear may not be implemented in accordance with the current PRC laws; (ii) interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and (iii) even if the above mentioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid, and binding on the parties to the agreement under the Contractual Arrangements.

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As a result of the above, in the event that Jiangsu Strawbear or any of the Registered Shareholders breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. For further details, see “Risk Factors — Risks Relating to Our Contractual Arrangements.”

Succession

The provisions set out in the Structured Contracts are also binding on the successors of the Registered Shareholders, as if the successors were signing parties to the Structured Contracts. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents, and the maternal grandparents, and any breach by the successors would be deemed to be a breach of the Structured Contracts. In case of a breach, Nanjing Strawbear can enforce its rights against the successors.

Conflicts of Interests

The Registered Shareholders have undertaken that, during the period that the Structured Contracts remain effective,

- (a) they shall not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into with Nanjing Strawbear and its designees or Jiangsu Strawbear, (b) they shall not commit or refrain from committing any act that may lead to any conflicts of interest between the Registered Shareholders and Nanjing Strawbear (including its shareholders), and (c) in the event of the occurrence of a conflict of interests (where Nanjing Strawbear has the sole absolute discretion to determine whether such conflict arises), they shall take appropriate measures upon the consent of Nanjing Strawbear and its designees to eliminate such conflicts, failing which Nanjing Strawbear has the right to exercise the option under the Exclusive Option Agreement; and
- unless otherwise agreed to by Nanjing Strawbear in writing, they will not (a) directly or indirectly participate or engage in any business which is or may potentially be in competition with the businesses of Jiangsu Strawbear or any of its subsidiaries, (b) be employed by an entity whose operation is or may potentially be in competition with the businesses of Jiangsu Strawbear or any of its subsidiaries or hold interest in or assets of such entities, save that ownership of an equity interest of up to 5% is permitted, where Nanjing Strawbear has the sole absolute discretion to determine whether such conflict arises.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company and Nanjing Strawbear is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Pursuant to the Exclusive Business Cooperation Agreement, Nanjing Strawbear agrees to enjoy and bear all economic benefits and risks arising from any business of Jiangsu Strawbear during the term of the agreement. In case of any operation losses or serious business difficulties of Jiangsu Strawbear, Nanjing Strawbear shall provide

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financial support to Jiangsu Strawbear. Only Nanjing Strawbear has the right to decide whether Jiangsu Strawbear shall continue to operate, and Jiangsu Strawbear shall unconditionally acknowledge and agree with the decision of Nanjing Strawbear.

In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the Relevant Licenses, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of liquidation, Jiangsu Strawbear shall sell all of its assets (after deducting the liquidation fee, employees' salary, social insurance fee, mandatory compensation fee, outstanding tax, and other debts payable by Jiangsu Strawbear) to the extent permitted by PRC laws to Nanjing Strawbear or its designees, at the lowest selling price permitted by applicable PRC laws. Any obligation for Nanjing Strawbear to pay Jiangsu Strawbear as a result of such transaction shall be waived by Jiangsu Strawbear and any profits arising from the above transaction shall be paid to Nanjing Strawbear or its designees under the Exclusive Option Agreement, as applicable under the then current PRC laws.

Insurance

Our Company do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Company's Confirmation

As of the Latest Practicable Date, the Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the foregoing, our PRC Legal Advisors are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations, and that:

- (i) each of Jiangsu Strawbear and Nanjing Strawbear is an independent legal entity which is duly established, and their respective establishment is valid and effective and complies with the relevant PRC laws and regulations;
- (ii) parties to each of the Structured Contracts have obtained all necessary approvals and authorizations to execute and perform the Structured Contracts, and are entitled to execute the agreements and perform their respective obligations thereunder;
- (iii) none of the Structured Contracts would be deemed as "concealment of illegal intentions with a lawful form" and void under the PRC Contract Law, or violates any provisions of the articles of association of Jiangsu Strawbear or Nanjing Strawbear;

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- (iv) according to the interviews with Jiangsu Provincial Radio and Television Administration, Horgos Bureau of Culture, Sports, Radio, Television and Tourism and NRTA as disclosed below, the parties to each of the Structured Contracts are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
 - (a) the exercise of the option by Nanjing Strawbear of its rights under the Exclusive Option Agreement to acquire all or part of the equity interests in Jiangsu Strawbear are subject to PRC laws and regulations;
 - (b) the share pledge contemplated under the Equity Pledge Agreement shall have been registered with the local administration bureau for industry and commerce; and
 - (c) the arbitration awards/interim remedies provided under the dispute restitution provision of the Structured Contracts shall be recognized by PRC courts before compulsory enforcement; and
- (v) the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are valid, legally binding and enforceable under the PRC laws and regulations, except that the Structured Contracts provide that the arbitral tribunal may award remedies over the equity interests or assets of Jiangsu Strawbear, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Jiangsu Strawbear, and that courts of the PRC, Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and other jurisdictions (being the places where the principal assets of Nanjing Strawbear or Jiangsu Strawbear are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of Jiangsu Strawbear. However, our PRC Legal Advisors have advised that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. For further details, see “— Contractual Arrangements — Dispute Resolution.”

According to the Administrative Provisions on the Production and Distribution of Radio and Television Programs (《廣播電視節目製作經營管理規定》) promulgated by the SARFT on July 19, 2004, became effective on August 20, 2004 and revised on August 28, 2015, the state subjects the establishment of PRC institutions that produce and distribute radio and television programs and engage in the production and distribution of radio and television programs to a permit system. The Radio and Television Programs Production and Operation Permit shall be obtained for establishing PRC institutions that produce and distribute radio and television programs or engaged in the production and distribution of radio and television programs.

According to the Administration Measures for the Filing and Disclosure of the Production of Television Drama (《電視劇拍攝製作備案公示管理辦法》) promulgated by the SARFT on September 22, 2013 and became effective on December 1, 2013, the following institutions may apply for the filing and disclosure of the production of TV dramas: (i) PRC institutions holding the Television Drama Production Permit (Class A); (ii) PRC institutions holding the Radio and Television Programs Production and Operation Permit; (iii) TV stations of the municipal cities; (iv) PRC institutions holding the Permit for Film Production; and (v) institutions qualified for applying for the Television Drama Production Permit

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(Class B). According to the Administrative Provisions for Contents of Television Drama (《電視劇內容管理規定》) promulgated by the SARFT on May 14, 2010 which became effective on July 1, 2010, in order to distribute TV dramas, the PRC TV drama production company should submit application for the Television Drama Distribution License in the PRC.

According to the Negative List, the Relevant Businesses fall within the business sectors of radio and television program production and operating (including import business) companies (廣播電視節目製作經營(含引進業務)公司) where foreign investment is “prohibited” which prohibits foreign-invested enterprises from engaging in such business activities.

Notwithstanding the foregoing, based on the interviews conducted by our PRC Legal Advisors, the Joint Sponsors’ PRC legal advisors and the Joint Sponsors with Jiangsu Provincial Radio and Television Administration and Horgos Bureau of Culture, Sports, Radio, Television and Tourism on June 23, 2020 and July 3, 2020 and the interview conducted by the Joint Sponsors’ PRC legal advisors with NRTA on August 2, 2019, our PRC Legal Advisors have advised us that (i) all of these authorities are competent government authorities for our Company’s principal business activities, and the personnel consulted in the relevant interview are competent and authorized to interpret the relevant PRC laws and regulations for the industry in which our Company operates its business and make the relevant confirmations; (ii) foreign investors are not allowed to directly or indirectly hold any equity interest in a company carrying out TV series, web series and web films production and distribution business; (iii) the execution and performance of the Contractual Arrangements do not require any approval or authorization from the PRC government authorities under the PRC laws and regulations; and (iv) the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisors, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations, and expect for the relevant arbitration clauses as described in “— Contractual Arrangements — Dispute Resolution,” each of the Structure Contracts is enforceable under the PRC laws and regulations.

We have been advised by our PRC Legal Advisors, however, that there is substantial uncertainty regarding the interpretation and application of current and future PRC laws. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Advisors. We have been further advised by our PRC Legal Advisors that if the PRC government finds that the Structured Contracts do not comply with the PRC government restrictions on foreign investment in the relevant business, we could be subject to severe penalties.

We are aware of a Supreme People’s Court ruling (the “**Supreme People’s Court Ruling**”) made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of

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the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations.

Our PRC Legal Advisors are of the view that the Structured Contracts would not be deemed as “concealing illegal intentions with a lawful form” and void such that they also do not fall within circumstance (iv) above under Article 52 of the PRC Contract Law because the Structured Contracts were not entered into for illegitimate purposes. The purpose of the Structured Contracts are (a) to enable Jiangsu Strawbear to transfer its economic benefits to Nanjing Strawbear as service fees for engaging Nanjing Strawbear as their exclusive service provider and (b) to ensure that the Registered Shareholders do not take any actions that are contrary to the interests of Nanjing Strawbear. In accordance with Article 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Structured Contracts have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Structured Contracts, which is to allow our Company to list on the Hong Kong Stock Exchange while obtaining the economic benefits of our Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC Legal Advisors are of the view that the Structured Contracts do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

For further details of the compliance history of our Group, see “Business — Legal Proceedings and Compliance.”

Given that the Structured Contracts will constitute non-exempt continuing connected transactions of our Company upon the Listing, a waiver has been sought from and has been granted by the Hong Kong Stock Exchange, details of which are disclosed in the section headed “Connected Transactions” in this prospectus.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the FIL

On December 23, 2018, the 7th meeting of the 13th Standing Committee of the National People’s Congress reviewed the Draft Foreign Investment Law, which was promulgated by the National People’s Congress on its official website on December 26, 2018 for public consultation until February 24, 2019, and further submitted the second draft of the 2018 draft foreign investment law to the National People’s Congress (the “NPC”) for deliberation on January 29, 2019. On March 15, 2019, the NPC adopted the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the “**FIL**”) at the closing meeting of the second session of the 13th NPC. The FIL took effect on January 1, 2020 and replaced the Law on Chinese-Foreign Equity Joint Ventures (《中外合資經營企業法》), the Law on Chinese-Foreign Contractual Joint Ventures (《中外合作經營企業法》) and the Law on Wholly Foreign-Owned Enterprises (《外資企業法》), became the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council promulgated Regulation on the Implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**FIL Implementing Regulation**”), which came into effect on January 1, 2020.

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Impact and Potential Consequences of the FIL on the Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of the Consolidated Affiliated Entities, through which we operate our business in the PRC. The FIL does not mention concepts including “actual control,” nor does it explicitly stipulate the contractual arrangements as a form of foreign investment. Besides, it does not explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. As advised by our PRC Legal Advisors, provided that no additional laws, administrative regulations, departmental rules or other regulatory documents on contractual arrangements has been issued and enacted, the coming into effect of the FIL does not, by itself, have any material adverse operational and financial impact on the legality and validity of the Company’s Contractual Arrangements.

Furthermore, the FIL stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council.” Although the FIL Implementing Regulation does not expressly stipulate the contractual arrangements as a form of foreign investment, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of the Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and Regulations. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements.”

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Nanjing Strawbear, Jiangsu Strawbear will pay service fees to Nanjing Strawbear. The services fees, subject to the Nanjing Strawbear’s adjustment, are equal to the entirety of the total consolidated profit of Jiangsu Strawbear (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), operating costs, expenses, taxes and other statutory contributions to be reserved or withheld). Nanjing Strawbear may adjust the service scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. Nanjing Strawbear also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, Nanjing Strawbear has the ability, at its sole discretion, to extract all of the economic benefit of Jiangsu Strawbear through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Business Cooperation Agreement and the Exclusive Option Agreement, Nanjing Strawbear has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as Nanjing Strawbear’s prior written consent is required before any distribution can be made; provided that, upon written request of Nanjing Strawbear, Jiangsu Strawbear shall immediately distribute all distributable interests to its shareholders.

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As a result of the Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through Nanjing Strawbear and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in Note 2.1 to the Accountants' Report in Appendix I to this prospectus.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory inquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Nanjing Strawbear and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that our executive Directors, namely Mr. Liu, Ms. Zhang and Ms. Zhai, are also the Registered Shareholders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing our business independently after the Listing under the following measures:

- (i) the decision-making mechanism of our Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of our Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (ii) each of our Directors is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of our Group;

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- (iii) we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (iv) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

OVERVIEW

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

We generate revenue primarily from (i) licensing the broadcasting rights of our self-produced drama series to TV channels, online video platforms or third party distributors; (ii) licensing the broadcasting rights of outright-purchased drama series from online video platforms or drama series producers to TV channels, third party distributors or online video platforms; and (iii) production services for made-to-order drama series per online video platforms' orders.

To satisfy our demand for drama series production, we generally maintain 20 to 30 IP reserves simultaneously in accordance with our internal policy. As of the Latest Practicable Date, in addition to our drama series that had been broadcast and to be broadcast, we had reserved in aggregate 31 IPs, consisting of six original screenplays based on our own initial ideas, and 25 adapted screenplays based on licensed IPs. In the meantime, some of our IPs are also high ranking stories on leading online literature platforms.

We believe our platform business model gives us a competitive advantage over industry peers and empowers us to effectively integrate premium industry resources, such as well-recognized screenwriters, producers, directors and actors, filming and production studios as well as external quality control specialists, into our well-established ecosystem to achieve synergies. Our industry resource integration capability also ensures the quality and success of our drama series, which is evidenced by their audience reception. For example, our self-produced drama series, *The Impossible Mission* (不可能完成的任務) won the Jiangsu Province Government Television Award (江蘇省新聞出版廣電政府獎電視劇獎) from Jiangsu Provincial Administration of Radio and Television. *Treasure Adventure* (國寶奇旅) won the First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎) from Copyright Administration of Jiangsu Province, and Five-one Project Award of Jiangsu Province (江蘇省五個一工程獎) from the Standing Committee of Jiangsu Provincial Committee of the Communist Party of China. *Second Time Is A Charm* (第二次也很美) was the Annual Viewership Ratings Champion during the prime time of Dragon TV in 2019 (二零一九年東方衛視黃金時段年度收視率冠軍). Given our market leadership, close relationship with premium industry resources and quality self-produced drama series, we were the only drama series producer that possessed Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》) in Jiangsu Province as well as one of the 73 holders nationwide as of December 31, 2019, in recognition of our contributions to the drama series industry.

We place high value on the investment in drama series. Our management and project initiation committee keep track of, continuously seek for and make cautious selection in investment opportunities in drama series. As of June 30, 2020, we had invested in an aggregate of 16 drama series that had completed production, among which 11 are our self-produced drama series. We were the sole or largest investor in eight out of 11 of our self-produced drama series that had completed production as of the same date. We have strong distribution capability and have maintained well-established relationships with the

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top five TV channels and top three online video platforms in the PRC. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of the aforementioned eight dominant distribution channels in 2019. Leveraging our strong distribution capability, we are from time to time approached by other developers or producers to assist with the distribution of their drama series. As of the Latest Practicable Date, we had 32 drama series that had been broadcast, and three drama series to be broadcast by the fourth quarter of 2021, including one self-produced drama series and two made-to-order drama series.

We experienced stable growth during the Track Record Period. Our revenue increased from RMB542.9 million in 2017 to RMB679.1 million in 2018 and further increased to RMB765.1 million in 2019.

OUR COMPETITIVE STRENGTHS

We believe our previous success is attributable to the following competitive strengths:

A major drama series producer and distributor

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

Due to our track record in producing quality drama series, we were the only drama series producer that possessed Television Drama Production Permit (Class A) in Jiangsu Province as of December 31, 2019. In addition, only 73 drama series producers had such permit in the PRC, including only 29 non-stated-owned enterprises, as of the same date. As the holder of the Television Drama Production Permit (Class A), we are exempt from application for an individual production permit from the relevant competent authorities for each drama series that we plan to produce, which simplifies the relevant approval procedures of our drama series and accelerates our production process. In addition, according to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on both the top five TV channels, including Jiangsu TV, Zhejiang TV, Dragon TV, Hunan TV and Beijing TV, and the top three online video platforms, including iQIYI, Youku and Tencent Video in 2019. According to the Frost & Sullivan Report, we ranked first among all drama series producers and distributors in terms of the number of the first-run broadcast TV series on the top five TV channels during prime time in 2019 in the PRC. We also ranked sixth among all drama series producers and distributors in terms of the number of drama series broadcast on the top three video online platforms in 2019 in the PRC, according to the same source. In recognition of our achievements in our business innovation and rapid growth, we received various awards, including the Cultural and Technology Enterprise of Nanjing (南京市重點文化科技企業) in 2017 and Gazelle Enterprise of Nanjing (南京市瞪羚企業) granted by Nanjing Municipal People's Government in 2018 in honor of fast growing innovation enterprise. In addition, the drama series that we produced and distributed also won a variety of awards from the TV channels and online video platforms as well as the government. For example, Second Time Is A Charm (第二次也很美) was the Annual Viewer Ratings Champion during the prime time of Dragon TV in 2019 (二零一九年東方

衛視黃金時段年度收視率冠軍) and Treasure Adventure (國寶奇旅) won the First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎) from Copyright Administration of Jiangsu Province. For details about our awards, see “— Awards and Recognitions.”

During the Track Record Period, leveraging our major market position and extensive industry knowledge, we achieved stable growth. During the Track Record Period and up to the Latest Practicable Date, we had an aggregate of 31 broadcast drama series, among which 23 were distributed by us consisting of self-produced and outright-purchased drama series. In addition, as of the Latest Practicable Date, we also had three drama series to be broadcast. Our revenue increased from RMB542.9 million in 2017 to RMB765.1 million in 2019, representing a CAGR of 18.7%.

The PRC drama series market has experienced rapid growth in the past few years, which in turn has also contributed to our sustainable and profitable growth. According to the Frost & Sullivan Report, the size of the drama series market in the PRC, comprising licensing or distribution revenue and advertising revenue, increased at a CAGR of 4.5% from RMB83.0 billion in 2015 to RMB99.1 billion in 2019, and is expected to further increase at a CAGR of 4.1% from RMB99.1 billion in 2019 to RMB121.3 billion in 2024. In particular, as online video platforms are flexible in providing drama series of diversified genres to different groups of audiences that have varying preferences, they have gained great popularity among audiences, thus having higher procurement budgets for drama series, and are becoming a key driver for the drama series market in the PRC. Furthermore, the relevant competent authorities have imposed stricter policies, from the themes, to content production and further to restrictions on talents costs, on the drama series market in the past few years. We have not only extensive industry experiences and regulatory knowledge but also considerable industry resources, both of which enable us to better adapt to the evolving market and capture new opportunities.

We believe that our extensive experiences and major position in the drama series market have well-positioned us to achieve steady growth and will further facilitate us to seize future opportunities and support our profitable growth.

A large and diversified pool of IP rights

We believe that a large and diversified pool of IP rights is one of the backbones of our drama series business. With an emphasis on IP development, we obtain premium IPs from a variety of sources, and generally maintain an adequate level of 20 to 30 IP reserves simultaneously to satisfy our demands for drama series production and distribution. In the meantime, some of our IPs are also high ranking stories on leading online literature platforms.

We develop initial ideas or story concepts based on various sources, such as novels, comics, real-life stories and social events, after predicting the prevalence of the genres and themes of drama series and the popularity of such IP ideas. To cater to the diverse needs of audiences with different preferences, we regularly conduct internal research on various IP topics based on recent market focuses and trends. We then invite reputable screenwriters with experience in and knowledge of that particular genre or theme to create screenplay based on our concept development. Our self-produced drama series developed from our own ideas achieved great success. For example, due to the popularity of our Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), it has been adapted into mobile games and literary works. We have also entered into a licensing agreement with a merchandise manufacturer to produce and launch toys, clothes and home textiles featuring our Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌).

Apart from our own initiatives, we also acquire IPs, including screenplays or creative materials, through various methods, such as acquiring from well-known screenwriters, investing in or acquiring companies that hold quality IPs, or forming strategic partnership with top publishing companies, online literature platforms and other industry players. For instance, we acquired Hangzhou Yide in January 2019, which possesses sizeable premium IP resources. We have also entered into a strategic cooperation agreement with Booky Picture (博集影業), an affiliate of CS-Booky (博集天卷), one of the top publishing companies in China, pursuant to which, we have the preferential right to purchase its quality IPs on a cost-effective basis. Under this strategic cooperation arrangement, Booky Pictures can also participate in the production and distribution of the drama series developed from their IPs. In March 2020, we entered into an IP co-development agreement with Booky Pictures, pursuant to which we and Booky Pictures will jointly invest in, develop and produce the drama series to be developed from the IP, Two Capitals (兩京十五日), and share half of the net licensing fees as specified in the agreement; while we are the sole global distributor and are entitled to the distribution commission in addition to our proportional net licensing fees. Two Capitals is a popular history novel written by Ma Boyong (馬伯庸), whose adaptation right and filming right are acquired by Booky Pictures.

As of the Latest Practicable Date, in addition to the drama series broadcast and to be broadcast, we had engaged screenwriters to create six original screenplays based on our own initial ideas and 25 adapted screenplays based on licensed IPs. As of the Latest Practicable Date, we owned all the copyrights of the screenplays of our six pipeline drama series projects.

We believe our large pool of IP reserves enables us to produce a wide and diversified array of drama series and contributes to the success of our drama series business. We will continue to focus on and benefit from our IP development.

Our platform business model enables us to effectively integrate premium industry resources

Empowered by our platform business model and leveraging our premium industry resources, we can effectively integrate the principal industry participants, such as IP owners, core crew, filming and production studios, external quality control specialists, and distribution channels, into our well-established ecosystem to achieve synergies and industrialization, rather than focus on any single stage of the investment, development, production or distribution in the drama series industry chain.

IP Owners

We maintain well-established relationships with various leading IP owners, including reputable writers and screenwriters, copyright and publishing companies, online literature platforms and other industry players. We select premium IPs that we believe would be of great interest to our customers and audiences from our shortlisted IP owners. Once approved by the internal project initiation committee, we will enter into a licensing agreement with the relevant IP owner to obtain such IP. We generally maintain 20 to 30 IP reserves in a given year in accordance with our internal policy to ensure that our IP reserve can satisfy our demands for drama series production.

Core Crew

Given our strong content production and distribution capabilities, we are able to attract well-known and/or excellent drama series core crew, including screenwriters, directors and actors. Drama series directed or starred by them are popular among TV channels, online video platforms and audiences,

thus enhancing our reputation and financial position. We also invite screenwriters to actively participate in project development and communicate with directors and actors to ensure the artistic value and quality of our drama series. We have maintained well-established cooperation with multiple well-recognized screenwriters, directors and actors, such as Chen Haifei (陳海飛), the screenwriter of Sparrow (麻雀), and Feng Le (馮樂), the producer of Once Upon A Time In Lingjian Mountain (從前有座靈劍山).

Filming and production studios

We have maintained well-established relationships with renowned producers and filming and production studios, enabling us to constantly produce quality drama series that attract audiences with different preferences to meet the diversified procurement demands of TV channels and online video platforms. As of June 30, 2020, we had worked with six drama series filming or production studios, including Mandala Media, a film and drama series production studio founded by industry-recognized producers. We have entered into strategic cooperation agreements with or acquired certain industry-recognized post-production studios to enhance our production capability. For example, we have completed the acquisition of Nova Film, an industry-leading visual arts post-production house as well as one of our five largest suppliers during the Track Record Period. As of June 30, 2020, we had entered into strategic cooperation agreements with two production houses, pursuant to which, they are responsible for providing one-stop post-production services for our drama series. Our internal production team also assign internal quality control staff on site to monitor and supervise the work of the filming and production studios to ensure the quality of our drama series.

External quality control specialists

We believe that the quality of drama series is critical in building up our brand and reputation as well as enhancing our leading industry position. Our quality control of drama series, comprising both internal and external seasoned quality control staff, is one of our core competencies that distinguishes us from other drama series producers and distributors. We invite industry-recognized producers and/or directors to conduct quality control through the entire process of drama series production, from IP selection to filming and further to post-production. These producers and directors are usually from major TV channels, top online video platforms or well-known film studios, who are equipped with extensive industry experiences in drama series production and knowledge of the prevailing trends of the drama series market.

Distribution channels

Since our inception, we have built well-established relationships with various distribution channels, in particular the top five TV channels and the top three online video platforms whose market share, in aggregate, accounted for approximately 71.3% of the PRC drama series market in terms of the number of the first-run broadcast drama series in 2019. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of the top five TV channels and the top three online video platforms in 2019. We provide premium self-produced and outright-purchased drama series to TV channels, enabling them to attract audiences and advertisers. We provide quality and diversified self-produced, outright-purchased and made-to-order drama series to online video platforms, enabling them to attract audiences and enhance user engagement, which in turn generates monetization opportunities. Meanwhile, our well-established relationships with major distribution channels enable us to attract industry-recognized screenwriters, directors and actors as well as producers and production studios to cooperate with us to secure better distribution channels and/or

higher licensing fees for the drama series that they develop or produce. As such, we took charge of the distribution of substantially all of our drama series during the Track Record Period. Besides, benefiting from our well-established relationships with TV channels and online video platforms, we commenced our outright-purchased drama series business in 2017 to help online video platforms further monetize their drama series, by purchasing the broadcasting rights of drama series from online video platforms and sub-licensing such rights to TV channels for broadcasting.

Leveraging our resource integration capability, we can match suitable industry participants with a specific genre of the drama projects that they excel at to achieve synergies and industrialization, which shortens the cycle of drama series development, production and distribution and maximizes the value of our drama series. The industrialization enables us to effectively and efficiently assemble professional market players within the industry chain to achieve process standardization of drama series production. For instance, when we were planning a modern revolution drama series, *Inside Man* (局中人), we directly and instantaneously approached Liu Yu (劉譽), an industry-recognized screenwriter and director with extensive experiences in and knowledge of this genre, to develop and produce this drama series for us. We subsequently selected suitable production studio, which is one of our strategic partners, and external quality control specialist, who was the former assistant to president and a senior project director of one of the top three online video platforms, from our shortlist according to the genre and investment scale of this project. We only spent 11 months from application for public record to the completion of filming for this project benefiting from our industry resource integration capability. We obtained the Television Drama Distribution License (《國產電視劇發行許可證》) for this drama series in December 2019 and broadcast it in June 2020 on two major TV channels, Jiangsu TV and Zhejiang TV, and all of the top three online video platforms. In addition, it usually takes us approximately 17.8 months from Application for Public Record (備案公示申請) to the initial broadcast of our drama series, as compared to an industry average of approximately 22.5 months, according to the Frost & Sullivan Report. We believe our platform business model enables us to break through the scalability-bottleneck in the drama series industry resulting from limited quality resources, and enhances our leading market position by enabling us to produce and/or distribute more drama series than our competitors. According to the Frost & Sullivan Report, we ranked fourth within the industry in the PRC in terms of the number of first-run broadcast TV series produced and/or distributed by us for the three years ended 2019.

Capture the opportunities offered by the rise of online video platforms and produce diversified quality drama series

Online video platforms have experienced rapid growth since their rise in 2014 and we are an early mover in collaborating with online video platforms. Given the diversified content, flexible broadcasting schedules and smart content recommendation based on audiences' preferences provided by online video platforms, they have been gaining wide popularity among audiences and IP owners, and have become a major form of entertainment. According to the Frost & Sullivan Report, the total investment of drama series by online video platforms increased at a CAGR of 21.8% from RMB12.8 billion in 2015 to RMB28.2 billion in 2019, and is expected to further increase at a CAGR of 9.1% to RMB43.5 billion in 2024. Online video platforms have the largest audience base of and the highest procurement budget for drama series, according to the same source. In particular, we have established close relationship with iQIYI since 2014 by licensing the broadcasting right of our self-produced *Legend Of Zu Mountain* (蜀山戰紀之劍俠傳奇). See “Business — Our Customers — Top Customers — Business Relationship with iQIYI” for details regarding our relationship and cooperation with iQIYI.

To better serve and continue to benefit from online video platforms as one of our strategies, we have established four in-house content production studios to serve our major online video platform partners. We provide diversified content developed by ourselves or licensed from our content partners to different online video platforms according to their preferences and specific demands. We have also been exploring new business opportunities in cooperation with online video platforms, from distributing self-produced drama series on online video platforms and firstly introducing the “Online first, TV next” (“先網後台”) broadcasting model, to purchasing the broadcasting rights of drama series from online video platforms and sub-licensing such rights to TV channels to generate monetization opportunities for online video platforms, and further to producing made-to-order drama series for online video platforms to meet their evolving and specific demands for drama series. By doing so, we have not only deepened our relationship and cooperation with online video platforms, but also diversified our revenue sources and lowered the operational risks of a single business resulting from the evolving market and regulatory restrictions. As of the Latest Practicable Date, we had a reserve of four made-to-order drama series that we had entered into the relevant memorandums of understandings or production service agreement with online video platforms, one of which had applied for public record and registered with the local counterparts of the NRTA.

To cater to the preferences of online video platforms and their different groups of audiences, we also strive to produce an array of drama series with different genres and scales of investment. We produce not only top drama series with large scale investment, but also niche drama series at low costs to adapt to online video platforms’ procurement strategy for drama series with different scales of investment. As of June 30, 2020, we had produced two drama series with an investment of over RMB250 million, three drama series with an investment between RMB200 million and RMB250 million, four drama series with an investment between RMB100 million and RMB200 million, and three drama series with an investment under RMB100 million, that were broadcast on online video platforms, consisting of self-produced and made-to-order fantasy drama series. We also produce drama series with different genres and themes to satisfy the preferences of different groups of audiences on different platforms. As of June 30, 2020, we had produced three period fantasy drama series, three war drama series, four romance drama series and two metropolitan drama series, that were broadcast on online video platforms, consisting of self-produced and made-to-order drama series.

Benefiting from the rise of online video platforms and our efforts to explore business opportunities with them, our revenue generated from such platforms accounted for a large portion of our revenue during the Track Record Period. In 2017, 2018, 2019 and the six months ended June 30, 2020, we broadcast a total of one, three, three and four drama series on online video platforms, respectively, with revenue amounting to RMB353.9 million, RMB244.7 million, RMB310.7 million and RMB462.0 million, respectively, which accounted for 65.2%, 36.0%, 40.6% and 79.7%, respectively, of our total revenue in the same periods.

Strong investment and distribution capability

We place high value on the investment in drama series. Our management and project initiation committee keep track of, continuously seek for and make cautious selection in investment opportunities in drama series. As of June 30, 2020, we had invested in an aggregate of 16 drama series that had completed production, among which 11 are our self-produced drama series. As of June 30, 2020, we were the sole or largest investor in eight out of 11 of our self-produced drama series that had completed production.

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We have strong distribution capability arising from our leading market position and well-established relationships with major distribution channels, in particular the top five TV channels and the top three online video platforms. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, with a market share of 6.0%. In 2017, 2018, 2019 and the six months ended June 30, 2020, we distributed two, five, three and three drama series to top five TV channels and/or top three online video platforms. Sound cooperation with distribution channels ensures successful and timely distribution of our drama series. During the Track Record Period, we successfully distributed 18 out of our 19 self-produced and outright-purchased drama series leveraging our strong distribution capability. Meanwhile, it usually takes us no more than six months from obtaining the distribution license to the initial broadcast of the drama series, which is much shorter than the industry average of approximately 12 months. In addition, our strong distribution capability also facilitates us to develop new business models. For example, since 2017, in response to the monetization demand of online video platforms, we have been engaging in outright-purchased drama series business where we generally purchase the broadcasting right of a drama series from online video platforms and sub-license such right to TV channels for their broadcasting. This business model not only generates additional monetization opportunities for online video platforms, but also diversifies our revenue streams and further enhances our cooperation with online distribution channels.

We believe that our strong distribution capability constitutes our core competitiveness, and will continue to guarantee our robust growth.

Visionary and experienced management team

We have a visionary management team boasting a successful track record and rich industry experience in the PRC film and TV industry. In particular, Mr. Liu, our founder and chairman of the Board, has approximately 20 years of experience in the media industry and profound influence in the drama series industry. He has produced and/or distributed more than 20 drama series with over 1,000 episodes, some of which won the annual viewership rating champions of various TV channels, such as Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Second Time Is A Charm (第二次也很美). He is also the first to initiate the “Online first, TV next” (“先網後台”) broadcasting model which introduced a new broadcasting arrangement among distribution channels. Attributable to his deep understanding and accurate prediction of the future trends of the drama series industry in the PRC, Mr. Liu is a first-mover in cooperation with online video platforms, thereby having seized the opportunities brought by the rise of such platforms. He is also the first to have adopted the platform business model to integrate premium industry resources to ensure our rapid and sustainable growth. Our executive Director and chief marketing officer, Ms. Zhang, has approximately 20 years of experiences in the distribution and promotion of drama series. She has distributed more than 20 drama series with over 1,000 episodes since 2000 and is regarded as one of the best individual distributors in the industry. In addition, our management and other core members have an average of more than 15 years of relevant industry experience.

We believe that our management team’s keen insight into the drama series industry and their strong execution track record will continue to guide us to implement our strategies, predict market trends, seize business opportunities, and guarantee our profitable and sustainable future growth.

OUR STRATEGIES

We plan to continue to maintain our leading market position, further take advantage of our platform business model, and explore business innovations. To achieve our goals, we plan to execute the following strategies:

Continue to deepen our platform business model and enhance our production and distribution capabilities

We will continue to deepen the synergies arising intrinsically from our platform business model. Firstly, we plan to obtain more diverse IP resources covering different genres and themes of drama series, through enhanced cooperation with top writers/screenwriters, leading copyright companies and prevailing online literature platforms, to meet the diversified and specific demands of different distribution channels and their respective audiences, which in turn will guarantee our organic growth. Secondly, we plan to deepen our ties with premium filming and production studios on the market by performing our existing long-term strategic cooperation agreements with them or acquiring well-recognized production or post-production studios, to improve our drama series production capabilities. For example, we acquired Nova Film in June 2020, which focuses on visual effects and virtual cinematography as well as research and development of other advanced filming and production technologies. Nova Film is a “high and new technology enterprise” recognized by the local governmental authority and has developed a series of advanced production infrastructure, such as green screen background, 3D digital photography and real-time virtual reality production. The acquisition of Nova Film not only ramps up our production capabilities but also diversifies our revenue stream by providing unparalleled post-production services to other film/TV programs producers. We will also actively invite more external quality control specialists with experiences in and knowledge of different industry-verticals to supervise and review our filming and production process and works, to ensure the quality of our drama series of different genres and themes as well as their popularity among audiences of different preferences. Last but not the least, we will continue to strengthen our cooperation with leading distribution channels, mainly the top five TV channels and the top three online video platforms, to enhance our distribution capabilities. We seek to enter into strategic cooperation agreements with outstanding industry players, providing us with the competitive edge in obtaining premium resources.

We believe that our enhanced cooperation with industry players will further strengthen our resource integration capabilities as well as our operational efficiency.

Further expand our business through selective investments, mergers and acquisitions

We plan to make selective investment in or acquisition of companies that can enhance our market position and ramp up our drama series development, production and distribution capabilities. First, we plan to invest in or acquire copyright companies with high-quality and diversified IPs, to meet our production demand to continuously deliver quality drama series on one hand, and to cater to the preferences of audiences from different distribution channels to secure stable growth, on the other hand. Secondly, we plan to invest in or acquire downstream market players engaged in post-production such as special effects and sound editing and short-video promotion companies, to better serve our post-production and promotion needs, thereby reducing the relevant costs and increasing our profitability. Currently we do not have any definite acquisition target. However, we plan to invest in one copyright firm with a valuation of no more than RMB200 million and one post-production firm with a valuation between RMB300 million and RMB500 million, taking into accounts the potential business

growth, track record, industry reputation, advanced production technologies, production capability as well as the expected synergies to be achieved by us. A portion of such investments would be funded by the net proceeds from the Global Offering, with the remaining to be funded by cash inflow from our operations and bank facilities. See “Future Plans and Use of Proceeds — Use of Proceeds.”

As of the Latest Practicable Date, we had not engaged in any negotiation or entered into any letter of intent or agreement for potential acquisitions, nor identified any definite acquisition target. We believe that our continued investments and deployment in the upstream, middle stream and downstream of the drama series industry chain can further enhance our capabilities of drama series development, production and distribution and maintain our profitability.

Continue to further discover potential opportunities from online video platforms and explore business innovation

We will continue to explore opportunities from online video platforms to develop new businesses in terms of cooperation models, drama series innovation and derivative opportunities to diversify our monetization methods. For example, we plan to initiate our copyright licensing business. Under this business model, we will license our IPs to online video platforms at an early stage and provide made-to-order drama series production services to them. In addition, we are also responsible for licensing the broadcasting rights of such drama series to the TV channels. This business model not only ensures us to secure certain amount of the revenue at an early stage and maintain our sufficient liquidity, but also entitles us to TV channels distribution rights from which we can share part of the licensing fees of such drama series, apart from only production fees for providing production services to online video platforms. In the future, we also plan to produce new types of drama series such as interactive dramas and vertical screen dramas, based on the evolving needs of audiences on online video platforms. In view of the quality production and the attention catching genres and content of the PRC drama series, certain of them gained popularity overseas, especially among the overseas Chinese community. We plan to follow the online video platforms’ step to tap into overseas markets. As of the Latest Practicable Date, we had conducted a survey of overseas drama series markets, including user preference of themes and genres as well as the comparison of the drama series industries among our target markets, and began to purchase the relevant IPs, develop screenplays and set up filming and production teams. At the initial stage of our overseas expansion, we plan to select domestic actors and production studios for our overseas drama series production so as to better control costs and thereby minimize the risk of new business expansion.

We believe that with the continuous innovation of, and our well-established relationship with, online video platforms, we will be able to offer more diverse business and services, thus generating more monetization opportunities and maintaining sustainable growth.

Continue to attract and retain talented professionals

We believe that professionals from each stage of drama series investment, development, production and distribution play an important role in our business expansion. To ensure smooth and stable operation of our business, we plan to further recruit seasoned professionals in support of project initiation, production and financial management, marketing and promotion, quality control as well as completion and delivery management through internal recommendation, headhunting and other available means:

- *Project initiation:* We plan to further recruit seasoned professionals for project initiation to identify suitable IPs for drama series development, assess script and project feasibility, plan budgets, and search for suitable production studios.

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- *Production and financial management:* We plan to further recruit industry-recognized producers to supervise and guide the entire production process of our drama series. We also plan to recruit young producers that have knowledge of drama series with emerging themes, enabling us to catch the attention of the youngsters to continue to benefit from the evolving online video platforms, which in turn will provide us with continuous organic growth. In the meantime, we plan to recruit professional finance staff to further standardize our finance process and enhance our cost control and payment collection management capability.
- *Marketing and promotion:* We plan to expand our marketing and promotion team to effectively execute our marketing strategies, with a view to promoting our brand recognition and the impact of our drama series.
- *Quality control and completion and delivery management:* Quality control is part of our core competitiveness. We will continue to recruit quality control personnel specializing in different genres of drama series to ensure the quality of our drama series and their production process. Moreover, we also plan to improve our management of completed drama series and the delivery efficiency of master cassettes, so that we can determine the broadcast time slots of our completed series on TV channels and/or online video platforms as soon as possible.

In addition, to maintain our talents and encourage their loyalty, we plan to further improve our compensation and promotion system to incentivize our employees.

OUR BUSINESS MODEL

Overview

We primarily engaged in the investment, development, production and distribution of drama series in China, including both TV series and web series, during the Track Record Period.

During the Track Record Period, we generated revenue from the following business lines:

- *Licensing of broadcasting rights of self-produced drama series (自製劇集播映權許可).* During the Track Record Period, we primarily generated revenue from the licensing fees for licensing the broadcasting rights of our self-produced drama series to TV channels, online video platforms and sometimes third party distributors;
- *Licensing of broadcasting rights of outright-purchased drama series (買斷劇集播映權許可).* We also licensed the broadcasting rights of outright-purchased drama series from online video platforms and drama series producers to TV channels, third-party distributors and sometimes online video platforms and collected the licensing fees during the Track Record Period;

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- *Made-to-order drama series production (定制劇集承製)*. To capture the growth of the online video platforms and diversify our revenue sources, we started to undertake drama series production per online video platform's order since 2017, where the online video platform is responsible for investing in, developing and distributing such web series and we are entitled to production service fees; and
- *Others*. We also generated a small portion of our revenue from (i) the net licensing fees received from investment in drama series as a non-executive producer; and (ii) IP derivatives, such as licensing of adaptation rights of our self-produced drama series to online gaming companies to produce role play games, and product placement for advertisers, during the Track Record Period.

The table below sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,						
	2017	2018	2019	2019	2020					
	<i>(RMB in thousands, except percentages of revenue)</i>									
	<i>(Unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	95,804	17.6%	445,295	65.6%	571,412	74.7%	459,388	70.9%	480,848	83.0%
Licensing of broadcasting rights of outright-purchased drama series	423,061	77.9%	224,174	33.0%	183,272	24.0%	183,272	28.3%	2,288	0.4%
Made-to-order drama series production	5,178 ⁽²⁾	1.0%	-	-	-	-	-	-	84,906	14.6%
Others ⁽¹⁾	18,821	3.5%	9,640	1.4%	10,413	1.3%	5,085	0.8%	11,790	2.0%
Total	542,864	100.0%	679,109	100.0%	765,097	100.0%	647,745	100.0%	579,832	100.0%

Notes:

- (1) Others primarily comprise revenues from (i) net licensing fees received from investment in drama series as a non-executive producer; and (ii) IP derivatives, such as online games, and product placements for advertisers.
- (2) Represented production service fees we charged for made-to-order drama series *A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記)*, the revenue of which was recognized over time until completion of the production in 2017. See "Financial Information — Description of Key Statement of Profit or Loss — Gross Profit and Gross Profit Margin — Made-to-order Drama series."

The drama series that we produce and/or distribute are categorized into either TV series or web series. TV series need to obtain the Television Drama Distribution License and can be broadcast on both TV channels and online video platforms; while web series can only be broadcast on online video platforms.

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The table below sets forth the number of our broadcast drama series by category and business line for the periods indicated:

	Year ended December 31,			Subsequent to December 31, 2019 and up to the Latest Practicable Date
	2017	2018	2019	
TV series				
Self-produced drama series	2	2	3	3
Outright-purchased drama series	3	3	2	5
Made-to-order drama series	–	–	–	3
Others ⁽¹⁾	1	2	–	1
Sub-total	6	7	5	12
Web series				
Made-to-order drama series	–	1	–	–
Total	6	8	5	12

Note:

- (1) Others represent three co-financed drama series where we act as a non-executive producer and one drama series where we act as a distribution agent.

We broadcast 32 drama series in total since our inception and up to the Latest Practicable Date, among which, two drama series were initially broadcast prior to the Track Record Period and the remaining 30 drama series were initially broadcast during the Track Record Period and up to the Latest Practicable Date. One of our self-produced drama series, The Impossible Mission (不可能完成的任務), was broadcast and generated revenue both prior to and during the Track Record Period, as a result of which, we broadcast a total of 31 drama series during the Track Record Period and up to the Latest Practicable Date, including both first-runs and re-runs. The rapid growth in the number of our drama series from pre-Track Record Period to 2017 was primarily because (i) we commenced operations since June 2014 and were in the process of developing a total of four self-produced drama series in 2015 and 2016, with only two initially broadcast prior to the Track Record Period and the remaining two initially broadcast in 2017 and 2018, respectively; and (ii) we commenced the business of licensing of the broadcasting rights of outright-purchased drama series in 2017, which required less financial and human resources as compared to self-produced drama series.

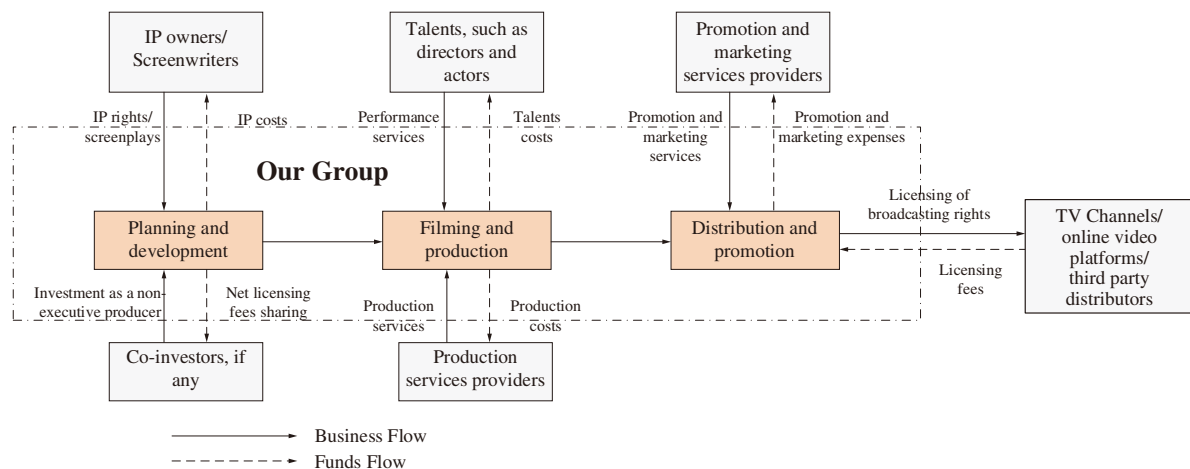
Licensing of Broadcasting Rights of Self-produced Drama Series

We commenced producing our own drama series and licensing the related broadcasting rights of these self-produced drama series to major TV channels, top online video platforms and sometimes third party distributors since our inception. Substantially all of our self-produced drama series are broadcast on both TV channels and online video platforms. In 2015, we were the first to introduce the broadcasting

model of “Online first, TV next” (“先網後台”) for our self-produced drama series in the market, with Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) broadcasting initially on iQIYI and subsequently distributing to Anhui TV. This broadcasting model, on one hand gives us more flexibility and discretion in arranging the broadcasting time slots based on the market conditions, and on the other hand, enhances and deepens our relationship with top online video platforms as they were becoming a more prevalent and efficient content distribution channel. We charge TV channels and online video platforms for broadcasting, and third party distributors for sub-licensing, our self-produced drama series, while we pay (i) IP costs to IP owners or screenwriters for their copyrights; (ii) service fees to talents, such as directors and actors, and to third party production service providers, such as filming and production studios; and (iii) marketing and promotion fees to marketing agencies for the relevant promotional services they provide. We outsourced part of the filming, post-production and promotional work to third party service providers that are equipped with appropriate experiences and resources, while we take control of the production management and oversee the whole production process.

Our self-produced drama series are developed either solely by ourselves or jointly with Independent Third Party investors under a co-investment arrangement. Under the co-investment arrangement, we act as the executive producer and take lead in the production and distribution of such drama series. We are responsible for initiating the development, overseeing the production process, and promoting the distribution of such drama series, while our co-investors generally play a passive role with limited involvement, such as production budgets review. We share with our co-investors the net licensing fees generated from licensing of broadcasting rights of our self-produced drama series after deduction of the relevant costs and expenses and/or distribution commission pursuant to our percentage of investment specified in the co-investment arrangements. We primarily collaborate with co-investors that are major industry players, such as TV channels and other competitive drama series producers. As of June 30, 2020, among our self-produced drama series that had completed production, one drama series was independently produced by us, and 10 drama series were produced under the co-investment arrangements in which we acted as the executive producer.

The chart below illustrates the business model of our business of licensing of broadcasting rights of self-produced drama series:



See “— Our Business Process” for more details regarding the value chain participants.

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We distributed two, two, three and two self-produced drama series for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We generated revenue from licensing of broadcasting rights of these self-produced drama series of approximately RMB95.8 million, RMB445.3 million, RMB571.4 million and RMB480.8 million, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, accounting for approximately 17.6%, 65.6%, 74.7% and 83.0%, respectively, of our total revenue for the same periods.

The table below sets forth the breakdown of our revenue from licensing of broadcasting rights of self-produced drama series by distribution channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of revenue)</i>									
TV channels	54,330	56.7%	196,486	44.1%	173,385	30.3%	173,245	37.7%	69,488	14.5%
Online video platforms	–	–	244,703	55.0%	307,071	53.7%	195,347	42.5%	368,055	76.5%
Third party distributors	41,474	43.3%	4,106	0.9%	90,956	16.0%	90,796	19.8%	43,305	9.0%
Total	95,804	100.0%	445,295	100.0%	571,412	100.0%	459,388	100.0%	480,848	100.0%

Co-investment Arrangements Where We Act as An Executive Producer

Our co-investors are generally PRC companies engaging in drama series investment, production and/or distribution. We enter into co-investment agreements with our co-investors on a project-by-project basis. The salient terms of such agreements are as follows:

- *Details of the drama series:* Generally specify the official or tentative name of the drama series, expected number of episodes and length of each episode, and the total estimated investment. Some of our co-investment agreements also include other details such as the major cast members and the expected production schedule;
- *Investment amount and payment:* The investment amounts to be contributed by co-investors as a percentage of the total estimated investment in the drama series generally vary from 10% to 70%. Such investments are generally paid by co-investors in installments according to the milestone payment schedule set out in the relevant co-investment agreement, generally from signing of the co-investment agreement to completion of post-production;
- *Investment returns:* The co-investors share part of the net licensing fees after deduction of the relevant costs and expenses and/or distribution commission in proportion to the percentage of their investment. In addition to the proportionate licensing fees, we are generally entitled to distribution commission as a percentage of the total licensing fees specified in the co-investment agreements, ranging from 10% to 15%;

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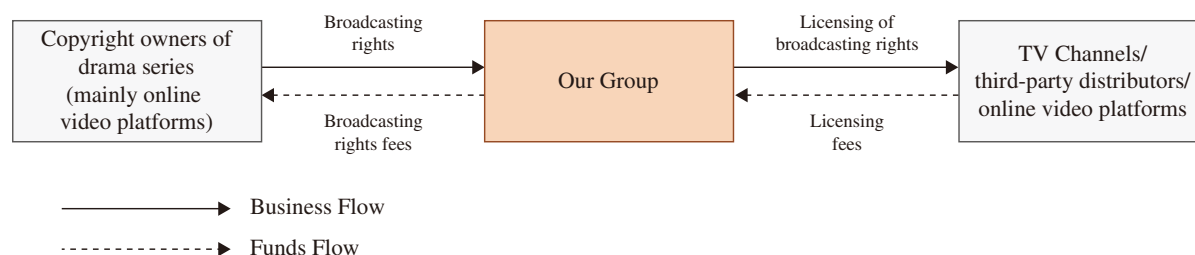
- *Allocation of works among the investors:* Under the co-investment agreements where we act as the executive producer, we are generally responsible for (i) screenplay planning and refinement; (ii) film and production crew assembling; (iii) production management; (iv) submissions of the Application for Content Examination and the Application for Public Record; and (v) promotion and distribution of the drama series, while the co-investors are entitled to limited supervision rights, such as assigning finance staff on-site to monitor project expenditures, and conducting inspections and reviews of project accounts and records;
- *Ownership of IP rights:* The IP rights of the drama series, together with all income and derivatives arising therefrom, shall (i) belong to us, while the co-investors are only entitled to authorship rights; (ii) be jointly owned by the co-investors and us; or (iii) be allocated to us based on our respective percentage of investment, as specified in the relevant agreements;
- *Settlement schedule:* All income derived from the IP rights of the drama series after deduction of expenses and disbursements incurred will be split between us and the co-investors according to the respective percentage of investment, and paid in installments as specified in the co-investment agreements, generally from the receipt of the drama series distribution licenses to a specific date specified in the agreements;
- *Confidentiality:* All investors undertake not to disclose other co-investors' trade secrets or other business information to any third party; and
- *Termination:* The agreement may be terminated by (i) the consent of all parties; (ii) any party in the case of bankruptcy, liquidation, dissolution or ceasing operations of the other parties; and (iii) the non-defaulting party in the event of a material breach of the other parties that is not remedied within a prescribed time period.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

We also purchase the broadcasting rights of drama series from copyright owners which are mainly online video platforms and sometimes drama series producers and license such broadcasting rights of these drama series to TV channels, third-party distributors and sometimes online video platforms. We commenced licensing the broadcasting rights of outright-purchased drama series from online video platforms to TV channels in 2017 as these top online video platforms were exploring more monetization opportunities for their drama series. We conduct our outright-purchased drama series business on a back-to-back basis, and generally purchase the licensing rights of specified drama series from online video platforms pursuant to TV channels' or third party distributors' planned orders. We are able to effectively and efficiently match online video platforms' monetization needs with TV channels' diverse and evolving demand for drama series, leveraging our strong distribution capability and well-established relationship with both online video platforms and TV channels/third party distributors arising from our market leadership as well as Mr. Liu's and Ms. Zhang's industry experiences, reputation and influence. We maintain close and regular communications with the top five TV channels to learn about their diverse and evolving needs for different drama series, such as the genre, theme, investment size, broadcasting schedule, as well as budget. According to Frost & Sullivan, it is uncommon and not economically efficient for leading online video platforms to transact with TV channels directly, as they have to invest substantial time and efforts to learn about TV channels' diverse and evolving needs for different drama

series. By doing so, we have also enhanced our distribution network and business relationship with top online video platforms, which have been dominant in content distribution market and have higher drama series procurement budgets. During the Track Record Period, five out of nine of our outright-purchased drama series were purchased from iQIYI. We generally purchase the first-run TV broadcasting rights of online video platforms' drama series, but may also consider to purchase the re-run drama series taking into accounts its popularity, revenue contribution and profitability. We charge TV channels, third party distributors or online video platforms a fixed-amount licensing fee of each episode for their broadcasting of these outright-purchased drama series and pay a fixed-amount licensing fee of each episode to online video platforms or drama series producers for the broadcasting rights licensed to us.

The chart below illustrates the business model of our business of licensing of broadcasting rights of outright-purchased drama series:



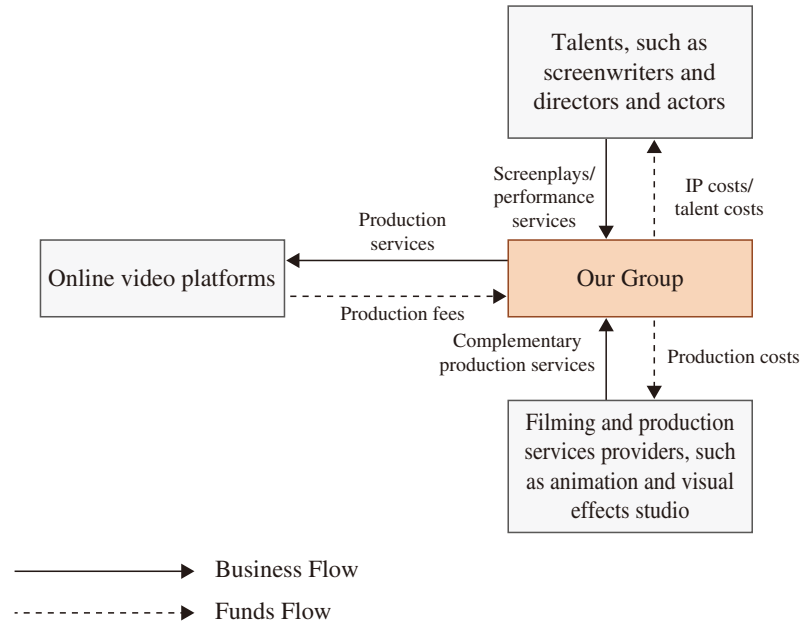
During the Track Record Period, we mainly purchased drama series pursuant to specific orders from TV channels or third-party distributors and sometimes may proactively search for popular drama series in consideration of profitability for such business. We licensed the outright-purchased broadcasting rights to TV channels, third-party distributors or online video platforms of three, three, two and one drama series for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. During the Track Record Period, we purchased five first-run TV broadcasting rights and two first-run online video platform broadcasting rights, as well as two re-run broadcasting rights. We generated revenue from licensing of broadcasting rights of these outright-purchased drama series of approximately RMB423.1 million, RMB224.2 million, RMB183.3 million and RMB2.3 million, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, accounting for approximately 77.9%, 33.0%, 24.0% and 0.4%, respectively, of our total revenue for the same periods.

Made-to-order Drama Series Production

To capture the growth of online video platforms and diversify our revenue sources, in March 2017, we entered into a production service agreement with one of the top three online video platforms and were engaged to undertake the production of *A Legend Of A Modern Man Gets Back To Qin Dynasty* (尋秦記), pursuant to which this top online video platform was responsible for investing in, developing and distributing such web series. This made-to-order drama series was initially broadcast on Youku in January 2018 and its accumulated online video views reached 1.9 billion as of December 31, 2019. We charge online video platforms production fees for provision of the overall production services, including cast talents and filming and production crew assembling, production management and quality control, as well as post-production editing; while we pay IP costs to screenwriters for their screenplays, talent costs to directors and actors for their performance services, and production costs to third party production services providers, such as animation and visual effects studios, for their complementary production services.

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The chart below illustrates the business model of our made-to-order drama series production business:



We commenced production of one, one, four and nil made-to-order drama series for online video platforms for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We expect to continue to provide production services for online video platforms, with a view to maintaining our close relationships with them and benefiting from their increasing demand for web series.

Other Businesses

During the Track Record Period, we also generated a small portion of our revenue from (i) net licensing fees received from investment in drama series as a non-executive producer; (ii) IP derivatives relating to our self-produced drama series, such as online games, and product placement we presented in our drama series for advertisers.

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The table below sets forth a breakdown of our revenue generated from other businesses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of revenue)</i>									
Net licensing fees received from investment in drama series under co-financing as a non-executive producer	13,097	69.6%	8,339	86.5%	4,852	46.6%	4,704	92.5%	4,828	40.9%
Others	5,724	30.4%	1,301	13.5%	5,561	53.4%	381	7.5%	6,962	59.1%
Total	18,821	100.0%	9,640	100.0%	10,413	100.0%	5,085	100.0%	11,790	100.0%

Investment in Drama Series as A Non-executive Producer

Given our well-established relationship with major TV channels and top online video platforms, we are from time to time approached by drama series developers and/or producers that are usually copyright owners to fund, and assist in the distribution of, the drama series produced by them. We enter into co-financing agreements with these drama series developers or producers as a non-executive producer with limited involvement in the production and distribution of such drama series. Compared to the co-investment arrangement where we act as an executive producer, under such co-financing arrangements, we take a passive role, act as a non-executive producer, generally contribute a minority investment and promote the distribution of the drama series. We do not take control of the production process of such drama series, while are entitled to assign (i) finance staff on-site to regularly examine project expenditures, and conduct inspections and reviews of project accounts and records, and (ii) quality control staff on-site to regularly monitor the filming and editing of the drama series. We also conduct marketing and promotional activities, such as press releases, teasers and video clips, print advertisements and buzz marketing on social media platforms, to assist with the distribution of such drama series.

We enter into co-financing agreements with other drama series developers or producers on a project-by-project basis. The salient terms of such co-financing arrangements are as follows:

- ***Details of the drama series:*** The agreement generally sets out the official or tentative name of the drama series, expected number of episodes and length of each episode as well as the total estimated investment. Some of our co-financing agreements also include other details such as the major cast members and the expected production schedule;

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- ***Investment amount and payment:*** The investment amounts to be contributed by us as a percentage of the total estimated investment in the drama series vary from 5.0% to 25.0%. Such investments are generally paid by us in instalments according to the milestone payment schedule specified in the relevant co-financing agreement, generally from signing of the co-financing agreement to obtaining the relevant Television Drama Distribution License;
- ***Investment returns:*** We share part of the net licensing fees after deduction of the relevant costs and expenses and/or distribution commission in proportion to the percentage of our investment;
- ***Allocation of work among the investors:*** Under the co-financing agreements where we act as a non-executive producer, we are generally responsible for the marketing and promotion of the drama series and entitled to assign (i) finance staff on-site to regularly examine project expenditures, conduct inspections and reviews of project accounts and records, and (ii) quality control staff on-site to regularly monitor the filming and editing of the drama series; while the executive producers generally take charge of the development, production and distribution of such drama series;
- ***Ownership of IP rights:*** Typically, the IP rights of the drama series, together with all derivatives and other income arising therefrom, are either wholly owned by the executive producer or jointly owned by the executive producers and us; and
- ***Settlement schedule:*** All income derived from the IP rights of the drama series after deduction of the relevant costs and expenses incurred is split between the executive producers and us according to the respective percentage of investment in instalments specified in the co-investment agreements.

Under the co-financing arrangement, when we are entitled to copyright of the drama series, we record our revenue on a gross basis by sharing part of the licensing fees in proportion to our investment amount; otherwise when we do not have any share in the copyright of the drama series, we record our revenue on a net basis by sharing part of the licensing fees in proportion to our investment amount less such investment amount paid for the relevant drama series. In particular, under the gross method, our investment amount paid to the executive producer is recognized as prepayments under the co-investment arrangements and reclassified as inventories upon the receipt of the Television Drama Distribution License from the NRTA, and such inventories are subsequently recognized in cost of sales at the time when revenue is recognized. Under the net method, we do not record cost of sales and our investment amount paid to the executive producer is recognized as financial assets.

IP Derivatives and Product Placement

During the Track Record Period, we also provided (i) IP derivatives opportunities, such as licensing the adaptation rights of our self-produced drama series to online game developers to produce role play games; and (ii) product placement opportunities for advertisers in a variety of manners such as in-film advertising, purchase of poster space, and participation in our promoting and marketing events.

OUR DRAMA SERIES

Our Broadcast Drama Series Projects

Since our inception and up to the Latest Practicable Date, we had broadcast 31 TV series and one web series. The table below sets forth certain details of our broadcast drama series projects as of the Latest Practicable Date:

No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels
										Year ended December 31,		Six months ended June 30, 2020 License ⁽¹⁾		
										2017	2018			
<i>(RMB million)</i>														
TV Series														
<i>Prior to the Track Record Period</i>														
(1)	Legend Of Zu Mountain (蜀山戰紀之 劍俠傳奇) ⁽²⁾	Self-produced drama series	Period fantasy	Huang Weijie (黃偉傑) Leung Kok Koon Richard (梁國冠) Su Fei (蘇菲) Zhao Liyang (趙麗穎) Chan William (陳偉霆)	54	96.8/88.4%	Production and distribution	Nanjing Jiya (南京吉雅) (2015)	Original	-	-	December 24, 2015	September 22, 2015/ January 16, 2016	iQIYI, Anhui TV, Jiangxi TV, Jiangsu TV, Hubei TV
<i>During the Track Record Period</i>														
(1)	The Impossible Mission (不可能完成的 任務)	Self-produced drama series	Action/war	Yu Zhen (于震) Geng Mingji (耿明吉) Du Xubin (杜修斌) Yu Zhen (于震) Chen Zhan (陳紫涵)	46	20.3/45.0%	Production and distribution	Dongyang Zhenzhi (東陽震之) (2015) Nanjing Jiya (南京吉雅) (2015)	Original	4.5	2.1	February 18, 2016	November 8, 2016	Jiangsu TV, Tianjin TV, Hubei TV, Heilongjiang TV, Guizhou TV, Shaanxi TV, Youku
(2)	Starry April (繁星四月)	Self-produced drama series	Romance	Huang Weijie (黃偉傑) Qi Wei (戚薇) Wu Qilong (吳奇隆)	42	25.9/37.0%	Production and distribution	Omnijoy Media (幸福藍海) (2016) Shanghai Jingxiang (上海景象) (2016)	Original	91.3	2.4	December 29, 2016	April 18, 2017	Jiangsu TV, Anhui TV, Shandong TV, Guizhou TV, Tencent Video
(3)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火 行歌)	Self-produced drama series	Period fantasy	Huang Weijie (黃偉傑) Wu Qilong (吳奇隆) Yu Tingting (雨婷兒) Chen Zheyuan (陳紫璇)	48	171.1/90.0%	Production and distribution	Omnijoy Media (幸福藍海) (2016) Zhejiang Huoshen (浙江火神) (2017)	Original	5.8	255.6	December 15, 2017	January 30, 2018	Zhejiang TV, Guizhou TV, iQIYI

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No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels		
										Year ended December 31,		Six months ended June 30, 2020				
										2017	2018				2019	
						<i>(RMB million%)</i>										
(4)	Mr. Nanny (月魁先生)	Self-produced drama series	Romance	Xu Zongheng (徐宗政) Wu Qilong (吳奇隆) Li Xiaoran (李小冉)	45	108.6/46.0%	Production and distribution	Nanjing Huan'er (南京歡兒) (2016) Haining Qingmang (海寧青芒) (2017) Jiangsu Weiyi (江蘇維意) (2017) Zhongjian Huamei (中華華盟) (2017)	Original	-	186.3	6.3	-	August 15, 2018	August 23, 2018	Dragon TV, Zhejiang TV, Shandong TV, Shenzhen TV, Heilongjiang TV, iQIYI
(5)	Treasure Adventure (國寶奇旅) ⁽³⁾	Self-produced drama series	War/spy	Hua Qing (花菁) Liu Ye (劉燁) Yuan Shanshan (袁珊珊)	42	176.0/80.0%	Production and distribution	Omiqion Media (幸福藍海) (2016)	Original	-	204.7	0.2	October 9, 2018	February 6, 2019	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video	
(6)	Love Journey (一場遇見愛情的旅行)	Self-produced drama series	Romance	Mao Weiming (毛衛明) Chen Xiao (陳曉) Jing Tian (景甜)	52	209.7/56.0%	Production and distribution	Oxin Shiji (奇新世界) (2017) JieCheng Huashi Wangju (捷成華視網聚) (2017)	Original	-	250.2	4.0	March 12, 2019	April 20, 2019	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video	
(7)	Second Time Is A Charm (第二次也很美)	Self-produced drama series	Metropolitan	Chen Mingzhang (陳銘章) Wang Ziwen (王子文) Zhang Luyi (張魯一)	57	72.0/30.0%	Production and distribution	Tencent Pictures (騰訊影業) (2018) Shanghai Yishan (上海耀壹) (2018) Beijing Yijia (北京壹加) (2018)	Original	-	112.7	-	April 18, 2019	November 20, 2019	Dragon TV, iQIYI	
(8)	The Love Lasts Two Minds (兩世歡)	Self-produced drama series	Romance	Yu Cuihua (余翠華) Yu Menglong (于朦朧) Chen Yuqi (陳昱琪)	36	198.0/100.0%	Production and distribution	N/A	Adaptation	-	-	237.7	December 4, 2019	December 21, 2020	iQIYI	
(9)	Inside Man (局中人) ⁽⁴⁾	Self-produced drama series	War/spy	Liu Yu (劉燾) Zhang Yishan (張一山) Pan Yueming (潘粵明)	49	208.4/70.0%	Production and distribution	Shanghai Chengxin (上海橙芯) (2018)	Original	-	-	243.5	December 9, 2019	June 23, 2020	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video	

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No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels	
										Year ended December 31,		Six months ended June 30, 2020			
										2017	2018				2019
						(RMB million/%)									
(10)	Lost Love In Times (醉玲瓏) ⁽⁵⁾	Outright-purchased drama series/ Co-financing arrangement where we act as a non-executive producer	Romance	Lin Yufen (林玉芬) (梁懿權) Yu Cuihua (余翠華) Ren Haitao (任海濤) Liu Shishi (劉詩詩) William Chan (陳偉霆)	56	68.3/20.0%	Distribution	New Pictures (新派系) (2017)	Adaptation	348.7	-	4.1	July 13, 2017	Youku, Tencent Video, iQIYI, Dragon TV	
(11)	Little Sweetheart (小情人)	Outright-purchased drama series	Romance	Liu Xin (劉新) Hu Jun (胡軍) Jin Chen (金晨)	40	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	17.0	-	-	March 22, 2017	May 29, 2017	iQIYI, Shenzhen TV
(12)	My P.E. Teacher (我的體育老師)	Outright-purchased drama series	Romance	Lin Yan (林妍) Zhang Jiayi (張嘉譯) Wang Xiaochen (王曉晨)	38	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	57.4	6.6	-	December 23, 2016	November 13, 2017	Youku, Tencent Video, iQIYI, Sohu, Zhejiang TV, Shenzhen TV, Southeast TV
(13)	Untouchable Lovers (鳳囚凰)	Outright-purchased drama series	Romance	Li Huizhu (李慧珠) Guan Xiaotong (關曉彤) Song Weilong (宋威龍)	54	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	120.3	-	November 20, 2017	January 14, 2018	iQIYI, MGTV, Hunan TV
(14)	Mask (面具)	Outright-purchased drama series	War	Lou Jian (樓健) Zu Feng (祖峰) Hou Yong (侯勇)	38	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	59.2	-	January 25, 2018	March 2, 2018	iQIYI, Beijing TV, Shenzhen TV, Hubei TV, Guangxi TV, Southeast TV, CCTV 8
(15)	The Drug Hunter (獵毒人)	Outright-purchased drama series	Crime	Tian Yi (天毅) Yu Hewei (于和偉) Zhang Danfeng (張丹峰)	50	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	28.7	-	June 25, 2018	July 6, 2018	iQIYI, Youku, Tencent Video, Dragon TV, Jiangsu TV
(16)	The Legends (招搖)	Outright-purchased drama series	Period	Zhen Weiren (鄭偉文) Bai Lu (白鹿) Xu Kai (許凱)	56	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	140.1	December 29, 2018	January 28, 2019	iQIYI, Hunan TV

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No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels	
										Year ended December 31,		Six months ended June 30, 2020			
										2017	2018				2019
						(RMB million)									
(17)	Detective Ke Chen (神探柯晨)	Outright-purchased drama series	Crime	Huang Zhizhong (黄志忠) Li Qian (李倩) Wu Gang (吴刚)	44	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	43.2	August 20, 2018	June 24, 2019	Beijing TV, IQIYI
(18)	A Sword Across The Sky (一剑横空) ⁽⁷⁾	Outright-purchased drama series/Co-financing arrangement where we act as a non-executive producer	Action/war	Du Xiubin (杜修斌) Louis Fan Siu Wong (樊少皇) Li Qian (李倩)	40	8.5/25.0%	Distribution	Nanjing Huan'er (南京欢儿) (2016) Changjiang Rongyi Hesheng (长江荣毅和生) (2016) Yili Yangtu (伊犁央图) (2016)	Original	2.6	1.6	-	7.1 November 28, 2016	February 2, 2017	Chongqing TV, IQIYI
(19)	Princess Agents (虎符传奇)	Co-financing arrangement where we act as a non-executive producer	Period	Wu Jinyuan (吴锦源) Zhao Liying (赵丽颖) Lin Gengxin (林更新)	67	N/A ⁽⁸⁾	N/A ⁽⁹⁾	N/A ⁽⁸⁾	Adaptation	9.4	-	-	December 27, 2016	June 5, 2017	Hunan TV, IQIYI, Youku, Tencent Video
(20)	Adoptive Mother's Mood For Love (养母的花样年华)	Co-financing arrangement where we act as a non-executive producer	Metropolitan	Du Jun (杜军) Wang Yajie (王雅捷) Wang Ting (王珞)	55	3.0/10.0%	N/A ⁽⁹⁾	Yili Mengbo (伊犁萌波) (2016)	Original	1.0	2.5	0.8	June 27, 2017	March 14, 2018	Shandong TV, Tianjin TV, Youku, Tencent Video, IQIYI
(21)	The Elder Brother And Sister's Good Age (非亲姐妹的花样年华)	Co-financing arrangement where we act as a non-executive producer	Romance	Du Jun (杜军) Wang Yajie (王雅捷) Wang Ting (王珞)	50	3.0/10.0%	N/A ⁽⁹⁾	Yili Mengbo (伊犁萌波) (2016)	Original	-	4.2	-	August 20, 2018	October 15, 2018	Jiangsu TV, Youku, Tencent Video, IQIYI
(22)	Customer First (顾客至上)	Made-to-order drama series production	Metropolitan	Tianyi (天毅) Li Jianghang (李江淮) Wang Yuexi (王玥兮)	30	N/A ⁽¹⁰⁾	Production and distribution ⁽¹¹⁾	N/A ⁽¹⁰⁾	Original	-	-	-	84.9 July 3, 2019	March 9, 2020	iqIYI

BUSINESS

No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels
										Year ended December 31,		Six months ended June 30, 2020		
										2017	2018			
						(RMB million/%)								
<i>Subsequent to the Track Record Period and up to the Latest Practicable Date</i>														
(23)	Unbending Will (石頭開花)	Self-produced drama series	Patriotic	Yu Chun (余淳) Zhang Duolu (張多福) Li Shaohong (李少紅) Ma Tianyu (馬天宇) Jia Qing (賈青)	20	14.6/20%	Production and distribution	Omniroi Media (幸福藍海) (2016)	Original	-	-	-	November 17, 2020	Tencent Video, iQIYI, Youku, Dragon TV, Zhejiang TV, Jiangsu TV, Guangdong TV, Hunan TV, Beijing TV
(24)	Winter Begonia (鸞戀不是海棠紅)	Outright-purchased drama series	Legend	Hui Kaidong (惠楷棟) Huang Xiaoming (黃曉明) Yin Zheng (伊正) She Shimian (余詩曼)	40	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	-	March 20, 2020/ August 7, 2020	iQIYI, Beijing TV, Anhui TV
(25)	Get Married Or Not (誰說我結不了婚)	Outright-purchased drama series	Metropolitan romance	He Nian (何念) Pan Yueming (潘粵明) Tong Yao (童瑤) Chen Shu (陳數)	40	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	-	May 26, 2020	iQIYI, Youku, MGTV, CCTV 8
(26)	We Are All Alone (佳偶難分美嬌)	Outright-purchased drama series	Metropolitan career	Wang Zhi (王之) Qin Lan (秦嵐) Gao Yixiang (高以翔) Wang Ziyi (王子異)	36	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	-	June 8, 2020/ August 5, 2020	iQIYI, Shenzhen TV, Southeast TV
(27)	Dear Missy (了不起的女孩)	Outright-purchased drama series	Metropolitan roman	Deng Ke (鄧柯) Li Yitong (李一桐) Jin Chen (金晨)	36	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	-	December 21, 2020	iQIYI, Jiangsu TV
(28)	Dear Myself (親愛的自己)	N/A ⁽¹³⁾	Metropolitan romance/ Female inspiration	Ding Hei (丁黑) Liu Shishi (劉詩詩) Zhu Yilong (朱一龍)	45	N/A ⁽¹³⁾	Distribution	N/A ⁽¹³⁾	N/A ⁽¹³⁾	-	-	-	August 26, 2020	MGTV, Hunan TV
(29)	Marry Me (三嫁惹君心)	Made-to-order drama series	Period romance	Huang Weijie (黃偉傑) Xing Zhaolin (邢昭林) Xiao Yan (肖燕)	36	N/A ⁽¹⁰⁾	Production	N/A ⁽¹⁰⁾	Adaptation	-	-	-	September 9, 2020	iQIYI

BUSINESS

No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels
										Year ended December 31,		Six months ended June 30, 2020		
										2017	2018			
						(RMB million)								
(30)	Dating In The Kitchen (我喜歡你)	Made-to-order drama series	Metropolitan romance	Chen Chang (陳暢) Lin Yushen (林雨申) Zhao Lusi (趙露思)	24	N/A ⁽¹⁰⁾	Production	N/A ⁽¹⁰⁾	Adaptation	-	-	-	July 3, 2020	Tencent Video
Web Series														
(1)	A Legend Of A Modern Man Gets Back To Qin Dynasty (大秦記)	Made-to-order drama series production	Period fantasy	Liang Gunguan (梁國冠) Chen Xiang (陳翔) Guo Xiaoting (郭曉婷)	40	N/A ⁽¹⁰⁾	Production	N/A ⁽¹⁰⁾	Adaptation	5.2	-	-	N/A ⁽¹²⁾	January 18, 2018 Youku
Total										542.9	669.5	762.5	577.5	

Notes:

- (1) The date of the Television Drama Distribution License represents the date on which a particular drama series is approved by the relevant local counterparts of the NRTA in the PRC for distribution.
- (2) The Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) was a pre-Track Record Period drama series, and did not record revenue during the Track Record Period. It was initially broadcast on September 22, 2015 on iQIYI, where a distribution license is not required.
- (3) Treasure Adventure (國寶奇旅) is expected to generate revenue of RMB3.2 million for the six months ending December 31, 2020 and RMB2.4 million for the year ending December 31, 2021.
- (4) Inside Man (局中人) is expected to generate revenue of RMB5.9 million for the six months ending December 31, 2020 and RMB3.6 million for the year ending December 31, 2021.
- (5) Lost Love In Times (醉玲瓏) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 20.0%. We subsequently purchased its broadcasting right and distributed such right to iQIYI, Tencent Video and Youku.
- (6) Represented the drama series we purchased from online video platforms, the broadcasting rights of which were licensed to TV channels.
- (7) A Sword Across The Sky (一劍橫空) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 25.0%. We subsequently purchased its broadcasting right and distributed it to iQIYI.
- (8) Princess Agents (楚喬傳) was initially a drama series invested in by us with an investment percentage of 5%. We subsequently transferred our proportion of investment in Princess Agents and its related rights thereof to our counterparty (the executive producer) in 2017.
- (9) Represented the drama series invested in by us where we acted as a non-executive producer and were not responsible for distribution.
- (10) The made-to-order drama series were invested in and distributed by online video platforms.
- (11) Although Customer First (獵心者) is a made-to-order drama series produced for iQIYI, we are entitled to half of the licensing fees for TV channels distribution by us as provided in the relevant production services agreement.
- (12) Web series do not need to apply for or obtain any distribution license.
- (13) We are a distribution agent for this drama series.

Our Drama Series to be Broadcast

As of the Latest Practicable Date, we had produced and/or distributed but yet to broadcast two TV series and one web series. The table below sets forth certain details of our drama series to be broadcast as of the Latest Practicable Date:

Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Our Role	Production Type	Number of Episodes	Actual/Expected Broadcast Channel	Status as of the Latest Practicable Date	Actual/Expected Broadcasting Time
TV series									
(1) My Bargain Queen (我的砍價女王)	Self-produced drama series	Metropolitan romance	Zhou Xiaopeng (周曉鵬) Lin Gengxin (林更新) Wu Jinyan (吳謹言)	Production and distribution	Adaptation	40	Youku	Post-production	In the fourth quarter of 2021
(2) Breath Of Destiny (一起深呼吸)	Made-to-order drama series production ⁽¹⁾	Medical romance	Dou Qi (斗琪) Qi Wei (戚薇) Yang Youning (楊祐寧)	Production and distribution ⁽²⁾	Original	40	iQIYI	Post-production	In the first quarter of 2021
Web series									
(1) Spirit Realm (靈域)	Made-to-order drama series production ⁽¹⁾	Fantasy	Liang Guoguan (梁國冠) Fan Chengcheng (范丞丞) Cheng Xiao(程瀟)	Production	Adaptation	36	iQIYI	Post-production	In the first quarter of 2021

Notes:

- (1) The made-to-order drama series were invested in and distributed by online video platforms.
- (2) Although Breath Of Destiny (一起深呼吸) is a made-to-order drama series produced for iQIYI, we are entitled to half of the licensing fees for the distribution on TV channels by us as provided in the relevant production services agreement.

The followings are the posters of certain of our drama series to be broadcast as of the Latest Practicable Date:



A metropolitan romance story, where a bargainer and the boss of a hotel got acquainted and fell in love with each other in the course of business cooperations and supported each other to go through all hardships.



A medical romance story, where a group of Chinese doctors, providing medical foreign aid on a Pacific island, confront natural disasters and rediscover themselves.



A period fantasy story, where a supernatural and amnesia youngster and his friends protect the spirit land from invaders during his discovery adventure of his origin and fate.

BUSINESS

Our Pipeline Drama Series Projects

As of the Latest Practicable Date, we had three TV series and three web series that had applied for public record and registered with the local counterparts of the NRTA. The table below sets forth certain details of our pipeline drama series projects as of the Latest Practicable Date:

Proposed Name of the Drama Series	Genre	Actual/ Estimated Number of Episodes	Copyright Ownership of Screenplay	Status as of the Latest Practicable Date	Time of Public Record
TV Series					
(1) Hello Baby (你好寶貝)	Metropolitan	40	Our Company	Pre-production	November 2018
(2) Party Group (黨小組)	War/spy	40	Our Company	Under production	June 2020
(3) My Mr. Cat (我的貓先生)	Metropolitan romance	30	Our Company	Pre-production	September 2020
Web Series					
(1) Flying To The Moon (月歌行)	Period fantasy	40	Our Company	Under production	April 2020
(2) Our Destiny In Self-Redemption (浮圖緣)	Period romance	30	Our Company	Pre-production	April 2020
(3) Handsome Young Master (公子傾城)	Period romance	24	Our Company	Under production	June 2020

In addition to the drama series disclosed in the three tables above, as of the Latest Practicable Date, we had engaged screenwriters to create five original screenplays based on our own initial ideas and 20 adapted screenplays based on licensed IPs. Some of our IP reserves are licensed from industry-recognized writers or screenwriters, including The Wind Catcher (捕風者) (a spy novel), On The Stream Of Silence And Loneliness (在寂與寞的川流上) (a career and romance novel), Where Are You From (客從何處來) (a romance and mystery novel), Young Master Imprisoned In The Lake (湖中公子) (a period romance novel), Legend Of Yong Ye (永夜) (a period fantasy novel) and Love And Hate (沉魚記) (a period spy novel). We expect that our drama series to be developed from such superior IPs would gain audience popularity and become profitable.

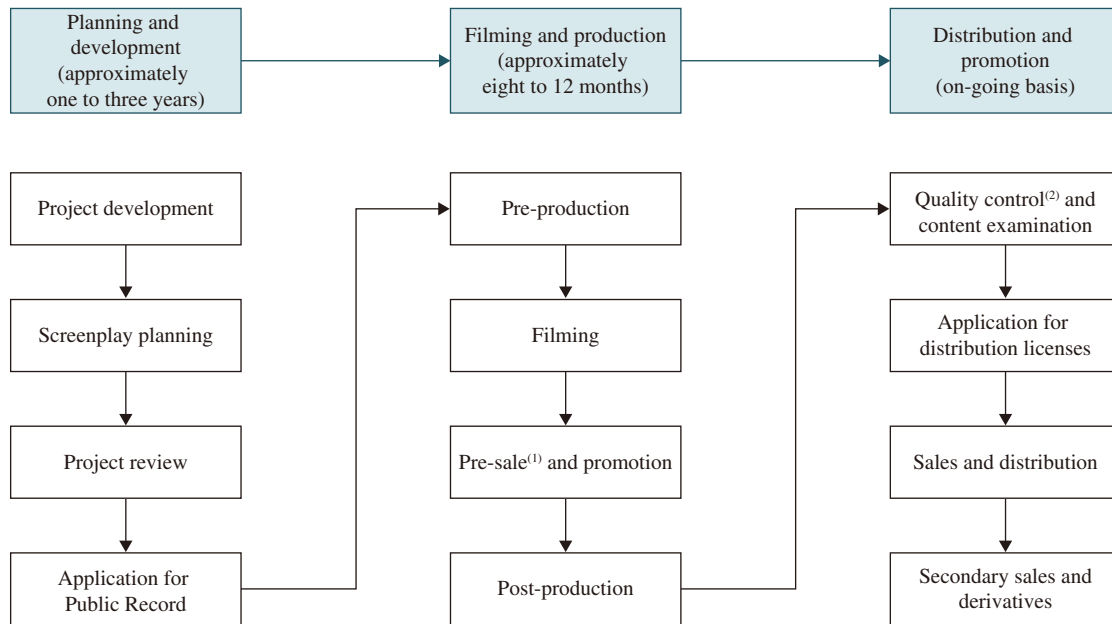
OUR BUSINESS PROCESS

Our involvement in a particular drama series project depends on our role and/or the terms specified in the agreements with co-investors or online video platforms, as applicable.

Self-produced Drama Series

We typically involve in (i) planning and development; (ii) filming and production; and (iii) distribution and promotion for our self-produced drama series.

The diagram below illustrates the typical project workflow of our self-produced drama series:



Notes:

- (1) Pre-sale may take place prior to the completion of production.
- (2) We conduct quality control for each self-produced drama series since its filming and production until the delivery of its master copy on an ongoing basis.

Planning and Development

Project Development

The initial stage of drama series development starts with the concept of a potential drama series. Our in-house development department regularly conducts market research to understand the audience preferences and market trends, based on which they develop a concept based on various sources such as literary works, animations, mobile games, real-life stories and social events, and formulate a proposed topic or theme on screenplay development.

Our in-house project initiation committee (立項委員會), comprising our senior management and the head of each of our production and distribution departments, will review the project proposal based on: (i) whether the concept caters to the entertainment preferences of target audiences and the prevailing social values; (ii) whether the concept appeals to the major TV channels and online video platforms; (iii) whether the concept is attractive to renowned directors, actors and production studios; (iv) whether the concept creates synergy with our existing drama series projects; and (v) the reputation and previous works of the screenwriter candidate(s).

BUSINESS

Apart from our own initiatives, we may be approached by other industry players with project proposal where we participate as a co-investor and executive producer. See “— Our Business Model — Licensing of Broadcasting Rights of Self-produced Drama Series — Co-investment Arrangements Where We Act as An Executive Producer.” We may also be approached by major online video platforms with project proposal to provide production services for their drama series. See “— Our Business Model — Made-to-order Drama Series Production.” The decision making process of whether to participate in these types of projects is similar to that of projects developed by us, while we also consider the financial, production and distribution capabilities, and the industry reputation and resources of the majority investor as well as whether there are future cooperation opportunities with such majority investor.

Screenplay Planning

After the project proposal is approved by the project initiation committee, our development department proceeds with engagement of the screenwriter and/or IP licensing, particularly those well-recognized screenwriters who have established long-term relationships with us. Our screenplay is developed by (i) engaging a screenwriter to write an original screenplay based on our own initial ideas; (ii) seeking licensing from IP owners and engaging a screenwriter to write an adapted screenplay, or (iii) purchasing a screenplay directly from the screenwriter.

We closely monitor every step of the screenplay development process, from story treatment, character breakdown and episode outline to the draft screenplay of the first five or 10 episodes, and then to the draft screenplay of the entire project. Our in-house content production studios review the draft screenplay of the first five or 10 episodes from different perspectives to analyze the feasibility and potential of the project, in order to make a well-informed decision as to whether to proceed. When necessary, we consult external technical advisors with particular expertise to provide professional opinions on the draft screenplay to ensure authenticity of the story-line and realism of character portrayal. During the screenplay development process, we have initial communications with major TV channels and top online video platforms to better evaluate the commercial value of the project and sometimes secure the distribution channels for certain projects.

Project Review

A drama series project will only be greenlit by our senior management if it meets the appropriate criteria to go into physical production or for us to co-invest in it. The final approval is based on a review of (i) the draft screenplay; (ii) the profit forecast, including cost and revenue projections; (iii) analysis of comparable drama series, including their TV viewership ratings and online video views; and (iv) the director, producer and major cast member candidates.

Application for Public Record

Once our project proposal and draft screenplay are internally approved, we need to file the Application for Public Record (備案公示申請) to the NRTA in accordance with the Administrative Measures of Record-filing and Announcement for Filming and Production of Drama Series (《電視劇拍攝製作備案公示管理辦法》). As one of the 73 holders of Television Drama Production Permit (Class A) as of December 31, 2019, which was obtained in April 2017 and renewed in April 2019, we do not have to apply for the relevant individual production permit prior to the commencement of each drama series production.

Filming and Production

Pre-production

Pre-production primarily involves (i) casting; (ii) engagement of other production crew, such as filming, lighting, props, riggings, costumes, make-ups, settings, art, martial arts and stunt coordination; (iii) location scouting; (iv) formulation of filming schedule and budget plan; (v) design and construction of production sets; (vi) purchase and lease of filming equipment and props; and (vii) purchasing accident insurance. During this stage, the screenwriter may continue to refine the screenplay and actors may receive special training or coaching if necessary.

We reach out to potential director, producer and major cast member candidates to seek cooperation opportunities. Major cast members are selected based on various factors including suitability with the role, popularity, fee quote and availability, after taking into consideration of the target audiences. Directors and producers are selected mainly based on their experience and expertise as well as availability. After the draft screenplay of the entire project becomes available, we also arrange them to review and provide advice based on production needs. We generally have the right to select directors and actors for our self-produced drama series, while we also take into consideration the recommendations of our counterparties as stipulated in the relevant agreements.

Depending on the terms of the co-investment agreements, the filming schedule, budget plan and major cast members may need to be approved by all co-investors before commencement of filming. When we are providing production services for made-to-order drama series, the filming schedule, budget plan and major cast members need to be approved by the investing online video platforms.

Filming

During the filming stage, the producer maintains frequent communications with the director, major cast members and other production crew to evaluate project progress and ensure that the project will be completed within budget and on schedule. In addition, we assign finance, production management and quality control staff on-site to closely monitor project expenditures.

Our productions are typically filmed at a combination of physical locations and sound stages or back-lot sets. We do not own such filming locations and rent various locations based primarily on the themes and genres of our drama series from third party tenants. Production shoots are typically scheduled for a number of full days based on the total production budget of the project, availability of actors, weather conditions, and setting conditions. The actors are called into sessions based on their performance call times when they arrive on set for make-up, costume and other preparations as needed. The directors and other production crew coordinate with each other to deliver a multitude of alternative shots and scenarios to be selected for inclusion in the final product.

Presale and Promotion

We generally have initial communications with TV channels and/or online video platforms to pre-sell our self-produced drama series at an early stage of production. The presale can, on one hand, secure the prime time (黃金檔, usually from 19:30 to 22:00) of broadcasting of TV channels in advance, and on the other hand, fund the production of the drama series in part.

We also typically promote our drama series at the production stage by being visited and interviewed by media and posting video clips on major online social media and video platforms to attract attention from mass media and target audiences and build up our target audience base before our drama series are broadcast.

Post-production

After filming is completed, the director and editors select the scenes to assemble the final product. Post-production primarily involves (i) video and sound editing; (ii) voice dubbing; (iii) creating and recording music; (iv) sound mixing; (v) adding special effects; and (vi) color grading. During the post-production stage, we regularly review the edited materials and sample video clips and provide artistic, commercial and censorship opinions on the content and editing of the drama series.

Distribution and Promotion

Quality Control and Content Examination

Once the post-production work is completed, our production department and distribution and promotion department will conduct an overall evaluation of the quality of the drama series based on the applicable laws and regulations and our internal quality-control standards. We designate experienced professionals comprising internal quality control staff and external counsels to regularly review and evaluate the quality of the product. Any quality-related issue discovered must be rectified before the drama series is submitted to the relevant government authorities for their review.

Upon completion of post-production of a TV series, we or our counterparty as specified in the relevant agreement needs to submit the Application for Content Examination (內容審查申請) to the provincial counterpart of the NRTA. See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes.”

Application for Distribution License

Subsequently, we need to obtain the Television Drama Distribution License from the relevant provincial counterpart of the NRTA. In addition, if a TV series will be broadcast on a satellite TV channel during prime time, the relevant satellite TV channel needs to obtain an approval from the NRTA before broadcasting. For online broadcasting of a drama series, the relevant online video platform or us, as the producer, also needs to complete the record filing with the relevant provincial counterpart of the NRTA before broadcasting. During the Track Record Period, none of our applications for such distribution license was declined by the relevant competent authority. See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” and “Regulatory Overview — Regulations in Relation to Production of Web Series.”

Sales and Distribution

Upon obtaining the Television Drama Distribution License, we will sell and distribute our drama series to interested TV channels and/or online video platforms.

BUSINESS

We are generally responsible for the marketing and promotion activities of the drama series we distribute. The marketing and promotion activities generally include press releases, press conferences, teasers and video clips, media visits and interviews, appearances of the directors and major cast members, print advertisements and/or buzz marketing on social media platforms.

The NRTA has implemented a policy of “One Series, Two Satellite TV Channels” (“一劇兩星”), effective on January 1, 2015, pursuant to which a TV series can only be broadcast simultaneously on no more than two satellite TV channels during prime time and the number of episodes broadcast during a night shall not exceed two. As of June 30, 2020, for nine out of 11 of our self-produced drama series that had completed production, the first-run TV broadcasting rights were licensed to satellite TV channels.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any delay or reject in the distribution or broadcast of our drama series as a result of direct or indirect orders from the relevant PRC government authorities.

Due to our longstanding and well-established distribution networks with major TV channels and top online video platforms, we are from time to time approached by other drama series developers or producers to assist with the distribution of their drama series, under which circumstance we act as a non-executive producer and contribute a minority investment in such drama series. See “— Our Business Model — Other Businesses — Investment in Drama Series as A Non-executive Producer.”

Secondary Sales and Derivatives

After the completion of the first-run broadcast, the drama series may also be licensed to, and broadcast on, other TV channels and/or online video platforms. The licensing fee for the re-run is generally much lower than that for the first-run, and the times of re-run depend primarily on the popularity of our drama series.

When our drama series gain or are expected to gain popularity, we may consider offering IP derivatives opportunities by licensing the adaptation rights of such drama series. We work closely with our IP derivative customers to coordinate the advertising and launching of IP derivatives with the marketing and promotion of our drama series. IP derivatives are generally launched immediately after the initial broadcasting of the relevant TV series. See “— Our Business Model — Other Businesses — IP Derivatives and Product Placement.”

Outright-purchased Drama Series

For our outright-purchased drama series, we typically only involve in the sales and distribution process as stated above and sometimes may undertake certain promotion activities.

Made-to-order Drama Series

Our made-to-order drama series production typically only involves in the filming and production as well as the promotion stages as stated above. To a less extent, we may sometimes assist online video platforms with the projects planning and development. Normally we are invited by online video platforms to produce web series, while they are responsible for investing in, developing and distributing such web series. As a result, we are able to secure the distribution of such web series and receive a portion of the production fees in installments at an early stage, which helps us to maintain our liquidity and lower the

risks of unsuccessful distribution. Prior to the production of web series, rather than obtaining the Television Drama Production Permit, we need to file and register certain key information, such as the name, genre, synopsis, production budgets, potential broadcasting platform, or total compensation of the actors, of the web series with, and/or obtain the relevant approvals from, the provincial counterparts of the NRTA, depending on the investment amounts. See “Regulatory Overview — Regulations in Relation to Production of Web Series.”

PRICING

In determining the licensing fee of our self-produced drama series, we generally consider the total investment, the genre, the distribution channels (TV channels or online video platforms) and their reputation and relationships with us, the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the prevailing market price, the target audience base, the expected level of popularity, as well as our target profit margin. See “Financial Information — Description of Key Statement of Profit or Loss Items — Revenue.” Generally, the amount charged for first-run broadcasting rights is much higher than subsequent distributions, and we normally target to cover our total investment by the licensing fees received from first-run broadcast. During the Track Record Period, except for Treasure Adventure (國寶奇旅) which was broadcast in February 2019, all of the total investments of our self-produced drama series were covered by revenue generated from their respective first-run broadcasting right. The shortfall not covered by the first-run licensing revenue of Treasure Adventure (國寶奇旅) was approximately RMB10.4 million, primarily as a result of (i) the lower licensing fees as online video platforms generally reduced their purchase prices of TV series per episode in 2019, which was in line with the market trend, and drama series with war/spy genre and theme are relatively less popular among online video platforms; and (ii) the higher actors’ remuneration as it was produced before actors’ remuneration had been substantially reduced pursuant to relevant government policies. Such shortfall is expected to be compensated by a total of (i) revenue of RMB4.5 million generated from re-run broadcast; (ii) investment income contributed by a co-investor of RMB4.1 million; and (iii) expected revenue to be generated of RMB5.6 million for the years ending December 31, 2020 and 2021. During the Track Record Period, the licensing fees of the first-run broadcasting rights of our self-produced drama series generally ranged (i) from RMB1.0 million to RMB2.6 million per episode for TV channels; and (ii) from RMB0.4 million to RMB7.0 million per episode for online video platforms. According to Frost & Sullivan, the licensing fees of the first-run of self-produced drama series normally range from RMB0.8 million to RMB4.0 million per episode for TV channels.

In determining the licensing fee of our outright-purchased drama series, we generally consider the costs of purchases of the relevant broadcasting rights, the broadcasting time slot (prime time or otherwise), the video views, the prevailing market price, and our target profit margin. During the Track Record Period, the licensing fees of the first-run broadcasting rights of our outright-purchased drama series generally ranged from RMB0.5 million to RMB3.4 million per episode. According to Frost & Sullivan, the licensing fees of the first-run of outright-purchased drama series normally range from RMB0.1 million to RMB3.0 million per episode.

For made-to-order drama series, we charge online video platforms a pre-determined fixed fee based on negotiations between the parties on a cost-plus basis, taking into consideration our target profit margin for the production services we provide. During the Track Record Period, our pre-determined fixed fees of made-to-order drama series generally ranged from RMB2.5 million to RMB7.5 million per episode. According to Frost & Sullivan, pre-determined fixed fees of made-to-order drama series normally range from RMB0.5 million to RMB5.0 million per episode.

BUSINESS

During the Track Record Period, the licensing fees of the re-run of our drama series generally ranged from RMB800 to RMB0.2 million per episode for TV channels; while according to Frost & Sullivan, the licensing fees of the re-run of drama series normally range from RMB50,000 to RMB0.6 million per episode for TV channels.

The above industry pricing ranges are derived from interviews with industry participants by Frost & Sullivan, and may not be indicative of all the licensing fees and pre-determined fixed production services fees exhaustively on the market. As such, the ranges of the licensing fees and the pre-determined fixed production services fees of our drama series may not fall completely within, but are overall commensurate with, the corresponding industry ranges.

SALES AND MARKETING

Our sales and marketing strategies focus on maintaining close and smooth relationships with major TV channels and top online video platforms, as well as exploring new distribution channels by attending industry trade exhibitions. We have an internal marketing and promotion team responsible for formulating sales and marketing strategies, engaging marketing agencies to execute marketing and promotion plans and overseeing the execution of such plans by marketing agencies. Our marketing and promotion team also keeps track of the market trend of the drama series industry to capture new business opportunities. As of June 30, 2020, our marketing and promotion team consisted of six employees, led by Ms. Zhang with approximately 20 years' relevant industry experiences.

We generally engage Independent Third Party marketing service providers to promote our drama series. The marketing and promotion activities of our drama series generally include press releases, marketing campaigns, drama series release conferences, media interviews with the major cast members, advertisements, such as posters, trailers and billboards, and/or buzz marketing on social media platforms. The marketing and promotion activities of a drama series generally begin prior to filming activities and may last for several months after its initial broadcasting. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our selling and distribution expenses for marketing and promotional activities amounted to approximately RMB24.4 million, RMB75.8 million, RMB33.5 million and RMB32.4 million, respectively, in line with the number of TV series distributed, and web series, produced, by us that were broadcast for the same periods.

INVENTORY

Overview

Our inventory comprises raw materials (i.e. screenplays and IP rights), work-in-progress (i.e. drama series in production) and finished goods (i.e. drama series which have obtained the Television Drama Distribution License but yet to be distributed, and purchased broadcasting rights of drama series). We monitor the inventory level on a regular basis in order to ensure it can meet our production and distribution requirements. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our inventories amounted to approximately RMB314.5 million, RMB536.7 million, RMB919.1 million and RMB681.1 million, respectively, representing approximately 36.5%, 50.7%, 49.5% and 37.9% of our total current assets as of the same dates, respectively.

We purchase a screenplay when and if we consider that it has potential for future production and its price is within our budget. It is our policy to reserve sufficient number of screenplays to meet our continuous production and distribution needs, generally ranging from 20 to 30 IP rights simultaneous. In case we purchase a screenplay from a licensor, we will also seek authorization from the relevant screenwriter to ensure the copyrights are duly transferred to us.

BUSINESS

Our production department and distribution and promotion department closely monitor and adjust the production and distribution schedules for the drama series in stock in order to minimize the risk of exposure to obsolete stock.

Inventory Provision Policy

Our management reviews the conditions of our inventories and make provision for obsolete and slow-moving inventory items. We carry out an inventory review on a project-by-project basis at the end of each reporting period and make provisions for obsolete projects. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and our historical experience in producing and distributing drama series of a similar nature. Our management reassesses the estimation at the end of each reporting period.

OUR CUSTOMERS

While the consumers of drama series are the general audiences who watch such drama series, our revenue mainly comes from TV channels, online video platforms and third party distributors that are mainly drama series producers and distributors. The table below sets forth our customers in respect of each of our primary sources of revenue:

<u>Primary Sources of Revenue</u>	<u>Customers</u>
Licensing revenue from our self-produced and outright-purchased drama series	TV channels, online video platforms and third party distributor
Production revenue from production services for made-to-order drama series	Online video platforms

Top Customers

We had had relationships with our five largest customers for approximately one to six years as of June 30, 2020, which include major TV channels and online video platforms. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, revenue from our five largest customers accounted for approximately 83.3%, 95.5%, 83.5% and 99.1%, respectively, of our total revenue, and revenue from our largest customer accounted for approximately 22.4%, 36.0%, 27.2% and 69.2%, respectively, of our total revenue for the same periods. We became acquainted and established solid business relationships with our customers primarily attributable to Mr. Liu's and Ms. Zhang's over 20 years of industry experience, reputation and influence, as well as our sales and marketing staff's continuous efforts to explore cooperation opportunities with TV channels and online video platforms. In light of our quality and popular drama series, enhanced market leadership and well-established relationships with top TV channels and online video platforms, more industry participants began to approach us to purchase best-selling drama series, such as third party distributors. We generally settle with our five largest customers by wire transfer or banker's acceptance and grant to them credit terms ranging from 15 to 365 days.

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The tables below set forth our five largest customers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020:

Year Ended December 31, 2017

Customer	Nature of Revenue	Amount of Revenue <i>(RMB'000)</i>	As a Percentage of Our Total Revenue	Commencement of Business Relationship	Background
Customer A/ Supplier D	Licensing of broadcasting rights of outright-purchased drama series/ made-to-order drama series production	121,405	22.4%	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.
iQIYI	Licensing of broadcasting rights of outright-purchased drama series	116,226	21.4%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer B	Licensing of broadcasting rights of outright-purchased drama series	116,226	21.4%	2017	A technology and social media conglomerate located in Shenzhen, Guangdong Province with total net assets of approximately RMB606.3 billion as of June 30, 2020, listed on the Hong Kong Stock Exchange, founded in 1998. It operates one of the top three online video platforms.
Customer C	Licensing of broadcasting rights of outright-purchased drama series	57,384	10.6%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer D	Licensing of broadcasting rights of self-produced drama series	40,910	7.5%	2016	A third party distributor located in Changzhou, Jiangsu Province with registered capital of RMB12.5 million, founded in 2013. It is a wholly-owned subsidiary of a public media group listed on the Shenzhen Stock Exchange in the PRC.
Total		452,151	83.3%		

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Year Ended December 31, 2018

<u>Customer</u>	<u>Nature of Revenue</u>	<u>Amount of Revenue</u> <i>(RMB'000)</i>	<u>As a Percentage of Our Total Revenue</u>	<u>Commencement of Business Relationship</u>	<u>Background</u>
iQIYI	Licensing of broadcasting rights of self-produced drama series	244,703	36.0%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer C	Licensing of broadcasting rights of self-produced and outright-purchased drama series	175,651	25.9%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer E	Licensing of broadcasting rights of outright-purchased drama series	120,283	17.7%	2017	A state-owned TV channel located in Changsha, Hunan Province with registered capital of approximately RMB9.2 billion, founded in 2000. It is one of the top five TV channels.
Customer F	Licensing of broadcasting rights of outright-purchased drama series	59,158	8.7%	2016	A state-owned TV channel located in Beijing with registered capital of RMB1.0 billion, founded in 1979. It is one of the top five TV channels.
Customer G	Licensing of broadcasting rights of self-produced drama series	49,011	7.2%	2018	A state-owned broadcasting and media group located in Shanghai with registered capital of RMB5.0 billion, founded in 2001. It operates one of the top five TV channels.
Total		<u>648,806</u>	<u>95.5%</u>		

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Year Ended December 31, 2019

Customer	Nature of revenue	Amount of revenue <i>(RMB'000)</i>	As a percentage of our total revenue	Commencement of Business Relationship	Background
iQIYI	Licensing of broadcasting rights of self-produced drama series	208,484	27.2%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer C	Licensing of broadcasting rights of self-produced drama series	172,824	22.6%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer H	Licensing of broadcasting rights of outright-purchased drama series	140,094	18.3%	2019	A private third party distributor located in Beijing controlled by an individual, with registered capital of RMB10.0 million, founded in 2017
Customer B	Licensing of broadcasting rights of self-produced drama series	68,196	8.9%	2017	A technology and social media conglomerate located in Shenzhen, Guangdong Province with total net assets of approximately RMB606.3 billion as of June 30, 2020, listed on the Hong Kong Stock Exchange, founded in 1998. It operates one of the top three online video platforms.
Customer I	Licensing of broadcasting rights of self-produced drama series	49,002	6.5%	2019	A private third party distributor located in Yichun, Jiangxi Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2018
Total		<u>638,600</u>	<u>83.5%</u>		

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Six Months Ended June 30, 2020

Customer	Nature of revenue	Amount of revenue <i>(RMB'000)</i>	As a percentage of our total revenue	Commencement of Business Relationship	Background
iQIYI	Licensing of broadcasting rights of self-produced and outright-purchased drama series/ made-to-order drama series production	401,278	69.2%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer C	Licensing of broadcasting rights of self-produced drama series	67,523	11.6%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer A/ Supplier D	Licensing of broadcasting rights of self-produced drama series	60,708	10.5%	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.
Customer J	Licensing of broadcasting rights of self-produced drama series	40,494	7.0%	2020	A private third party distributor located in Dongyang, Zhejiang Province controlled by individuals, with registered capital of RMB10.0 million, founded in 2018
Customer K	Licensing of broadcasting rights of outright-purchased drama series	4,828	0.8%	2016	A private third party distributor located in Yining, Xinjiang Uygur Autonomous Region controlled by an individual, with registered capital of RMB5.0 million, founded in 2016
Total		<u>574,831</u>	<u>99.1%</u>		

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Except iQIYI as disclosed above, all of our five largest customers during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, except iQIYI, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period. Save as disclosed above, to the best of the knowledge of our Directors, none of the Company, its subsidiaries, their shareholders, directors, senior management, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with our five largest customers (save for being our customers) during the Track Record Period.

Historically, we have maintained well-established relationships with our customers and have not suffered any substantial loss due to their default. We intend to further strengthen and deepen our relationships with our customers to maintain our leading market position and profitable growth.

Business Relationship with iQIYI

iQIYI was among our five largest customers during the Track Record Period and Taurus Holding, a subsidiary of iQIYI Inc., has been our substantial shareholder since November 2018.

iQIYI is one of the largest Chinese online video platforms listed in the U.S., with approximately 476.0 million average MAUs in 2019. According to Frost & Sullivan, iQIYI, as a leading online video platform, had a market share of 29.8%, 31.6% and 30.2% in 2017, 2018 and 2019, respectively, in terms of revenue generated from membership services, online advertising services and content distribution services in the PRC. iQIYI's strategic partners include various leading media service providers and producers, such as Netflix and Fuji TV, and it has expanded its global footprints to approximately 10 countries. Given iQIYI's market leadership and great demand for drama series, in addition to licensing our self-produced and outright-purchased drama series to iQIYI, we also provide production services for iQIYI to produce made-to-order drama series. iQIYI's large audience base also contributes to the success of our quality drama series. We are collaborating with iQIYI to tap into new businesses, such as our copyright licensing business. See “— Our Strategies — Continue to further discover potential opportunities from online video platform and explore business innovation.”

Salient Terms of Our Framework Agreements with iQIYI

We have entered into several framework agreements with iQIYI in respect of drama series and web films copyrights licensing, copyrights and broadcasting rights purchasing, original soundtrack production, as well as made-to-order drama series production and the related distribution revenue sharing. Except for the Web Films Cooperation Framework Agreement, these agreements generally will commence on the Listing Date and expire on December 31, 2022, and would automatically renew for a term of three years unless we serve written notice to cease cooperation.

For details regarding the salient terms of our framework agreements with iQIYI, see “Connected Transactions.”

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Quantitative Information in Relation to Revenue from iQIYI

We generated a significant amount of revenue from iQIYI by licensing the broadcasting rights of our self-produced and outright-purchased drama series to, and producing made-to-order drama series for, iQIYI, during the Track Record Period. We licensed one, two, three and three self-produced and outright-purchased drama series to iQIYI in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and commenced production of nil, one, three and nil made-to-order drama series for iQIYI for the same periods, respectively. We also purchased the broadcasting rights of drama series from iQIYI and paid them licensing fees during the Track Record Period. Our Directors are of the view that the transactions with iQIYI during the Track Record Period were conducted on normal commercial terms and the pricing policy adopted for such transactions as well as the contract terms we offered were comparable to those of the similar transactions with Independent Third Parties. The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the transactions with iQIYI during the Track Record Period; (ii) obtained necessary representations and confirmations from the Company and the Directors, and (iii) participated in the due diligence and discussions with the management of the Group. Based on the above, the Joint Sponsors concur with the Directors' view that the transactions with iQIYI during the Track Record Period were conducted on normal commercial terms and the pricing policy adopted for such transactions as well as the contract terms the Group offered were comparable to those of the similar transactions with Independent Third Parties. The table below sets forth our revenue generated from and cost of sales paid to iQIYI for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable
Revenue										
Self-produced										
drama series	-	-	244,703	36.0%	204,253	26.7%	92,528	14.2%	307,348	53.0%
Outright-purchased										
drama series	116,226	21.4%	-	-	-	-	-	-	2,288	0.4%
Made-to-order										
drama series	-	-	-	-	-	-	-	-	84,906	14.6%
Other ⁽¹⁾	-	-	-	-	4,231	0.5%	334	0.1%	6,736	1.2%
	<u>116,226</u>	<u>21.4%</u>	<u>244,703</u>	<u>36.0%</u>	<u>208,484</u>	<u>27.2%</u>	<u>92,862</u>	<u>14.3%</u>	<u>401,278</u>	<u>69.2%</u>
Cost of sales	<u>(5,677)</u>	<u>1.5%</u>	<u>(112,169)</u>	<u>23.9%</u>	<u>(148,933)</u>	<u>22.7%</u>	<u>(148,933)</u>	<u>25.9%</u>	<u>-</u>	<u>-</u>

Note:

- (1) Others primarily include (i) other copyrights of our self-produced drama series sold to iQIYI other than broadcasting rights; and (ii) sale of the copyright of a screenplay to iQIYI in the first half of 2020.

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The significant increase in our revenue generated from iQIYI for the six months ended June 30, 2020 is primarily due to our exclusive licensing of *The Love Lasts Two Minds* (兩世歡) to iQIYI in the first half of 2020, which contributed a large amount of revenue of RMB237.7 million.

Mutually Beneficial and Complementary Relationship

We are one of iQIYI's major collaborators and have maintained well-established business relationship with it since 2014. We are also one of the first drama series producers to offer production services for iQIYI since 2017. We believe we are a valuable business partner of iQIYI in the sense that:

- *We are a major market player in the PRC.* According to the Frost & Sullivan Report, we were the fourth largest drama series producer and distributor in terms of the number of the first-run broadcast TV series in 2019. We were also the sixth largest drama series producer and distributor in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, according to the same source. We produce quality and appealing drama series to help iQIYI attract and retain audiences, which enables iQIYI to gain popularity and acquire potential paying users. We have also been exploring innovative cooperation models with iQIYI. For example, in 2015, we were the first to introduce the broadcasting model of "Online first, TV next" ("先網後台") for our self-produced drama series in the market, with *Legend Of Zu Mountain* (蜀山戰紀之劍俠傳奇) broadcasting initially on iQIYI and subsequently distributing to Anhui TV. With this broadcasting model, iQIYI is able to acquire potential audiences for being the first to broadcast a popular series.
- *We have adequate production capability and premium industry resource.* We license self-produced and outright-purchased drama series to iQIYI and are from time to time ordered by iQIYI to produce drama series to meet its evolving and specific demands for drama series. Leveraging our industry resource integration capabilities empowered by our platform business model, we are able to efficiently assemble suitable producers, directors and actors, qualified production studios, as well as external quality control specialists. We can select from our shortlisted performers and service providers with particular knowledge of and experiences in a certain industry based on the themes and genres of iQIYI's drama series. Since our inception and up to June 30, 2020, we had licensed in aggregate 10 self-produced and outright-purchased drama series to, and produced in aggregate four made-to-order drama series for, iQIYI, including one self-produced drama series licensed to iQIYI prior to the Track Record Period.
- *We have strong distribution capability.* We have maintained well-established relationship with both the top five TV channels and the top three online video platforms. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of these eight channels in 2019. Given our sound cooperation with top distribution channels and major market position, we from time to time purchase the broadcasting rights of iQIYI's drama series and sub-license such rights to TV channels, to help iQIYI generate more monetization opportunities. We purchased in aggregate five broadcasting rights of iQIYI's drama series and successfully distributed all of them to TV channels or third-party distributors during the Track Record Period. We will continue to expand our cooperation in this respect to further contribute to iQIYI's growth.

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Leveraging these advantages, we believe our relationship with iQIYI will continue to be mutually beneficial and complementary, and the likelihood that our relationship with iQIYI will materially and adversely change or terminate is low.

Diversification of Customer Base and Revenue Stream

We have made efforts to reduce our customer concentration on iQIYI by diversifying our customer base and seeking opportunities to cooperate with other major TV channels and industry leading online video platforms. For example, in addition to licensing the broadcasting rights of our self-produced drama series to Tencent Video, we also began to provide production services for Tencent Video's drama series in 2019, such as *Dating In The Kitchen* (我，喜欢你). We not only strive to expand the breadth and depth of cooperation with leading distribution channels, but also plan to explore business opportunities with international market players to diversify our revenue resources. For example, we are in the process of developing screenplays and setting up filming and production team to produce overseas drama series for a leading international media service provider. For more details, see “— Our Strategies — Continue to further discover potential opportunities from online video platforms and explore business innovation.” We also plan to seek for opportunities to explore new forms of cooperation with other prevailing online video platforms that are experiencing rapid growth, in addition to the top three online video platforms. Currently we are approaching and communicating with three more emerging PRC online video platforms to further diversify our customer base.

We Are Capable of Maintaining Our Revenue in the Future in Light of the Customer Concentration

According to Frost & Sullivan, the size of drama series market in the PRC in terms of revenue, comprising licensing or distribution revenue and advertising revenue, was approximately RMB99.1 billion in 2019. Due to (i) the increasing demands for premium video content driven by people's evolving entertainment needs and growing disposable income; (ii) the prevalence of mobile internet platforms, which makes video content easily accessible and affordable; and (iii) the enhanced appeal and quality content arising from innovative technologies, such as visual and sound effects, this market is expected to further grow from approximately RMB93.1 billion in 2020 to approximately RMB121.3 billion in 2024. As a major player in this market, we believe that we will continue to be well positioned and benefit from the stable and continuous market growth potential.

Please see “Risk Factors — Risks Relating to Our Business and Industry — iQIYI was our single largest customer in 2018, 2019 and the six months ended June 30, 2020. If we fail to maintain our business relationship with iQIYI or if iQIYI loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected.”

Salient Terms of Agreements with Major Customers

We enter into agreements with our customers on a project-by-project basis. The salient terms of the agreements with our major customers are as follows:

Agreements of Licensing of Broadcasting Rights of Self-produced and Outright-purchased Drama Series with TV Channels and Online Video Platforms

- *Term of license:* Generally three to 10 years from the delivery of master copy, or the date of premiere on the TV channels or the online video platforms, as applicable;
- *Details of the drama series:* The agreements typically set out the official name, the number of episodes and the length of each episode, major cast members, and relevant distribution licenses of the drama series;
- *Scope of license and exclusivity:* Generally the TV channel is granted the broadcasting rights of the drama series within certain specific provinces, and online video platforms are granted such rights in the PRC. The broadcasting rights granted to our licensee customers can be exclusive or non-exclusive;
- *Broadcasting Schedule:* The licensing agreements usually specify the broadcasting schedule, including the number of episodes each day and their corresponding time slot. Certain licensing agreements also set out the priority of broadcasting, including the number of first-run broadcast during prime time, the number of first-run broadcast during normal time, and the maximum number of re-run broadcast. We shall indemnify our licensee customers for default on the planned priority of broadcasting.
- *Licensing fee:* Generally fixed amount per episode, while in some cases may be subject to adjustments based on the actual number of episodes;
- *Payment:* One-off payment or payments in installments in accordance with the milestone payment schedules set out in the relevant agreements, generally from signing of agreements to the initial broadcasting of the drama series;
- *Technical specifications:* Our master copy needs to satisfy certain technical specifications such as cassette format, resolution, sound channel and accuracy of subtitles;
- *Confidentiality:* All parties undertake not to disclose the other party's trade secrets or other business information to any third party; and
- *Termination:* Our licensee customers are entitled to terminate the relevant licensing agreements in the event of, among other reasons, delay in delivering the cassettes, delay in obtaining the Television Drama Distribution License, adverse social impact caused by the cast members during distribution or failure to meet pre-agreed broadcasting schedule. We are entitled to terminate the relevant licensing agreements in the event of, among other reasons, improper use of the drama series beyond the agreed licensing scope, material delay in payment or *force majeure*.

Production Service Agreements with Online Video Platforms

- *Details of the drama series:* The agreements generally set out the expected number of episodes and the length of each episode, the total production budget and expected production schedule, the specific production work, as well as the major cast members;
- *Production service fee:* (i) A fixed-amount service fee and/or (ii) a percentage of the net distribution revenue after deduction of the relevant expenses and distribution commission generated from distribution to TV channels as specified in the production service agreement;
- *Milestone payment schedules:* The production service fee is payable in installments in accordance with the payment milestones specified in the relevant agreements, generally from the signing of the agreements to the acceptance of the production by online video platforms; and
- *Allocation of IP rights:* Generally online video platforms have the full ownership of the copyrights of the drama series, while we are entitled to the authorship.

OUR SUPPLIERS

Our suppliers primarily consist of (i) IP owners who sell the copyrights of creative works or license the broadcasting rights of the drama series to us; and (ii) third-party service providers in relation to (a) drama series production, including screenwriters, directors and actors, filming and production studios as well as external post-production studios; and (b) marketing and promotional activities, such as marketing agencies.

Top Suppliers

We had had relationships with our five largest suppliers for approximately one to four years as of June 30, 2020 which include online video platforms, third party distributors, filming and production studios as well as post-production studios. During the Track Record Period, purchases from our five largest suppliers collectively accounted for approximately 80.0%, 79.6%, 58.6% and 78.5% of our total purchases for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and purchases from our largest supplier accounted for approximately 42.5%, 25.4%, 15.8% and 41.7% of our total purchases for the same periods, respectively. We became acquainted and established solid business relationships with our suppliers, such as well-known IP owners, screenwriters, directors and actors as well as filming and production studios, primarily attributable to Mr. Liu's and Ms. Zhang's over 20 years of industry experience, reputation and influence. In light of our popular and best-selling drama series, enhanced market leadership and strong distribution capability, more industry participants began to approach us to seek for prospective cooperations. Our five largest suppliers generally settle with us within 90 to 365 days by wire transfer.

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The tables below set forth our five largest suppliers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020:

Year Ended December 31, 2017

Supplier	Nature of purchases	Purchase amounts <i>(RMB'000)</i>	As a percentage of our total purchases	Commencement of Business Relationship	Background
Supplier A	Purchases of outright-purchased drama series	322,264	42.5%	2016	A private media institution primarily engaged in IP development, films and drama series production and distribution as well as integrated marketing located in Shanghai controlled by an individual, with registered capital of approximately RMB11.8 million, founded in 2015
Supplier B	Purchases of production services for self-produced drama series	133,354	17.6%	2016	A private television programs producer and distributor located in Nanjing, Jiangsu Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2015
Supplier C	Purchases of production services for self-produced drama series	100,693	13.3%	2017	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
Supplier D/ Customer A	Purchases of outright-purchased drama series	28,695	3.8%	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.
Nova Film	Purchases of post-production services for self-produced and made-to-order drama series	21,698	2.8%	2015	A private film and drama series post-production studio located in Wuxi, Jiangsu Province with registered capital of RMB10.0 million, founded in 2012 and acquired by us in 2020
Total		<u>606,704</u>	<u>80.0%</u>		

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Year Ended December 31, 2018

Supplier	Nature of purchases	Purchase amounts	As a percentage of our total purchases	Commencement of Business Relationship	Background
		<i>(RMB'000)</i>			
Supplier E	Purchases of production services for self-produced drama series	175,330	25.4%	2017	A private film and drama series producer and distributor located in Haining, Zhejiang Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2012
Supplier F	Purchases of production services for self-produced drama series	118,090	17.1%	2018	A private television programs producer and distributor located in Shanghai controlled by an individual, with registered capital of approximately RMB3.8 million, founded in 2017
iQIYI	Purchases of outright-purchased drama series	112,169	16.2%	2017	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Supplier G	Purchases of production services for made-to-order drama series production	87,453	12.7%	2018	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
Supplier H	Purchases of planning and development services for self-produced drama series	56,604	8.2%	2018	A private film and drama series planning and development studio located in Ningbo, Zhejiang Province controlled by an individual, with registered capital of RMB1.0, founded in 2016
Total		<u>549,646</u>	<u>79.6%</u>		

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Year Ended December 31, 2019

Supplier	Nature of purchases	Purchase amounts	As a percentage of our total purchases	Commencement of Business Relationship	Background
		<i>(RMB'000)</i>			
iQIYI	Purchases of outright-purchased drama series	148,933	15.8%	2017	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Supplier G	Purchases of production services for made-to-order and pipeline self-produced drama series	132,451	14.1%	2018	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
Supplier F	Purchases of production services for self-produced and made-to-order drama series	101,237	10.8%	2018	A private television programs producer and distributor located in Shanghai controlled by an individual, with registered capital of approximately RMB3.8 million, founded in 2017
Supplier I	Purchases of production services for made-to-order drama series	85,822	9.1%	2019	A private film and drama series production studio located in Beijing controlled by an individual, with registered capital of RMB5.0 million, founded in 2017
Supplier J	Purchases of production services for made-to-order drama series	82,960	8.8%	2019	A private film and drama series producer and distributor located in Nanjing, Jiangsu Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2019
Total		<u>551,403</u>	<u>58.6%</u>		

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Six Months Ended June 30, 2020

Supplier	Nature of purchases	Purchase amounts	As a percentage of our total purchases	Commencement of Business Relationship	Background
		<i>(RMB'000)</i>			
Supplier I	Purchases of production services for made-to-order drama series	74,402	41.7%	2019	A private film and drama series production studio located in Beijing controlled by an individual, with registered capital of RMB5.0 million, founded in 2017
Supplier K	Purchases of distribution services for self-produced drama series	25,725	14.4%	2020	A private film and drama series producer and distributor as well as a talent agency located in Ningbo, Zhejiang Province controlled by an individual, with registered capital of RMB2.0 million, founded in 2020
Supplier J	Purchases of production services for made-to-order drama series	14,362	8.1%	2019	A private film and drama series producer and distributor located in Nanjing, Jiangsu Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2019
Supplier L	Purchases of production services for self-produced drama series	14,349	8.0%	2019	A private film and drama series producer and distributor with a focus on IP development located in Jinhua, Zhejiang Province controlled by an individual, with registered capital of RMB10.0 million, founded in 2016
Supplier F	Purchases of production services for made-to-order drama series	11,183	6.3%	2018	A private television programs producer and distributor located in Shanghai controlled by an individual, with registered capital of approximately RMB3.8 million, founded in 2017
Total		<u>140,021</u>	<u>78.5%</u>		

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Except iQIYI and Nova Film, all of our five largest suppliers during the Track Record Period are Independent Third Parties. Nova Film was our fifth largest supplier and an Independent Third Party in 2017, which was acquired by us in June 2020. To the best of the knowledge of our Directors, except iQIYI, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. Save as disclosed above, to the best of the knowledge of our Directors, none of the Company, its subsidiaries, their shareholders, directors, senior management, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with our five largest suppliers (save for being our suppliers) during the Track Record Period.

Salient Terms of Agreements with Major Suppliers

Agreements with IP Owners

We generally enter into agreements with IP owners on a project-by-project basis. The salient terms of these agreements are as follows:

- *Term of licensing:* Generally three to seven years;
- *Details of the drama series:* Some of the agreements set out the official or tentative name, the number of episodes and the length of each episode, major cast members, and the tentative production schedule of the drama series;
- *Scope of licensing:* We are generally licensed the exclusive adaptation rights and distribution rights of such IP globally but are sometimes restrained from transferring such licensed rights. The agreements generally specify certain circumstances under which the licensed rights would be forfeited at no cost, including, among others, delay in obtaining internal approval to produce the drama series within a specified period, delay in commencing production within a specified period and delay in completing the production. We are generally also prohibited from any derivative works or income arising from the licensed rights;
- *Licensing fee and settlement:* Generally a fixed-amount licensing fee to be settled in one go or in installments as specified in the agreements;
- *Ownership of IP rights:* Our IP owners have the full ownership of the copyrights of the creative works, while we are entitled to the authorship of the drama series and other rights generated during the production; and
- *Termination:* The agreements are terminable under certain circumstances, including, among others, mutual agreement, breach of contract and our licensor suppliers' lack of right to license such copyrights.

Agreements with Broadcasting Rights Licensors

We generally enter into agreements with the copyright owners of the drama series who license the broadcasting rights of these drama series to us on a project-by-project basis. The salient terms of these agreements are as follows:

- *Term of license:* The agreements typically specify the term of the licensing of the broadcasting rights of the drama series, and the maximum times of re-run broadcast within such term;
- *Details of the drama series:* The agreements typically set out the official name, the number of episodes and the length of each episode, major cast members, and broadcasting schedule of the drama series;
- *Scope of license and exclusivity:* We are usually granted the broadcasting rights of the drama series within certain specific provinces and/or only on TV channels. The broadcasting rights granted to us can be exclusive or non-exclusive; and
- *Licensing fee and settlement:* We are usually required to settle the total amount of the licensing fee specified in the relevant agreements for the licensing of broadcasting rights of the drama series either (i) on a lump-up basis within a specified period upon the completion of the broadcast, or (ii) in installments from the signing of the licensing agreements to a specified time by wire transfer.

Agreements with Service Providers

We generally enter into agreements with (i) talent agencies or talent studios for engaging cast members and (ii) filming and production studios for our self-produced or made-to-order drama series on a project-by-project basis and remit their service fees directly to such service providers by wire transfer. Our agreements with such service providers generally include the following major terms:

- *Details of the drama series:* The agreements generally set out the official or tentative name of the drama series, the expected number of episodes and the length of each episode, the total production budget, the major cast members and the expected production schedule;
- *Allocation of work:* We are responsible for providing the relevant screenplay and other necessary assistance and overseeing the production process, while the cast members are obliged to provide performance service and the production service providers shall take charge of the whole production process, including pre-production, filming and post-production. The production service providers also need to ensure that the content conforms to the applicable laws and regulations;
- *Production acceptance:* The production service providers need to submit a demo within a specified period upon the completion of the production for our review. We will accept the production if the demo satisfies our requirements, or otherwise ask the production service providers to modify the production if we deem necessary and appropriate;

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- *Service fees and settlement:* A fixed amount service fee for cast talents or production service providers to be settled in installments specified in the relevant agreement by wire transfer, usually from the signing of the service agreements to the initial broadcasting of the drama series; and
- *Ownership of IP:* We have the full ownership of the copyrights of the drama series, while the third-party service providers are entitled to limited IP rights, such as authorship or performers' right.

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any “yin-yang contract⁽¹⁾” (陰陽合同) with any cast talents in respect of our self-produced and made-to-order drama series. To the best of the knowledge of our Directors, the suppliers of our self-produced and made-to-order drama series had not entered into any “yin-yang contract” with the cast talents they engaged because the main casts of our self-produced and made-to-order drama series are generally selected by us or the online video platforms, as applicable, and we require our suppliers to engage these casts based on the budgets provided by us. For our outright-purchased drama series, as we are just the purchasers of drama series that have completed production, we did not enter into any “yin-yang contract” with the casts for such outright-purchased drama series.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

During the Track Record Period, (i) some of our online video platform customers procuring our drama series and production services were also our suppliers licensing to us broadcasting rights of their drama series; and (ii) some of our third party drama series producers and distributors providing production services for our self-produced and made-to-order drama series were also our customers procuring broadcasting rights of our drama series. According to Frost & Sullivan, it is common in the drama series industry that (i) online video platforms need to not only procure production services to produce their own drama series but also license out the broadcasting rights of their drama series to other distribution channels to generate revenue and increase profitability; and (ii) drama series producers and distributors not only provide production services for drama series but also purchase the broadcasting rights of drama series for sub-licensing. Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. We became acquainted and established solid business relationships with our overlapping customers and suppliers primarily attributable to Mr. Liu's and Ms. Zhang's over 20 years of industry experience, reputation and influence. In light of our popular and best-selling drama series, enhanced market leadership and strong distribution capability, more industry participants began to approach us to seek for prospective cooperations. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and on arm's length basis. To the best of the knowledge of our Directors, except iQIYI, none of the Company, its subsidiaries, their shareholders, directors, senior management, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with these overlapping customers and suppliers (save for being our customers or suppliers) during the Track Record Period.

(1) For the purpose of this prospectus, “yin-yang contract” is a practice where parties execute multiple contracts to avoid taxes. The yin contract provides the real transaction price, while the yang contract stipulates a lower price which is to be reported to the relevant tax authorities.

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The table below sets forth the breakdown of the revenue generated from and purchases paid to our overlapping customers and suppliers, which was among either our five largest customers or suppliers during the Track Record Period, for the periods indicated:

Transaction Nature	Year ended December 31,			Six months ended		Commencement of Business	Relationship	Background		
	2017		2018		June 30, 2020					
	Revenue	Purchases	Revenue	Purchases	Revenue				Purchases	
	(RMB'000)									
iQIYI	116,226	(5,677)	244,703	(112,169)	208,484	(148,933)	401,278	-	2014/2017	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer A/ Supplier D	121,405	(28,695)	-	(5,377)	34,623	-	60,708	-	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.

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Transaction Nature	Year ended December 31,			Six months ended		Commencement of Business	Relationship	Background	
	2017		2018		June 30,				
	Revenue	Purchases	Revenue	Purchases	2020				Revenue
	(RMB'000)								
Customer E/ Supplier M	-	(5,189)	120,283	-	-	-	2017	- Customer E is a state-owned TV channel located in Changsha, Hunan Province with registered capital of approximately RMB9.2 billion, founded in 2000, and also one of the top five TV channels;	
								- Supplier M is a drama series and TV programs producer and distributor and a talent agency located in Dongyang, Zhejiang Province with registered capital of RMB10.0 million, founded in 2011. It is a wholly-owned subsidiary of a public media group listed on the Shenzhen Stock Exchange in the PRC. Supplier M and Customer E are ultimately controlled by the same entity.	
Customer L/ Supplier A	-	(322,264)	-	-	4,082	-	2016	A private media institution primarily engaged in IP development, films and drama series production and distribution as well as integrated marketing located in Shanghai controlled by an individual, with registered capital of approximately RMB11.8 million, founded in 2015	
Customer M/ Supplier C	-	(100,693)	472	(43,166)	-	-	(8,491)	2017	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
								- Purchase of production services for self-produced drama series	

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QUALITY CONTROL

Our quality control capability is one of our core competencies that makes us stand out among our competitors in the drama series industry in the PRC. We have adopted strict internal examination guidelines and procedures for our production process to serve both compliance and quality control purposes for the drama series produced by us. During the production of a drama series, we assign in-house quality control staff on site to monitor the quality and progress of the production services provided by third party suppliers on a regular basis and provide constructive feedback timely. In addition, we also invite external quality control consultants, who are generally well-known producers or directors with extensive experiences to ensure the quality of our drama series. We select external quality control consultants with vertical-specific knowledge for different genres of drama series so that our drama series will fit the preferences of different distribution channels and specific group of audiences. See “— Our Competitive Strengths — Our platform business model enables us to effectively integrate premium industry resources.” Upon completion of the production of a drama series, we review its content to ensure that (i) it is compliant with industry requirements and the applicable laws and regulations in the PRC; and (ii) it satisfies the specific content or technical requirements of our customers and us. Any content that promotes obscenity or violence or undermines social morality will be strictly prohibited by us. Our head of production team, He Mai (何麥), with approximately 10 years of relevant industry experiences, will conduct a final review of the drama series before it is delivered to the relevant government authorities and our customers.

AWARDS AND RECOGNITIONS

Awards and Accreditation

Our commitment to providing diversified and quality drama series and excellent achievements in the drama series industry are evidenced by the honors awarded to us. The table below sets forth our major awards and recognitions:

<u>Year</u>	<u>Award/ Recognition</u>	<u>Award Issuing Authority</u>	<u>TV Series/ Group Entity Receiving Award</u>
2020	2019 Top 10 Outstanding Production Company (2019十大實力出品公司)	TV-insight (電視劇鷹眼)	Jiangsu Strawbear
2020	Third Prize of the Jiangsu Province TV Series Award (江蘇電視劇獎三等獎)	Jiangsu Provincial Administration of Radio and Television (江蘇省廣播電視局)	Second Time Is A Charm (第二次也很美)
2019	Five-one Project Award of Jiangsu Province (江蘇省五個一工程獎)	Standing Committee of Jiangsu Provincial Committee of the Communist Party of China (江蘇省委)	Treasure Adventure (國寶奇旅)
		Publicity Department of Jiangsu Provincial Committee of the Communist Party of China (江蘇省委宣傳部)	

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Year	Award/ Recognition	Award Issuing Authority	TV Series/ Group Entity Receiving Award
2019	Second Prize of the Jiangsu Province TV Series Award (江蘇電視劇獎二等獎)	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	Treasure Adventure (國寶奇旅)
2019	First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎)	Copyright Administration of Jiangsu Province (江蘇省版權局) Industry and Information Technology Department of Jiangsu (江蘇省工業和信息化廳)	Treasure Adventure (國寶奇旅)
2019	Second Prize of the Jiangsu Province TV Series Award (江蘇電視劇獎二等獎)	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	Mr. Nanny (月嫂先生)
2019	2018 Annual Outstanding Contribution Award (2018年度貢獻傑出獎)	Sichuan Radio and Television (四川廣播電視台)	A Sword Across The Sky (一劍橫空)
2019	2018 Viewership Ratings Gold Award for National and City Networks (2018年雙網收視金獎)	Sichuan Radio and Television (四川廣播電視台)	A Sword Across The Sky (一劍橫空)
2018	Gazelle Enterprise of Nanjing (南京市瞪羚企業)	Nanjing Municipal People's Government (南京市政府)	Jiangsu Strawbear
2018	Famous Cultural Enterprise Award of Pukou District (浦口區第一批文化產業「名企」獎)	Publicity Department of the Pukou District, Nanjing City Committee of the Communist Party of China (中共南京市浦口區委宣傳部)	Jiangsu Strawbear
2018	2017 Outstanding Cultural Contribution Award of Pukou District (浦口區2017年度文化產業突出貢獻獎)	Publicity Department of the Pukou District, Nanjing City Committee of the Communist Party of China (中共南京市浦口區委宣傳部)	Jiangsu Strawbear
2018	Excellent TV Series Production Company (優秀電視劇出品公司)	Guangdong Radio and Television (廣東廣播電視台)	Starry April (繁星四月)
2018	Excellent TV Series Production Company (優秀電視劇出品公司)	Guangdong Radio and Television (廣東廣播電視台)	A Sword Across The Sky (一劍橫空)

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Year	Award/ Recognition	Award Issuing Authority	TV Series/ Group Entity Receiving Award
2018	Excellent Television Award of the 34 th “Jiangsu Literary and Art Award” (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎)	Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會)	Starry April (繁星四月)
2018	Excellent Television Award of the 34 th “Jiangsu Literary and Art Award” (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎)	Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌)
2018	Famous Cultural Product Award of Pukou District (浦口區第一批文化產業「名品」獎)	Publicity Department of the Pukou District, Nanjing City Committee of the Communist Party of China (中共南京市浦口區委宣傳部)	Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇)
2018	Jiangsu Province Government Television Award (江蘇省新聞出版廣電政府獎 電視劇獎)	Jiangsu Provincial Administration of Radio and Television (江蘇省新聞出版廣電局)	The Impossible Mission (不可能完成的任務)
2017	Major Culture and Technology Enterprise of Nanjing City (南京市重點文化科技企業)	Nanjing Municipal People’s Government (南京市政府)	Jiangsu Strawbear
2017	Golden Partner of the First Drama Series Purchase Alliance (第一購劇聯盟金牌合作夥伴)	The First Drama Series Purchase Alliance (第一購劇聯盟)	Jiangsu Strawbear
2017	2016 Viewership Ratings Champion (2016年收視王牌獎)	Zhejiang Education & Technology Channel (浙江電視台教育科技頻道)	The Impossible Mission (不可能完成的任務)
2017	Viewership Ratings Contribution Award (收視貢獻獎)	The First Drama Series Purchase Alliance (第一購劇聯盟)	The Impossible Mission (不可能完成的任務)
2017	2016 Excellent TV Drama Award (2016年度優秀劇目獎)	Henan City Channel (河南電視台都市頻道)	The Impossible Mission (不可能完成的任務)

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Year	Award/ Recognition	Award Issuing Authority	TV Series/ Group Entity Receiving Award
2017	Most Popular TV Drama (最受觀眾喜愛的電視劇劇作)	Shanghai TV News Comprehensive Channel (上海新聞綜合頻道)	The Impossible Mission (不可能完成的任務)
2017	2016 Excellent TV Drama on Beijing List (2016電視劇京榜年度優秀獎)	Beijing TV (北京電視台)	The Impossible Mission (不可能完成的任務)
2016	Cultural Industry Outstanding Contribution Institution (文化產業突出單位貢獻獎)	Leading Group on Cultural Cultivation of Pukou District (浦口區文化建設領導小組)	Jiangsu Strawbear
2016	Highest Investment Value Award (最具投資價值獎)	Nanjing Cultural Finance Service Center (南京文化金融服務中心) Public Securities News (大眾證券報)	Jiangsu Strawbear
2015	Highest Growth Potential Award (最具成長性獎)	Nanjing Cultural Finance Service Center (南京文化金融服務中心)	Jiangsu Strawbear

Membership in Industry Organizations

Our senior management actively participate in the organizations in the PRC drama series industry. Mr. Liu, our founder and chief executive officer, is a member of China Television Artists Association (中國電視藝術家協會), a council member of Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會) and the vice president of Film and Television Artists Association of Nanjing City (南京市電影電視藝術家協會). Mr. Chen Chen, our executive Director and chief financial officer, is a member of Jiangsu Provincial Television Artists Association. The aforesaid memberships of our management team members symbolize the recognition and reputation of our Group in the industry in which we operate.

INTELLECTUAL PROPERTY

Overview

Intellectual property is fundamental to our success and competitiveness. We rely on a combination of copyrights, trademarks, domain names as well as confidentiality or licensing agreements with our employees, customers, suppliers and other third parties to protect our intellectual property. As of the Latest Practicable Date, we had (i) 31 copyrights in relation to the drama series and web films produced and to be produced by us, including one registered copyright; (ii) 11 copyrights of screenplays, including three registered copyrights; (iii) 18 adaptation rights of creative works licensed to us; (iv) 12 broadcasting rights of drama series licensed to us; (v) 38 trademarks registered in the PRC; (vi) 18 registered patents; (vii) 11 registered software copyrights; and (viii) 19 registered domain names.

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Details of our intellectual property rights are set forth in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — (2) Intellectual Property Rights of Our Group.”

Copyrights

In general, the proprietary rights attached to the content of the drama series we produced belong to us. In case of co-invested drama series, the proprietary rights of such drama series will (i) be proportionally owned according to the respective investment ratios; (ii) be jointly owned by the co-investors and us; and (iii) belong entirely to us as the executive producer, as the case may be in the relevant co-investment agreements. Generally, in case of co-financed drama series in which we act as a non-executive producer, the proprietary rights of such drama series will be proportionally owned according to the investment ratios. As of the Latest Practicable Date, we had the sole copyright ownership of two drama series in the PRC in which we acted as the executive producer.

Licensed IPs are also important assets of our business. As of the Latest Practicable Date, we had a library of 30 licensed IPs from diversified sources, such as popular literary works.

We also have anti-piracy measures in place to safeguard our intellectual property rights. Our production department keeps track of and regularly reviews the status of our drama series and use a mix of legal and administrative proceedings as well as negotiations to settle such copyright infringement.

As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, we were not subject to, nor were we party to, any intellectual property rights infringement claims or litigations that we believe would have any material adverse effect on our business, results of operations, financial condition, or reputation. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — We are subject to risks of piracy and intellectual property infringement.”

COMPETITION

The drama series market in the PRC is highly competitive. We compete with other drama series production and distribution companies in the PRC for the acquisition of quality screenplays and creative materials as well as the services of performing talent, directors, and filming and production firms. Key competitive factors also include financial resources and deep and broad network connections with TV channels and online video platforms.

Leveraging our founder’s approximately 20 years of industry experiences, his profound industry reputation and influence as well as insight of the market trend, we internally developed the high-potential screenplay of our first drama series, Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), and were able to effectively and efficiently invite and assemble suitable directors, major cast and filming and production firm promptly. Due to the appealing content, well-known actors, and our founder’s close relationship with TV channels and online video platforms, Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) achieved great success and was licensed to an online gaming company to produce role play games.

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We believe market competition is based on the quality of drama series content, brand recognition, scale of production as well as distribution capability. We believe our competitive edge lies in our large and diversified pool of IP rights, platform business model, experienced production team, and close and stable relationships with top TV channels and online video platforms in China, which enable us to achieve our leading position in the market and sustainable growth.

See “Industry Overview” for a more detailed discussion regarding the markets in which we operate as well as our market shares in the relevant markets.

EMPLOYEES

As of June 30, 2020, we had 73 employees, including 53 based in Jiangsu Province, 15 based in Beijing, 3 based in Xinjiang Uyghur Autonomous Region and 2 based in Zhejiang Province. The table below shows a breakdown of our employees by function as of June 30, 2020:

Functions	Number of Employees	% of Employees
Management	4	5.5%
Production	26	35.6%
Investment	2	2.7%
Distribution	3	4.1%
Marketing and promotion	6	8.2%
Government affairs	1	1.4%
Finance and legal	12	16.5%
Administrative	10	13.7%
Research and development	9	12.3%
Total	73	100.0%

We believe we have maintained good relationships with our employees. Our employees are not represented by a labor union. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes or any labor disputes with our employees which had had or were likely to have a material effect on our business.

Our employees typically enter into standard employment contracts with a confidentiality clause and non-compete agreements with us. We place high value on recruiting, training and retaining our employees. We maintain high recruitment standards and provide competitive compensation packages. Remuneration packages for our employees mainly comprise base salary and bonus. We also provide both in-house and external trainings for our employees to improve their skills and knowledge.

We contribute to social security insurance and housing provident funds for our employees in all material aspects in accordance with applicable PRC laws, rules and regulations.

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INSURANCE

We purchase or require the filming and production suppliers to purchase injury insurance for the actors and/or filming and production crew. During the Track Record Period, we also purchased vehicle insurance for our automobiles. We do not, and are not required by PRC laws to, maintain any business interruption insurance, key man life insurance, third-party liability insurance or any insurance for our leased properties. We also do not maintain insurance against risks relating to the Contractual Arrangements. See “Risk Factors — Risks Relating to Our Business and Industry — Our limited insurance coverage could expose us to significant costs and business disruption.”

Our Directors believe that our insurance coverage is sufficient and adequate and in line with the industry norm. We periodically review and will make necessary and appropriate adjustments to our insurance coverage. During the Track Record Period and up to the Latest Practicable Date, we had not made any material claim under our insurance policies.

PROPERTIES

As of the Latest Practicable Date, we did not own any property. As of the Latest Practicable Date, we leased and occupied 13 properties in Beijing, Shanghai, Nanjing, Hangzhou, Wuxi and Horgos with an aggregate gross floor area of approximately 4,159.8 sq.m. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules as office premises.

Our leased properties are leased from Independent Third Parties, with a lease term ranging from six months to 20 years. Title certificates of five leased properties have been duly obtained by the relevant landlords. With respect to the remaining eight leased properties with an aggregate gross floor area of 2,350.2 sq.m., or 56.5% of the total gross floor area of our leased properties, the landlords failed to provide the relevant building ownership certificates, as a result of which, there may be risks that these eight leases may be held invalid, and therefore we may not be able to continue to occupy and use such properties. Our Directors believe that our use of these eight properties individually or collectively will not have a material adverse effect on our business, financial condition or results of operations. Even if we are required to vacate from the properties, we believe we will be able to readily find comparable properties to relocate and the costs and expenses we may incur for relocation will be immaterial. As of the Latest Practicable Date, we were not aware of any ownership controversy or dispute or third party claims, nor had we been imposed any administrative penalties.

In addition, all of our 13 leases have not been registered with the relevant competent authorities. As advised by our PRC Legal Advisors, apart from the eight leases without building ownership certificates, despite the remaining five leases not having been registered with the relevant competent authorities, they remain valid and legally binding and enforceable under the applicable PRC laws and regulations, according to the Interpretation of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes over Lease Contracts on Urban Buildings (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋). A maximum penalty of RMB10,000 may be imposed for non-registration of each lease, and the estimated total maximum penalty would be RMB130,000, as advised by our PRC Legal Advisors.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are committed to providing a safe and healthy working environment for our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material accidents in the course of our operations, nor had we been subject to any material claims for personal or property damages or for health or safety related compensation.

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Due to the nature of our business, we do not generate any hazards or pollutants during the course of our operations. During the Track Record Period and up to the Latest Practicable Date, we had not incurred any expenses in relation to the compliance with the applicable environmental laws and regulations.

LICENSES AND PERMITS

As advised by our PRC Legal Advisors, we had obtained all material licenses, permits and approvals required for our operations, which were valid and remained in effect as of the Latest Practicable Date. The table below sets forth the major licenses and permits relating to our business and operations as of the Latest Practicable Date (apart from those pertaining to general business requirements):

<u>License/Permit/ Certificate</u>	<u>Holder</u>	<u>Issuing Authority</u>	<u>Expiration Date</u>
Television Drama Production Permit (Class A) (電視劇製作許可證 (甲種))	Jiangsu Strawbear	NRTA (國家廣電總局)	March 31, 2021
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Jiangsu Strawbear	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	March 31, 2021
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Beijing Strawbear	Beijing Municipal Radio and Television Bureau (北京市廣播電視局)	September 14, 2022
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Nova Film	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	March 31, 2021
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Horgos Strawbear	Administration of Radio and Television of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區廣播 電視局)	March 31, 2021

BUSINESS

We have been the holder of Television Drama Production Permit (Class A) for three years since 2017. This Class A permit is valid for two years and subject to renewal upon its expiration, during which we do not have to apply to the competent authorities for the production of individual TV series on a project-by-project basis. We were one of the 73 holders of Television Drama Production Permit (Class A) in the PRC, and the only one in Jiangsu Province, as of December 31, 2019. We monitor the validity status of our licenses and permits, and make timely applications for the renewal of relevant licenses and permits prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses and permits for our business operations during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisors are of the view that, there is no material legal impediment in renewing these licenses and permits as they expire in future as long as we are in compliance with applicable laws, regulations and rules. However, we cannot assure you that we will be able to obtain or renew such licenses or permits in a timely manner or at all in the future. See “Risk Factors — Risks Relating to Our Business and Industry — The production and distribution of drama series are extensively regulated in the PRC, and our production and distribution of drama series are subject to various PRC laws, rules and regulations. Our failure to comply with existing laws, rules and regulations as well as evolving laws, rules and regulations could materially and adversely affect our business, financial condition and results of operations.”

LEGAL PROCEEDINGS AND COMPLIANCE

We may be involved in legal or other disputes in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending litigation, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation. Our Directors had not been involved in any actual or threatened material claims or litigation during the Track Record Period and up to the Latest Practicable Date.

We are subject to a wide range of PRC laws and regulations in the ordinary course of business. See “Regulatory Overview.” As advised by our PRC Legal Advisors, we complied with the laws and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

We have established risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. In particular, we have adopted and implemented risk management policies in various aspects of our business operations such as financial reporting, information system and human resources.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statements preparation policies and finance department and staff management policies. We have various procedures in place to implement these accounting policies, and our finance department reviews our management accounts regularly based on such procedures. We also provide regular trainings to our finance department staff to ensure that they understand our accounting policies.

BUSINESS

As of June 30, 2020, our finance department consisted of 11 employees. It is headed by our chief financial officer, who has more than 10 years of experience in financial management with a bachelor's degree in financial management from Nanjing University (南京大學) and a master's degree in accounting from Shanghai University of Finance and Economics (上海財經大學).

Information System Risk Management

We have adopted procedures, such as regular system check, password policy, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our information assets and ensure the proper management of our operational data. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of data.

Human Resources Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanism, negligence and corruption. We provide employees with trainings and resources to explain the guidelines contained in the employee handbook.

We also have in place an anti-corruption policy to safeguard against any corruption activities. The policy explains potential corruption conducts and our anti-corruption measures. We make our internal reporting channel open and available for our staff to report any corruption acts, and our staff can also make anonymous reports. Our human resources and administrative department liaises with legal department to investigate the reported incidents and take appropriate measures.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to monitor the implementation of our risk management policies on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three Directors, namely Mr. Zhang Senquan, Mr. Wang Jun and Mr. Chung Chong Sun. Mr. Zhang Senquan and Mr. Chung Chong Sun are independent non-executive Directors and Mr. Wang Jun is a non-executive Director. Mr. Zhang Senquan is the chairman of the audit committee. For the professional qualifications and experiences of the members of our Audit Committee, see “Directors and Senior Management — Board of Directors.”

Our legal and compliance department is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Members of legal and compliance department hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The legal and compliance department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee, legal and compliance department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

Internal Control

In preparation for the Listing, we had engaged in May 2020 an independent internal control adviser to perform an internal control review (the “**IC Review**”) of our internal control system within the agreed scope which covers areas such as corporate governance, risk assessment, financial systems, project management and taxation. During the IC Review, the internal control adviser identified a number of findings in relation to our internal control policies and procedures mainly with respect to internal control monitoring and regulatory compliance policies and systems pursuant to which we have taken the internal control enhancement measures recommended by the internal control adviser, such as enhanced trade receivable, trade payables and inventories management policies, strengthened intellectual property rights protection policies, stricter anti-corruption and bribery and anti-money laundering practices and adoption of financial reporting and information disclosure procedures. The internal control adviser performed a follow-up review on the enhancement measures taken by us in response to the findings and enhancement recommendations from the internal control adviser. After considering the implementation of the enhancement measures and the result of such follow-up review, our Directors are satisfied that our internal control system is adequate and effective for our current operational environment.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon the exercise of the Pre-IPO Share Options), Mr. Liu, his wholly-owned holding company Master Sagittarius and Leading Glory which is controlled by Mr. Liu as it is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust that is a discretionary trust established by Mr. Liu as the settlor and protector and his wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu, will be able to exercise the voting rights attaching to approximately 60.32% of the total issued share capital of our Company, including (i) approximately 43.81% of the voting rights in our Company held by Mr. Liu, Master Sagittarius and Leading Glory; and (ii) approximately 16.52% of the voting rights in our Company controlled by Mr. Liu, Master Sagittarius and Leading Glory pursuant to the Voting Arrangement Agreements. See “History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements” for details of the Voting Arrangement Agreements. Therefore, Mr. Liu, Master Sagittarius and Leading Glory shall be regarded as our Controlling Shareholders after the Listing.

NO COMPETITION AND DELINEATION OF BUSINESS

Our Controlling Shareholders have confirmed that as of the Latest Practicable Date, neither of them is interested in any business, other than our business, which competes or is likely to compete, either directly or indirectly, with our business, which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

Shanghai Shaoyin

As of the Latest Practicable Date, Mr. Liu held 40% of the equity interest in and served as a director of Shanghai Shaoyin Music Entertainment Co., Ltd. (上海韶愔音樂娛樂有限公司) (“**Shanghai Shaoyin**”) which primarily engages in the production and distribution of original soundtracks for films and TV dramas. Considering the business model, resources required and target customers with respect to the principal business activities of Shanghai Shaoyin and our Group are fundamentally different in nature, as well as the Deed of Non-competition in place, our Directors are of the view that the business of Shanghai Shaoyin does not compete, and is not likely to compete, either directly or indirectly, with that of our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. For more details, see “Directors and Senior Management.” Although Mr. Liu is our Controlling Shareholder, executive Director as well as chief executive officer, our management and operational decisions are made by all our executive Directors and senior management, most of whom have served in our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. Save as disclosed below, our Directors and senior management members do not hold any role as a director or member of senior management in any close associates of our Controlling Shareholders:

<u>Name</u>	<u>Position in our Company</u>	<u>Position held in close associates of our Controlling Shareholders</u>
Mr. Liu	Chairman of the Board, executive Director and chief executive officer	Director and general manager of Shanghai Shaoyin
Mr. Wang Xiaohui	Non-executive Director	Director of Shanghai Shaoyin
Mr. Wang Jun	Non-executive Director	Director of Shanghai Shaoyin

Our Directors are of the view that our Board and senior management are able to manage our business independently from the Controlling Shareholders and their close associates for the following reasons:

- (i) the daily management and operation of our Company is managed by our senior management and overseen by our executive Directors. Other than Mr. Liu, our executive Directors and senior management members do not hold any role as director or member of senior management in any close associates of our Controlling Shareholders;
- (ii) as confirmed by Mr. Liu, his directorship in Shanghai Shaoyin is non-executive in nature, and his position of general manager in Shanghai Shaoyin is only for the purpose of the SAMR registration filings, while the daily operation of Shanghai Shaoyin is overseen and managed by a designated senior management team which Mr. Liu is not involved in;
- (iii) despite holding the position of director in Shanghai Shaoyin, Mr. Wang Xiaohui and Mr. Wang Jun are our non-executive Directors and therefore not involved in the daily management and operation of our Company;
- (iv) according to the Articles of Association, with respect to any matters of conflict or potential conflict of interest which involve a transaction between our Company and another company or entity to which a Director holds office, such Director shall abstain from voting and shall not be counted towards the quorum for the voting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (v) we have appointed three independent non-executive Directors to provide a balance of the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole. The independent non-executive Directors will be entitled to engage professional advisers at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates;
- (vi) each of our Directors is aware of his or her fiduciary duties and responsibilities under the Listing Rules as a director, which requires among other things, that he or she acts for the benefit and in the best interests of our Company and our Shareholders as a whole;
- (vii) according to the Articles of Association, where a Shareholders' meeting is held to consider a proposed transaction in which the Controlling Shareholders have a material interest, the Controlling Shareholders shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting; and
- (viii) our Company has appointed Messis Capital Limited as our compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and corporate governance.

Operational Independence

We make operational decisions independently. We have established our own organizational structure with independent departments, and each department is assigned to specific areas of responsibilities. We maintain a set of comprehensive internal control measures to facilitate the effective operation of our business. Our operating functions, such as cash and accounting management, invoices and bills, operate independently of our Controlling Shareholders and its associates. We have independent access to suppliers and customers and are not dependent on our Controlling Shareholders and their close associates. We have our own employees to operate our business and can independently manage our human resources. We have obtained the relevant licenses, approvals and permits from the relevant regulatory authorities that are material to our operations in the PRC.

Although during the Track Record Period, there had been transactions between us and our related parties, details of which are set out in Note 37 in the Accountants' Report, our Directors have confirmed that these related party transactions, if trade related, were conducted on normal commercial terms or better to us. Save as disclosed in "Connected Transactions," none of the historical related party transactions with the connected persons of our Company as defined in the Listing Rules are expected to continue after the Listing.

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

We have established an independent accounting and finance department and an independent internal control system. Our accounting and finance functions are independent of our Controlling Shareholders, and we can make financial decisions independently. In addition, we have adequate internal resources to support our daily operations, and we believe we are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective close associates.

As of June 30, 2020, we had a number of outstanding loans in an aggregate amount of RMB110 million guaranteed by our Controlling Shareholders. All such guarantees provided for our benefit by our Controlling Shareholders have been fully discharged in August and November 2020. See “Financial Information — Indebtedness — Bank Borrowings” and Note 28 to the Accountants’ Report set out in Appendix I to this prospectus for details.

Save as disclosed herein, as of the Latest Practicable Date, there were no other outstanding loans, advances or non-trade balances due to or from our Controlling Shareholders or their respective close associates, nor were there any other outstanding pledges or guarantees provided for our benefit by our Controlling Shareholders or their respective close associates. Based on the above, our Directors are satisfied that we are able to maintain financial dependence from our Controlling Shareholders and their close associates.

DEED OF NON-COMPETITION

To safeguard the interest of our Group, each of our Controlling Shareholders, as the covenantors (the “**Covenantors**”), has executed the Deed of Non-competition in favor of our Company on December 18, 2020. Pursuant to the Deed of Non-competition, the Covenantors and/or their respective close associates (other than members of our Group) have confirmed that as of the date of the Deed of Non-competition, neither of the Covenantors or their respective close associates (other than members of our Group) have, in any form, engaged in, assisted or supported any third party in the operation of, participate, or have any interest in, any business that, directly or indirectly, competes or will compete or may compete with the business carried on or contemplated to be carried on by any member of our Group from time to time, namely investment, development, production and distribution of TV series, web series and films (the “**Restricted Business**”).

Pursuant to the Deed of Non-competition, the Covenantors have, unconditionally and irrevocably, undertaken to our Company, among other things, that it would not and would use their best endeavors to procure their respective close associates (except any members of our Group) would not, directly or indirectly, at any time during the Relevant Period (as defined below), carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business which is the same as, similar to or in competition or will compete or may compete with the Restricted Business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The above restrictions do not prohibit the Covenantors and their respective close associates (other than members of our Group) from holding securities of any company which conducts or is engaged in any Restricted Business, provided that the conditions set out in paragraphs (i), (ii) and (iii) below are satisfied:

- (i) the aggregate number of shares or equity interests held by the Covenantors and their respective close associates (other than members of our Group) is less than 10% of any class of the issued shares or the entire equity interests of such company;
- (ii) the Covenantors or their respective close associates (other than members of our Group) do not own, by any means, any right to control the composition of the board of directors or managers of such Restricted Business nor any right to participate, directly or indirectly, in such Restricted Business; and
- (iii) none of the Covenantors and their respective close associates (other than members of our Group) is the controlling shareholder of such company.

In addition, where it is resolved by the Board or a Shareholders' meeting that it is appropriate for the Covenantors and/or their respective close associates (other than members of our Group) and our Group to jointly invest in, conduct, operate or participate in any business opportunity relating to the Restricted Business (the "**New Business Opportunity**"), and if our Group gives written invitation, the Covenantors and/or their respective close associates (other than members of our Group) may together with our Group, jointly invest in, conduct, operate or participate in such New Business Opportunity subject to the provisions of the Listing Rules and any requirement from the Stock Exchange (including but not limited to the obtaining of approval from the independent non-executive Directors and/or independent Shareholders).

Further Undertakings from the Covenantor

Under the Deed of Non-competition, each of the Covenantors has further undertaken to us the following:

- (i) it shall provide, and shall procure its close associates (other than members of our Group) to provide, during the Relevant Period (as defined below), where necessary and at least on an annual basis, all information necessary for the review by the independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable them to review the Covenantor's and its close associates' (other than members of our Group) compliance with the Deed of Non-competition, and to enable the independent non-executive Directors to enforce the Deed of Non-competition, including but not limited to any decision described in paragraph (v) below or in relation to the pre-emptive right to restrict the transfer;
- (ii) the Covenantor (and on behalf of its close associates (other than members of our Group) from time to time) shall provide to us annually with an annual declaration for inclusion in our annual report, in respect of compliance with the terms of the Deed of Non-competition;
- (iii) the Covenantor has agreed and authorized the Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition, either through our annual report or by way of announcement;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) during the Relevant Period (as defined below), in the event that the Covenantor or its close associates (other than members of our Group) are given any business opportunity relating to the New Business Opportunity, the Covenantor shall, and shall procure that its close associates (other than members of our Group), inform us of such New Business Opportunity in writing with all available information as soon as practicable and shall use its best endeavor to assist us in obtaining such New Business Opportunity on the same or more favorable terms;
- (v) when there is any New Business Opportunity, all independent non-executive Directors but excluding any independent non-executive Directors with conflicted interests will form a committee (the “**Independent Board Committee**”) and in the event that the Independent Board Committee decides that our Group should not take up such New Business Opportunity as referred to in paragraph (iv) above within a commercially reasonable period and undertake by written notice, the Covenantor and its close associates (other than members of our Group) may take up such business opportunity and the involvement in the business derived from such New Business Opportunity shall not be regarded as a breach of the Deed of Non-competition; and
- (vi) since the effective date of the Deed of Non-competition, the Covenantor agrees to indemnify us from and against any and all losses, damages, claims, liabilities, costs and expenses (including legal costs and expenses) where we may suffer or incur as a result of any failure to comply with the terms of the Deed of Non-competition by the Covenantor or its close associates (other than members of our Group).

Where the Covenantors and/or their respective close associates (other than members of our Group) acquire the Restricted Business pursuant to paragraph (v) above, the Covenantors and/or their respective close associates (other than members of our Group) shall provide our Group with pre-emptive right (the “**Pre-Emptive Right**”) to acquire any such Restricted Business under the same circumstances. Where the Independent Board Committee decides to waive our Pre-Emptive Right by way of written notice, the Covenantors and/or their respective close associates (other than members of our Group) may offer to sell such Restricted Business (as defined below) to other third parties on such terms which are no more favorable than those made available to our Group.

Where the Covenantors and/or their respective close associates (other than members of our Group) acquire the Restricted Business pursuant to paragraph (v) above, the Covenantors and/or their respective close associates (other than members of our Group) has undertaken to grant us the option (the “**Options for Acquisition**”) which is exercisable at any time during the term of the Relevant Period (as defined below), to purchase at one or more times any equity interest, assets or other interests which form part/or all of such Restricted Business as described above, or to operate the Restricted Business by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the preemptive rights in accordance with applicable laws and regulations and/or any legally binding document, the Options for Acquisition shall be subject to such third-party rights. In these circumstances, the Covenantors will use their best endeavors to procure the third party to waive such pre-emptive rights.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Covenantors and/or their respective close associates (other than members of our Group) have further unconditionally and irrevocably undertaken that they and/or their respective close associates (other than members of our Group) will not take advantage of his/its connections with our Group and/or our Shareholders, or his/its position as a shareholder of any member of our Group, to participate or be engaged in any activities which may be detrimental to the interests of our Group and our other Shareholders.

The Covenantors have further unconditionally and irrevocably undertaken that except with the prior written consent of our Group, the Covenantors shall not, and shall procure their respective close associates (other than members of our Group) will not, directly or indirectly:

- (i) any time induce or attempt to induce any director, manager or consultant of any member of our Group to terminate his or her employment or consultancy (as applicable) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as applicable); or
- (ii) alone or jointly with any other person through or as director, manager, adviser, consultant, employee of or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, solicit or accept orders from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

Our Company will disclose the decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the Deed of Non-competition either in the annual report of our Company or by way of announcement(s) to the public. For the purposes of the above, the “**Relevant Period**” means the period commencing from the date on which the Deed of Non-competition becomes effective and shall expire on the earlier of (a) the date when each of the Covenantors and, as the case may be, any of their respective close associates collectively, cease to hold, or otherwise hold, beneficially in aggregate whether directly or indirectly, 30% or more (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of the issued share capital of our Company and is not in a position to control the composition of a majority of the Board; or (b) the date on which the Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

CORPORATE GOVERNANCE

Our Directors recognize the importance of good corporate governance to protect the interest of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and the Controlling Shareholders:

- (i) where a Shareholders' meeting is held for considering proposed transaction in which any of the Controlling Shareholders has a material interest, the Controlling Shareholder(s) shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;
- (ii) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) the Independent Board Committee comprising all independent non-executive Directors will be responsible for deciding and given the authority to decide, without attendance by any Directors with beneficial or conflicting interest in the New Business Opportunities referred to our Group by our Controlling Shareholders (or their respective close associates other than members of our Group) and the exercise of the Pre-Emptive Right under the Deed of Non-competition. The Independent Board Committee comprising all independent non-executive Directors, taken as a whole, has the relevant expertise and experience in deciding the New Business Opportunities or the exercise of the Pre-Emptive Right. For more details of the biographies of our independent non-executive Directors, see “Directors and Senior Management.” In addition, the Independent Board Committee may, at the costs of our Company and from time to time, engage independent financial advisers and other external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters;
- (iv) any transaction between (or proposed to be made between) our Group and the connected persons will be subject to the requirements under Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review, circular (including independent financial advice) and independent Shareholders’ approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with relevant requirements under the Listing Rules;
- (v) in the event that our independent non-executive Directors are requested to review any conflict of interests between our Group and the Controlling Shareholders, the Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in its annual report or by way of announcements to the public; and
- (vi) our Company has appointed Messis Capital Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors’ duties and corporate governance.

CONNECTED TRANSACTIONS

We have entered into certain agreements with our connected persons, details of which are set out below. Upon the Listing, the transactions contemplated under such agreements will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

The table below sets forth certain parties who will become our connected persons upon the Listing and the nature of their relationship with our Group:

<u>Connected person</u>	<u>Connected relationship</u>
Mr. Liu	an executive Director and a Controlling Shareholder
Ms. Liu	a substantial Shareholder
Ms. Zhai	an executive Director
Ms. Zhang	an executive Director
iQIYI, Inc.	the holding company of Taurus Holding, a substantial Shareholder, and hence an associate of Taurus Holding
Beijing iQIYI	a wholly-owned subsidiary of iQIYI, Inc., and hence an associate of Taurus Holding
Shanghai Shaoyin	a company owned by Mr. Liu and Beijing iQIYI as to 40% and 60%, respectively, and hence an associate of Mr. Liu and Taurus Holding
Aite Visual Innovation Digital Technology Wuxi Co., Ltd. (艾特視創數字科技無錫有限公司) (“ Aite Visual Innovation ”)	a company owned as to 46.805% by Mr. Mi Chunlin (米春林) (“ Mr. Mi ”), a former director of Nova Film who resigned from his directorship at Nova Film with effect from May 16, 2020, and hence an associate of Mr. Mi who is and will be our connected person until May 15, 2021, being the end of the twelve months from the date of Mr. Mi’s resignation

CONNECTED TRANSACTIONS

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap for the years ending December 31, (RMB in thousands)		
			2020	2021	2022
Fully-exempt Continuing Connected Transactions					
(1) Original Soundtrack Production Framework Agreement	14A.76(1)(c)	N/A	N/A	N/A	N/A
(2) Web Films Cooperation Framework Agreement	14A.76(1)(c)	N/A	N/A	N/A	N/A
Partially-exempt Continuing Connected Transactions					
(3) Screenplays Development Framework Agreement	14A.76(2)(a)	Announcement	2,000	3,000	3,000
(4) Visual Effects Post-Production Service Purchasing Framework Agreement	14A.76(2)(a)	Announcement	13,400	20,000	N/A ⁽¹⁾
Non-exempt Continuing Connected Transactions					
(5) Made-to-order Drama Series Production Framework Agreement	Rule 14A.34-35 Rule 14A.49 Rule 14A.105	Announcement, circular and independent Shareholders' approval	370,000	790,000	1,300,000
(6) Drama Series Copyrights Licensing Framework Agreement	Rule 14A.34-35 Rule 14A.49 Rule 14A.105	Announcement, circular and independent Shareholders' approval	450,000	460,000	440,000
(7) Drama Series Broadcasting Rights Purchasing Framework Agreement	Rule 14A.34-35 Rule 14A.49 Rule 14A.105	Announcement, circular and independent Shareholders' approval	55,000	100,000	116,000
(8) Distribution Revenue Sharing Framework Agreement	Rule 14A.34-35 Rule 14A.49 Rule 14A.105	Announcement, circular and independent Shareholders' approval	45,000	45,000	45,000
(9) Contractual Arrangements	Rule 14A.34-35 Rule 14A.49 Rule 14A.52-59 Rule 14A.105	Announcement, circular, independent Shareholders' approval, annual caps and terms of agreements not exceeding three years	N/A	N/A	N/A

Note:

- (1) As Aite Visual Innovation will cease to be a connected person of our Company from May 16, 2021, any transactions to be entered into between Aite Visual Innovation and our Group from then on will no longer constitute continuing connected transactions of our Company.

CONNECTED TRANSACTIONS

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(1) Original Soundtrack Production Framework Agreement

On December 18, 2020, Jiangsu Strawbear (for itself and on behalf of its subsidiaries) and Shanghai Shaoyin entered into an original soundtrack production framework agreement (the “**Original Soundtrack Production Framework Agreement**”), pursuant to which our Group shall authorize Shanghai Shaoyin to produce original soundtracks for certain drama series from time to time and shall pay production fees to Shanghai Shaoyin, whilst Shanghai Shaoyin shall permanently license to our Group the right to use the original soundtracks in the scenarios related to the relevant drama series.

Separate underlying agreements will be entered into between the parties to set out the detailed terms, including details of the original soundtracks, ownership of intellectual property, scope of license and production fees, based on the principles and within the parameters provided under the Original Soundtrack Production Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm’s length negotiation between the parties.

The initial term of the Original Soundtrack Production Framework Agreement will commence on the Listing Date and expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

There are no historical amounts for the transactions contemplated under the Original Soundtrack Production Framework Agreement during the Track Record Period.

The transactions contemplated under the Original Soundtrack Production Framework Agreement have been and will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better. As each of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of these transactions is expected to be, on an annual basis, less than 5% and the total annual amount payable by our Group is expected to be less than HK\$3 million, these transactions will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(2) Web Films Cooperation Framework Agreement

On May 16, 2019, Jiangsu Strawbear and Beijing iQIYI entered into a web films cooperation framework agreement (the “**Web Films Cooperation Framework Agreement**”), pursuant to which we shall, among others, license the broadcasting rights of our self-produced or licensed-in web films to Beijing iQIYI, and Beijing iQIYI shall share with us the revenue generated from (i) the video on demand payment; (ii) the advertising income; and (iii) the overseas distribution, received by Beijing iQIYI during the web films broadcasting period. The term of the Web Films Cooperation Framework Agreement commenced on May 16, 2019 and will expire upon the expiration of the term of license under the underlying licensing letter.

Separate underlying licensing letter will be issued by Jiangsu Strawbear to Beijing iQIYI to set out the detailed terms, including details of the web film, term of license, scope of license and exclusivity and price per demand for broadcasting, based on the principles and within the parameters provided under the Web Films Cooperation Framework Agreement. The definitive terms of each of such licensing letter will be determined on a case-by-case basis and on fair and reasonable basis after arm’s length negotiation between the parties.

CONNECTED TRANSACTIONS

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate fees paid by Beijing iQIYI to us under the Web Films Cooperation Framework Agreement are approximately nil, nil, RMB333,681 and nil, respectively.

The transactions contemplated under the Web Films Cooperation Framework Agreement have been and will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better. As each of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of these transactions is expected to be, on an annual basis, less than 5% and the total annual amount receivable by our Group is expected to be less than HK\$3 million, these transactions will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for a continuing connected transaction must not exceed three years, except where the nature of the transaction requires the agreement to be of a duration longer than three years. The term of the Web Films Cooperation Framework Agreement will be determined by the term of license under the underlying licensing letter, which may exceed three years. As confirmed by Frost & Sullivan, our independent industry consultant, an indefinite term determined by the term of license under the underlying licensing letter is normal business practice for web film cooperation agreements entered into with online video platforms. As such, our Directors are of the view that the term of the Web Films Cooperation Framework Agreement for more than three years is in line with normal business practice, and the Joint Sponsors concur with our Directors' view.

PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(3) Screenplays Development Framework Agreement

Principal terms

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a screenplays development framework agreement (the "**Screenplays Development Framework Agreement**"), pursuant to which our Group shall adapt creative works including novels into screenplay and license the adaptation right and filming right related thereto to iQIYI in exchange for the screenplay development fee.

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

The initial term of the Screenplays Development Framework Agreement will commence on the Listing Date and expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

CONNECTED TRANSACTIONS

Reasons for and benefits of the transactions

Given our strong content production and distribution capabilities, we are able to attract well-known drama series screenwriters to develop screenplays for us. iQIYI is an innovative market-leading online entertainment service provider in China and produces popular, trend-setting original content, including drama series. It has massive demands for high-quality creative works which could in turn enhance its user experience and attract more customers to its online platforms. As such, our services provided to iQIYI under the Screenplays Development Framework Agreement are in the ordinary and usual course of our business. We believe that, through entering into the Screenplays Development Framework Agreement, the creative works provided by our Group to iQIYI could be widely distributed through subsequent adaption thereof into films, television series and web series, thereby enhancing the popularity of our Group's content products and unleashing the monetization potential of our Group's intellectual property. In addition, the terms offered by our Group to iQIYI under the existing underlying agreements are no more favorable than those offered to our other customers which are Independent Third Parties, and we will charge iQIYI screenplay development service fee with reference to the prevailing market price that is no less than those offered to our other independent customers, hence our screenplay development services provided to iQIYI are profitable and are in the interests of our Group and the Shareholders as a whole.

Pricing policy

The screenplay development fees we charge iQIYI shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the nature, popularity, quality and commercial potential of the relevant IP.

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate fees paid by iQIYI to us for screenplay development service are approximately nil, nil, nil and RMB2.0 million, respectively.

Annual caps

The proposed annual caps for the screenplay development service fees payable by iQIYI to our Group pursuant to the Screenplays Development Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ending December 31,		
2020	2021	2022
<i>(RMB in thousands)</i>		
2,000	3,000	3,000

CONNECTED TRANSACTIONS

The proposed annual caps above for the three years ending December 31, 2022 are determined with reference to:

- (i) our existing pipeline of screenplay development projects for iQIYI;
- (ii) the historical screenplay development service fees paid by iQIYI to our Group; and
- (iii) the estimated development timeline for each screenplay development project.

Listing Rules implications

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

(4) Visual Effects Post-Production Service Purchasing Framework Agreement

Principal terms

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and Aite Visual Innovation entered into a visual effects post-production service purchasing framework agreement (the “**Visual Effects Post-Production Service Purchasing Framework Agreement**”), pursuant to which Aite Visual Innovation shall provide visual effects post-production services for our self-produced drama series, and we shall pay visual effects production fees to Aite Visual Innovation.

Separate underlying agreements will be entered into between the parties to set out the detailed terms, including details of the drama series, scope of post-production editing service, specifications, production fees with detailed breakdown, milestone payment schedules and allocation of IP rights, based on the principles and within the parameters provided under the Visual Effects Post-Production Service Purchasing Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

The initial term of the Visual Effects Post-Production Service Purchasing Framework Agreement will commence on the Listing Date and expire on May 15, 2021, after which any transaction to be entered into between Aite Visual Innovation and our Group will cease to be a continuing connected transaction of our Company.

Reasons for and benefits of the transactions

As a major drama series producer in the PRC, we have a high demand for visual effects post-production services for our drama series. Given that the ordinary visual effects post-production process is relatively labor-intensive, we tend to engage third parties to carry out the ground works in a relatively cost-effective manner. As such, the purchasing of visual effects post-production services under the Visual Effects Post-Production Service Purchasing Framework Agreement are in the ordinary and

CONNECTED TRANSACTIONS

usual course of our business. In addition, the prices and terms offered by Aite Visual Innovation to our Group are no less favorable than those offered by our other suppliers which are Independent Third Parties, hence the visual effects post-production services purchasing arrangements under the Visual Effects Post-Production Service Purchasing Framework Agreement are in the interests of our Group and the Shareholders as a whole.

Pricing policy

The visual effects production fees Aite Visual Innovation charges our Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors, including the duration of the visual effects to be added, the corresponding production difficulty level of such visual effects, the number of digital assets involved and the corresponding production difficulty level of such digital assets. The aforesaid pricing policies are no less favorable than those provided by our other independent suppliers.

Historical transaction amounts

There are no historical amounts for the transactions contemplated under the Visual Effects Post-Production Service Purchasing Framework Agreement during the Track Record Period.

Annual caps

The proposed annual caps for the visual effects production fees payable by our Group to Aite Visual Innovation pursuant to the Visual Effects Post-Production Service Purchasing Framework Agreement for the two years ending December 31, 2021 are set out below:

Proposed annual caps for the years ending December 31,	
2020	2021
<i>(RMB in thousands)</i>	
13,400	20,000

The proposed annual caps above for the two years ending December 31, 2021 are determined with reference to:

- (i) the estimated number of drama series for which the visual effects post-production services are to be provided by Aite Visual Innovation;
- (ii) the estimated duration and corresponding class of visual effects to be added by Aite Visual Innovation for each of our drama series;
- (iii) the estimated number and corresponding class of digital assets involved; and
- (iv) the corresponding prevailing market price for each class of visual effects and digital assets involved.

CONNECTED TRANSACTIONS

Listing Rules implications

As Aite Visual Innovation will cease to be a connected person of our Company from May 16, 2021, any transactions to be entered into between Aite Visual Innovation and our Group from then on will no longer constitute continuing connected transactions of our Company. As the highest applicable percentage ratio (other than the profit ratio) under the Listing Rules in respect of the aggregate payments under the Visual Effects Post-Production Service Purchasing Framework Agreement is expected to be more than 0.1% but less than 5%, the transactions contemplated under the Visual Effects Post-Production Service Purchasing Framework Agreement will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(5) **Made-to-order Drama Series Production Framework Agreement**

Principal terms

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a made-to-order drama series production framework agreement (the "**Made-to-order Drama Series Production Framework Agreement**"), pursuant to which our Group shall, among others, produce made-to-order drama series for iQIYI in exchange for production service fees payable by iQIYI.

Separate underlying agreements will be entered into between the parties to set out the detailed terms, including details of the drama series, production service fee, milestone payment schedules and allocation of IP rights, based on the principles and within the parameters provided under the Made-to-order Drama Series Production Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

The initial term of the Made-to-order Drama Series Production Framework Agreement will commence on the Listing Date and expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

Reasons for and benefits of the transactions

We are an early mover in collaborating with online video platforms and provide diversified content developed by ourselves or licensed from our content partners to different online video platforms according to their preferences and specific demands. iQIYI is a market-leading online entertainment service provider in China which distributes popular, trend-setting content, including made-to-order drama series. As such, our services provided to iQIYI under the Made-to-order Drama Series Production Framework Agreement are in the ordinary and usual course of our business. In addition, the terms offered by our Group to iQIYI under the existing underlying agreements are no more favorable than those offered to our other customers which are Independent Third Parties and we will charge iQIYI a pre-determined fixed fee with the level of profit margin that is no less than those offered to our other independent customers. Given that iQIYI is a market-leading online entertainment service provider in China and has

CONNECTED TRANSACTIONS

abundant capital capacity and massive user base, providing our made-to-order drama series production services to iQIYI would diversify our revenue sources and hedge the operational risks of a single business resulting from the evolving market and regulatory restrictions. Therefore, our made-to-order drama series production services provided to iQIYI are profitable and are in the interests of our Group and the Shareholders as a whole.

Pricing policy

We primarily charge iQIYI a pre-determined fixed fee based on negotiations between the parties on a cost-plus basis taking into consideration our target profit margin for the production services we provide and with reference to the prevailing market price and various commercial factors, including the nature, popularity, quantity, quality and commercial potential of target made-to-order drama series. In addition, we are also entitled to an advertising commission for bringing in advertisers calculated as a percentage of the advertising revenue derived from the underlying drama series as specified in the relevant agreement. The aforesaid pricing policies are no more favorable than those available to our other independent customers.

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate fees paid by iQIYI to us for the made-to-order drama series production service are approximately nil, nil, nil and RMB84.9 million, respectively.

Annual caps

The proposed annual caps for the made-to-order drama series production service fees payable by iQIYI to our Group under the Made-to-order Drama Series Production Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ending December 31,		
2020	2021	2022
<i>(RMB in thousands)</i>		
370,000	790,000	1,300,000

The proposed annual caps above for the three years ending December 31, 2022 are determined with reference to:

- (i) the unperformed contractual amounts under the existing agreements for made-to-order drama series production projects that we have entered into with iQIYI;
- (ii) our expected pipeline of made-to-order drama series for iQIYI;
- (iii) the estimated number of episodes of each of our pipeline made-to-order drama series;
- (iv) the estimated rating of our pipeline made-to-order drama series and the corresponding prevailing market price range per episode; and

CONNECTED TRANSACTIONS

- (v) the purchasing amounts of iQIYI for made-to-order web series for the three years ended December 31, 2019 and the expected increasing purchasing scale of iQIYI for made-to-order web series in the near future.

Listing Rules implications

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

(6) Drama Series Copyrights Licensing Framework Agreement

Principal terms

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a drama series copyrights licensing framework agreement (the “**Drama Series Copyrights Licensing Framework Agreement**”), pursuant to which our Group shall, among others, license the broadcasting rights and other copyrights, if applicable, of our self-produced drama series to iQIYI, and iQIYI shall pay licensing fees to our Group.

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

The initial term of the Drama Series Copyrights Licensing Framework Agreement will commence on the Listing Date and expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

Reasons for and benefits of the transactions

We commenced producing our own drama series and licensing the related copyrights of these self-produced drama series to major TV channels and online video platforms since our inception. Substantially all our self-produced drama series are broadcast on both TV channels and online video platforms. iQIYI is a market-leading online entertainment service provider in China and its platform features popular original content, as well as a comprehensive selection of professionally produced and partner-generated content. As such, the copyrights licensing arrangements under the Drama Series Copyrights Licensing Framework Agreement are in the ordinary and usual course of our business.

CONNECTED TRANSACTIONS

According to the Frost & Sullivan Report, the number of web series broadcast by iQIYI, including the web series that are produced by iQIYI or directly purchased by it from third-party companies or produced by third-party companies that are commissioned by iQIYI, reached 21, 35 and 40 in 2017, 2018 and 2019, respectively, representing approximately 22.1%, 30.4% and 32.0% of the total number of web series in the PRC, respectively for the same periods. As such, iQIYI has a massive demand for high-quality content generated by professional producers like us. By entering into the Drama Series Copyrights Licensing Framework Agreement, we believe we can enhance our distribution network and business relationship with iQIYI, which has been a major player in content distribution market with sizable procurement budgets for drama series. In addition, the prices and terms offered by our Group to iQIYI are no more favorable than those offered to our other customers which are Independent Third Parties, hence the copyrights licensing arrangements under the Drama Series Copyrights Licensing Framework Agreement are profitable and are in the interests of our Group and the Shareholders as a whole.

Pricing policy

The licensing fees we charge iQIYI shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors, including the total investment amount, scope of license and exclusivity, the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the expected popularity and target audience base of drama series, as well as our target profit margin. The aforesaid pricing policies are no more favorable than those available to our other independent customers.

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate licensing fees paid by iQIYI to us for licensing the broadcasting rights and other copyrights of our drama series are approximately RMB116.2 million, RMB244.7 million, RMB204.3 million and RMB309.6 million, respectively.

Annual caps

The proposed annual caps for the licensing fees payable by iQIYI to our Group under the Drama Series Copyrights Licensing Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ending December 31,		
2020	2021	2022
<i>(RMB in thousands)</i>		
450,000	460,000	440,000

CONNECTED TRANSACTIONS

The proposed annual caps above for the three years ending December 31, 2022 were determined based on the future business growth of our Group with iQIYI after arm's length discussion with reference to:

- (i) the unperformed contractual amounts under the existing drama series copyrights licensing agreements we have entered into with iQIYI;
- (ii) the estimated number of our copyrights licensing projects to iQIYI in the near future;
- (iii) the estimated number of episodes of each of our pipeline drama series for copyrights licensing to iQIYI; and
- (iv) the estimated rating of our pipeline drama series for copyrights licensing to iQIYI and the corresponding prevailing market price range per episode.

Listing Rules implications

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

(7) Drama Series Broadcasting Rights Purchasing Framework Agreement

Principal terms

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a drama series broadcasting rights purchasing framework agreement (the "**Drama Series Broadcasting Rights Purchasing Framework Agreement**"), pursuant to which iQIYI shall license to our Group the broadcasting rights of certain drama series, which we will further license to TV channels or third-party agents, and we shall pay licensing fees to iQIYI.

Separate underlying agreements will be entered into between the parties to set out the detailed terms, including details of the drama series, term of license, scope of license and exclusivity, broadcasting platform or TV channels, licensing fee and milestone payment schedules, based on the principles and within the parameters provided under the Drama Series Broadcasting Rights Purchasing Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

The initial term of the Drama Series Broadcasting Rights Purchasing Framework Agreement will commence on the Listing Date and expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

CONNECTED TRANSACTIONS

Reasons for and benefits of the transactions

We commenced licensing broadcasting rights of outright-purchased drama series from online video platforms to TV channels or third-party agents in 2017. Such business model has diversified our revenue streams and further enhanced our cooperation with top online video platforms by providing them with more monetization opportunities at the same time. As such, the purchasing of broadcasting rights of outright-purchased drama series under the Drama Series Broadcasting Rights Purchasing Framework Agreement are in the ordinary and usual course of our business. In addition, the prices and terms offered by iQIYI to our Group are no less favorable than those offered by our other suppliers which are Independent Third Parties, hence the broadcasting rights purchasing arrangements under the Drama Series Broadcasting Rights Purchasing Framework Agreement are profitable and are in the interests of our Group and the Shareholders as a whole.

Pricing policy

The licensing fees iQIYI charges our Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors, including the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the expected popularity and target audience base of drama series, as well as the target profit margin of iQIYI. The aforesaid pricing policies are no less favorable than those provided by our other independent suppliers.

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate licensing fees paid by our Group to iQIYI for licensing the broadcasting rights of outright-purchased drama series are approximately RMB5.7 million, RMB112.2 million, RMB148.9 million and nil, respectively. The business model of outright-purchased drama series licensing highly relies on market opportunities which may lead to fluctuation of aggregated licensing fees from period to period. For the year of 2020, the licensing of broadcasting rights of drama series by our Group from iQIYI would all be carried out in the second half of the year, thus we did not record any transaction amounts for the six months ended June 30, 2020.

Annual caps

The proposed annual caps for the licensing fees payable by our Group to iQIYI under the Drama Series Broadcasting Rights Purchasing Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ending December 31,		
2020	2021	2022
<i>(RMB in thousands)</i>		
55,000	100,000	116,000

CONNECTED TRANSACTIONS

The proposed annual caps above for the three years ending December 31, 2022 are determined with reference to:

- (i) the unperformed contractual amounts under the existing drama series broadcasting rights purchasing agreements we have entered into with iQIYI;
- (ii) the estimated number of broadcasting rights license-in projects from iQIYI in the near future;
- (iii) the estimated number of episodes of each drama series for broadcasting rights license-in from iQIYI; and
- (iv) the estimated licensing price per episode of drama series to be licensed in from iQIYI taking into account the declined average price per episode offered by TV stations and the expected further decline of purchase price to be offered by TV stations in the near future.

Listing Rules implications

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

(8) Distribution Revenue Sharing Framework Agreement

Principal terms

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a distribution revenue sharing framework agreement (the “**Distribution Revenue Sharing Framework Agreement**”), pursuant to which our Group shall share with iQIYI the revenue generated from the distribution of the made-to-order drama series produced by our Group for iQIYI.

Provisions for distribution revenue sharing will be incorporated into separate underlying made-to-order drama series production agreements, including details of the relevant drama series, distribution channel, composition of distribution revenue and revenue sharing ratio, based on the principles and within the parameters provided under the Distribution Revenue Sharing Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

The initial term of the Distribution Revenue Sharing Framework Agreement will commence on the Listing Date and expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

CONNECTED TRANSACTIONS

Reasons for and benefits of the transactions

The business model of sharing of distribution revenue represents our efforts to explore opportunities to further cooperate with online video platforms to diversify our monetization methods by leveraging our strong distribution ability. Under this business model, we bring in online video platforms at an early stage as either co-investors or copyright owners for whom we produce made-to-order drama series, and then distribute such drama series to TV channels. By doing so, we are entitled to the distribution rights of the relevant drama series for distribution to TV channels, from which we can share part of the distribution revenue of such drama series in addition to the production fees for these drama series. As such, the sharing of distribution revenue under the Distribution Revenue Sharing Framework Agreement is in the ordinary and usual course of our business and is profitable and in the interests of our Group and the Shareholders as a whole.

Pricing policy

The revenue sharing ratio shall be determined after arm's length negotiation between the parties with reference to the prevailing market price, target distribution channels, and various related commercial factors, including the popularity, number of episodes, quality and commercial potential of the drama series.

Historical transaction amounts

There are no historical amounts for the transactions contemplated under the Distribution Revenue Sharing Framework Agreement during the Track Record Period.

Annual caps

The proposed annual caps for the aggregate fees payable by our Group as revenue sharing to iQIYI for distribution of drama series under the Distribution Revenue Sharing Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ending December 31,		
2020	2021	2022
<i>(RMB in thousands)</i>		
45,000	45,000	45,000

The proposed annual caps above for the three years ending December 31, 2022 are determined with reference to:

- (i) the distribution revenue sharing ratio under the existing agreements we have entered into with iQIYI;
- (ii) our expected pipeline of made-to-order drama series for iQIYI with distribution revenue sharing provisions to be contained therein;
- (iii) the estimated number of episodes of each of our pipeline made-to-order drama series for iQIYI; and
- (iv) the target distribution channel and the corresponding prevailing market price range of drama series per episode.

CONNECTED TRANSACTIONS

Listing Rules implications

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

(9) Contractual Arrangements

Background

As disclosed in “Contractual Arrangements,” due to regulatory restrictions on foreign ownership in Relevant Businesses in the PRC, we, as foreign investors, are prohibited from holding equity interest in our Consolidated Affiliated Entities, namely Jiangsu Strawbear and its subsidiaries, which currently hold certain licenses required for carrying out the Relevant Businesses. As a result, our Group, through our wholly-owned subsidiary, Nanjing Strawbear, has entered into the Contractual Arrangements with Jiangsu Strawbear and the Registered Shareholders such that we can conduct our Relevant Businesses indirectly in the PRC through Jiangsu Strawbear while complying with the applicable PRC laws and regulations. The Contractual Arrangements enable our Group to, among others, (i) receive all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by Nanjing Strawbear to our Consolidated Affiliated Entities; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to acquire all or part of the equity interests in and/or the assets of our Consolidated Affiliated Entities when and to the extent permitted by the PRC laws and regulations.

The Contractual Arrangements consist of a series of agreements. For further details, see “Contractual Arrangements.”

Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Mr. Liu, Ms. Liu, Ms. Zhang and Ms. Zhai, all of which are the members of the Registered Shareholders, are connected persons of our Company.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the legal structure and business of our Group, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements related thereto or renewal of existing transactions, contracts and agreements to be entered into by, among others, our Consolidated Affiliated Entities and any member of our Group (the “**New Intergroup Agreements**”) technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules after the Listing, our Directors consider that, given that our Group is placed in a special situation in relation to the connected

CONNECTED TRANSACTIONS

transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholders' approval requirements.

WAIVER APPLICATIONS FOR CONTINUING CONNECTED TRANSACTIONS

Transactions with iQIYI

In respect of the Screenplays Development Framework Agreement, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the transactions contemplated thereunder pursuant to Rule 14A.105 of the Listing Rules.

In respect of each of the Made-to-order Drama Series Production Framework Agreement, the Drama Series Copyrights Licensing Framework Agreement, the Drama Series Broadcasting Rights Purchasing Framework Agreement and the Distribution Revenue Sharing Framework Agreement, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated thereunder pursuant to Rule 14A.105 of the Listing Rules.

Transactions with Aite Visual Innovation

In respect of the Visual Effects Post-Production Service Purchasing Framework Agreement, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the transactions thereunder pursuant to Rule 14A.105 of the Listing Rules.

Contractual Arrangements

In respect of the Contractual Arrangements, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent Shareholders' approval under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange, subject, however, to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to any of the agreements constituting the Contractual Arrangements will be made without the approval of our independent non-executive Directors.

CONNECTED TRANSACTIONS

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to any of the agreements constituting the Contractual Arrangements will be made without the independent Shareholders' approval. Once the independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will, however, continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the equity interests of Jiangsu Strawbear at the minimum amount of consideration permitted under the applicable PRC laws, (ii) the business structure under which the profit generated by our Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Nanjing Strawbear by our Consolidated Affiliated Entities under the Exclusive Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entities.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in the annual reports and accounts of our Company in accordance with the relevant provisions of the Listing Rules.

CONNECTED TRANSACTIONS

- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," our Consolidated Affiliated Entities will be treated as our wholly-owned subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, our Consolidated Affiliated Entities will provide the Group's management and the Company's reporting accountants' full access to its relevant records for the purpose of their review of the continuing connected transactions.

In addition, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent Shareholders' approval in respect of the transactions contemplated under any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules, (ii) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of any New Intergroup Agreements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange. The waiver is subject to the conditions that the Contractual Arrangements subsist and that our Consolidated Affiliated Entities will continue to be treated as our subsidiary, but at the same time, the directors, chief executives or substantial shareholders of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements and the New Intergroup Agreements, will be subject to requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions as set out above have been and will continue to be carried out in the ordinary and usual course of our business on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the proposed annual caps for these transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including the independent non-executive Directors) of our Company are of the view that the Contractual Arrangements and the transactions contemplated thereunder have been and will be entered into in the ordinary and usual course of our business on normal commercial terms or better that are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Our Directors are of the view that with respect to the terms of the relevant agreements underlying the Contractual Arrangements, which are of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration to ensure that (i) the financial and operational policies of our Consolidated Affiliated Entities can be effectively controlled by Nanjing Strawbear; (ii) Nanjing Strawbear can obtain the economic benefits derived from our Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented, on an uninterrupted basis.

CONFIRMATION FROM THE JOINT SPONSOR

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the above continuing connected transactions; (ii) obtained necessary representations and confirmations from the Company and the Directors, and (iii) participated in the due diligence and discussions with the management of our Group.

Based on the above, the Joint Sponsors are of the view that the aforesaid continuing connected transactions, for which waivers have been sought, have been entered into in the ordinary and usual course of our business on normal commercial terms that are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps in respect of these non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) policies of the Consolidated Affiliated Entities can be effectively controlled by Nanjing Strawbear, (ii) Nanjing Strawbear can obtain the economic benefits derived from our Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information regarding our Directors and members of our senior management:

Name	Age	Time of joining our Group	Date of appointment as Director or senior management	Position	Roles and responsibilities
Mr. LIU Xiaofeng (劉小楓)	43	June 2014	June 24, 2020	– Chairman of the Board	Formulating the overall corporate and business strategies and overseeing the management and operation of our Group
			June 24, 2020	– Executive Director	
			June 24, 2020	– Chief executive officer	
Ms. ZHANG Qiuchen (張秋晨)	43	October 2014	June 24, 2020	– Executive Director	Overseeing the sales and distribution of TV/web series and publicity and branding of our Group
			June 24, 2020	– Chief marketing officer	
Mr. CHEN Chen (陳晨)	38	November 2014	June 24, 2020	– Executive Director	Overseeing the financial operation and risk management and taking charge of departments of accounting, administration and government affairs of our Group
			June 24, 2020	– Chief financial officer	
Ms. ZHAI Fang (翟芳)	42	March 2017	June 24, 2020	– Executive Director	Assisting in the daily operation and management and taking charge of the capital operation including investment and financing of our Group
			June 24, 2020	– Chief operating officer	
			June 24, 2020	– Joint company secretary	
Mr. WANG Xiaohui (王曉暉)	52	November 2018	June 24, 2020	– Non-executive Director	Providing strategic advice and making recommendations on financial management and business development to our Board

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Time of joining our Group	Date of appointment as Director or senior management	Position	Roles and responsibilities
Mr. WANG Jun (汪駿)	42	May, 2020	June 24, 2020	– Non-executive Director	Providing strategic advice and making recommendations on financial management and business development to our Board
Mr. MA Zhongjun (馬中駿)	63	December 18, 2020	December 18, 2020	– Independent non-executive Director	Providing independent opinion and judgement to our Board
Mr. ZHANG Senquan (張森泉)	43	December 18, 2020	December 18, 2020	– Independent non-executive Director	Providing independent opinion and judgement to our Board
Mr. CHUNG Chong Sun (鍾創新)	45	December 18, 2020	December 18, 2020	– Independent non-executive Director	Providing independent opinion and judgement to our Board

BOARD OF DIRECTORS

Our Board is responsible for, and has general powers over, the management and operation of our business. It currently consists of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. LIU Xiaofeng (劉小楓), aged 43, is an executive Director, the chairman of the Board and the chief executive officer of our Company, primarily responsible for the overall corporate and business strategies and overseeing the management and operation of our Group.

With approximately 20 years of experience in media industry, Mr. Liu has gained an in-depth understanding of production and distribution of TV series and acquired rich management experience by managing our Group and developing our business. Mr. Liu founded our Group in June 2014 and has been the chief executive officer of our Group since then. Prior to the foundation of our Group, Mr. Liu worked in a number of well recognized media companies focusing on production and distribution of TV series. Mr. Liu served as the director of Phoenix Legend Films Co., Ltd. (鳳凰傳奇影業有限公司), a leading multimedia company focusing on investment, production and distribution of films and TV series, from October 2010 to June 2014. Prior to that, Mr. Liu served as the general manager of Nanjing Legend Image Co., Ltd. (南京傳奇影業有限公司). From 2003 to 2006, Mr. Liu worked as the deputy general manager of Jiangsu Langtaosha Pictures Co., Ltd. (江蘇省浪淘沙影業有限公司). Mr. Liu started his career as a reporter in July 2000 and subsequently served as a director of variety shows at Jiangsu Television (江蘇電視台) until July 2003.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu has profound influence in the drama series industry, evidenced by more than 20 drama series with over 1,000 episodes he has produced and distributed, some of which won the annual viewership rating champions of various TV channels, such as Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) and Second Time Is A Charm (第二次也很美). He is also the first to initiate the “Online first, TV next” (“先網後台”) broadcasting model which introduced a new broadcasting arrangement among distribution channels. Attributable to his deep understanding and accurate prediction of the future trends of the drama series industry in the PRC, Mr. Liu is a first-mover in cooperation with online video platforms, thereby having seized the opportunities brought by the rise of such platforms. He is also the first to have adopted the platform business model to integrate premium industry resources to ensure our rapid and sustainable growth. Mr. Liu is a member of China Television Artists Association (中國電視藝術家協會), a council member of Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會) and the vice president of Film and Television Artists Association of Nanjing City (南京市電影電視藝術家協會). He graduated from Nanjing University (南京大學) in June 1997 and obtained his bachelor’s degree in market information management.

Ms. ZHANG Qiuchen (張秋晨), aged 43, is an executive Director and the chief marketing officer of our Company, primarily responsible for sales and distribution of TV/web series and publicity and branding of our Group.

Ms. Zhang has approximately 20 years of experience in sales, marketing and distribution of TV series in the PRC. She has distributed more than 20 drama series with over 1,000 episodes since 2000 and is regarded as one of the best individual distributors in the industry. Since October 2014, she has been the chief marketing officer and deputy director of distribution of Jiangsu Strawbear where she is primarily responsible for sales and distribution of our TV series and taking charge of certain work studio for development, production and sales of our web series. Prior to joining our Group, Ms. Zhang served as the general manager of Nanjing Tongqiu Films and TV Culture Communication Co., Ltd. (南京同秋影視文化傳播有限公司) and was responsible for sales and distribution of TV series from April 2011 to October 2014. Before that, from November 1997 to March 2011 she held various positions at Suzhou Funa Culture and Technology Co., Ltd. (蘇州福納文化科技股份有限公司), a professional media company specialized in the production and distribution of films and TV series.

Ms. Zhang obtained a bachelor’s degree in administrative management from Nanjing University (南京大學) in July 2012 through online education.

Mr. CHEN Chen (陳晨), aged 38, is an executive Director and the chief financial officer of our Company, primarily responsible for overseeing the financial operation and risk management and taking charge of departments of accounting, administration and government affairs of our Group.

Mr. Chen has more than 10 years of experience in financial management. Since November 2014, he has been the chief financial officer of Jiangsu Strawbear where he has accumulated knowledge and skills required in overseeing the financial management of our Group. Prior to joining our Group, Mr. Chen served as the head of financial department of Phoenix Legend Films Co., Ltd. (鳳凰傳奇影業有限公司) from September 2012 to July 2014 responsible for its accounting and financial management. From July 2009 to September 2012, he served as an accountant in the financial department of Nanjing Branch of Jiangsu Broadcasting Cable Information Network Corporation Limited (江蘇省廣電有線信息網絡股份有限公司南京分公司). Mr. Chen started his career at PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所) where he was trained as an auditor from August 2007 to June 2009.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen obtained a bachelor's degree in financial management from Nanjing University (南京大學) in June 2004, and a master's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in January 2007. Mr. Chen was accredited as an accountant (會計師) by Nanjing Professional Title (Professional Qualification) Leading Group (南京市職稱(職業資格)工作領導小組) in March 2011 and was recognized and cultivated as one of The First Class of Nanjing High-level Accounting Talents (南京市首期高層次會計人才) by Nanjing Municipal Bureau of Finance (南京市財政局) and Beijing National Accounting Institute (北京國家會計學院) in November 2013. Mr. Chen is also a member of Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會).

Ms. ZHAI Fang (翟芳), aged 42, is an executive Director, the chief operating officer and a joint company secretary of our Company, primarily responsible for assisting in the daily operation and management and taking charge of the capital operation including investment and financing of our Group.

Ms. Zhai has more than 10 years of experience in equity investment and management. Since March 2017, she has been the chief operating officer of Jiangsu Strawbear and is responsible for capital operation including investment and financing. Prior to joining our Group, Ms. Zhai served as the vice president of strategic investment of China Allied Shengshi Culture (Beijing) Co., Ltd. (中聯盛世文化(北京)有限公司), a subsidiary of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) (Stock Code: 1060.HK and S91.SGX), from January 2016 to December 2016 responsible for its strategic investment and financing. In April 2012, she joined Shanghai Fosun Capital Investment Management Co., Ltd. (上海復星創富投資管理有限公司), a leading investment firm under Fosun International Limited (復星國際有限公司) (Stock Code: 0656.HK), responsible for equity investment in consumer and entertainment sectors as assistant president and was appointed as executive general manager in April 2013. Before that, she was engaged in management work at Ping An Asset Management Co., Ltd. (平安資產管理有限責任公司) from September 2009 to April 2012.

Ms. Zhai obtained a master's degree in financial development from Shanghai Academy of Social Sciences (上海社會科學院) in June 2008, and an executive master of business administration's degree conferred jointly by Columbia University, London Business School and The University of Hong Kong in 2017.

Non-executive Directors

Mr. WANG Xiaohui (王曉暉), aged 52, is a non-executive Director, primarily responsible for providing strategic advice and making recommendations on financial management and business development to our Board.

Mr. Wang Xiaohui joined our Group in November 2018 and has been one of our Directors since then. Mr. Wang has approximately 30 years of experience in journalism and content business. Mr. Wang joined iQIYI, Inc. (Stock Code: IQ. NASDAQ) in August 2016 as the chief content officer, primarily responsible for the procurement, production and operations of content business. Prior to joining iQIYI, Mr. Wang served in various positions at China National Radio (中央人民廣播電台), including the director of news comment department of news center from March 2000 to October 2001, the director of news department of news center from October 2001 to March 2002, the director of news program center from March 2002 to November 2003, the deputy director of Voice of China from November 2003 to June 2006, the director of finance office from June 2006 to September 2007, and the vice president from September 2007 to June 2016.

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Mr. Wang Xiaohui's expertise in journalism and content business is highly recognized nationwide, evidenced by numerous honors and awards he received, including, among others, the 11th Changjiang Taofen Award (長江韜奮獎) awarded to him by the All-China Journalists Association (中華全國新聞工作者協會) in November 2010, which is recognized as one of top journalism accolades in China, and the Advanced Individual in the Reform of National Cultural System (全國文化體制改革工作先進個人) awarded jointly by the Publicity Department of the Central Committee of the Communist Party of China (中國共產黨中央委員會宣傳部), the Ministry of Culture of the PRC (中華人民共和國文化部), SARFT and GAPP in September 2012.

Mr. Wang obtained a bachelor's degree in journalism from Jilin University (吉林大學) in July 1990, an EMBA degree from Cheung Kong Graduate School of Business (長江商學院) in September 2013 and a Ph.D. in radio and television journalism from the Communication University of China (中國傳媒大學) in June 2012.

As of the Latest Practicable Date, Mr. Wang 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. (北京中文奇跡文化科技有限公司) and Dongyang Liubai Film Culture Co., Ltd. (東陽留白影視文化有限公司). Mr. Wang was not involved in the daily management and operation of our Company and the aforementioned companies. As such, the directorship held by Mr. Wang would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Mr. WANG Jun (汪駿), aged 42, is a non-executive Director, primarily responsible for providing strategic advice and making recommendations on financial management and business development to our Board.

Mr. Wang Jun joined our Group in May 2020 and has been one of our Directors since then. Mr. Wang has more than 10 years of experience in private equity investment. He was engaged by iQIYI, Inc. (Stock Code: IQ. NASDAQ) in January 2018 to provide advice on investment and financing activities. Prior to that, he served as a partner of Waterwood Group Limited (水木集團有限公司), a private equity firm, from December 2015 to October 2017. From June 2014 to August 2015, he served as a managing director of TBP Consulting (Hong Kong) Limited. From July 2008 to June 2014, he worked at J.P. Morgan Securities (Asia Pacific) Limited with his last position being the vice president.

Mr. Wang obtained a bachelor's degree in English from Tsinghua University (清華大學) in July 2000 and a master's degree in business administration from the University of Chicago in June 2008.

Mr. Wang Xiaohui and Mr. Wang Jun are primarily responsible for providing strategic advice to the business and operation of our Group, particularly in aspects relating to content development and capital operation. With Mr. Wang Xiaohui's extensive experience in content development business and his current position as the chief content officer of iQIYI, Inc., it is expected that the presence of Mr. Wang Xiaohui in our Board is beneficial to our Group's content development and future business development. It is also expected that the presence of Mr. Wang Jun in our Board is beneficial to our Group, particularly in view of his experience and connections in capital operations including investment and financing activities. Mr. Wang Xiaohui and Mr. Wang Jun have been devoted to our Group's affairs since their appointments, including providing strategic advice as well as attending board meetings and engaging in regular communications with our senior management regarding the business development of our Group, and are expected to continue to engage in weekly communications with our senior management regarding our Group's affairs during their tenures.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. MA Zhongjun (馬中駿), aged 63, is an independent non-executive Director, primarily responsible for providing independent opinion and judgement to our Board.

Mr. Ma is a first-degree state screenwriter and celebrated producer and has extensive experience in the film and television industry. Mr. Ma joined Ciwen Media Co., Ltd. (慈文傳媒股份有限公司) (Stock Code: 002343.SZ) in 2000 and has served in various portions, including the chairman of the board and general manager from September 2015 to May 2019 and the chief content officer since May 2019.

Mr. Ma's expertise in film and television industry is highly recognized nationwide, evidenced by numerous honors and awards he received, including, among others, the China Creative Industry Leader Award (中國創意產業領軍人物獎) by the sixth Annual Award of China's Creative Industry (第六屆中國創意產業年度大獎) in 2011, the Network Audio Visual Annual Content Innovation Figure Award (網絡視聽年度內容創新人物獎) by the fifth China Network Audio Visual Conference (第五屆中國網絡視聽大會) in 2017 and the "Top 10 TV Series Producers of the 12th TV Production Industry Award" (第十二屆電視製片業十佳電視劇出品人) by China Federation of Radio and Television Associations (中國廣播電影電視社會組織聯合會) in 2019. Mr. Ma is the vice chairman of Film and Television Production Committee of China Radio and Television Association (中國廣播電視協會電視製片委員會). He once studied at the advanced screenplay class jointly held by Shanghai Theatre Academy (上海戲劇學院) and Shanghai Labor Union (上海總工會).

Mr. ZHANG Senquan (張森泉) (formerly known as ZHANG Min (張敏)), aged 43, is an independent non-executive Director, primarily responsible for providing independent opinion and judgement to our Board.

Mr. Zhang Senquan has over 12 years of professional experience in accounting and auditing. He worked as a partner in assurance department of Ernst & Young Hua Ming (安永華明會計師事務所) from February 2008 to November 2012, as an audit senior manager of KPMG Huazhen (畢馬威華振會計師事務所) from November 2000 to February 2008 and as an auditor in the audit department of Deloitte Touche Tohmatsu CPA Ltd. (德勤華永會計師事務所) from October 1999 to October 2000.

Mr. Zhang is currently an independent non-executive director of various listed companies, including Jiande International Holdings Limited (建德國際控股有限公司) (formerly known as First Mobile Group Holdings Limited (第一電訊集團有限公司)) (Stock Code: 0865.HK), Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司) (Stock Code: 6188.HK), Natural Food International Holding Limited (五谷磨房食品國際控股有限公司) (Stock Code: 1837.HK) and Sang Hing Holdings (International) Limited (生興控股(國際)有限公司) (Stock Code: 1472.HK). Mr. Zhang is also an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd. (江蘇艾迪藥業股份有限公司) (Stock Code: 688488.SH) since May 2019.

Mr. Zhang previously served as an independent non-executive director of Bonny International Holding Limited (博尼國際控股有限公司) (Stock Code: 1906.HK) from March 2019 to June 2020 and of Casablanca Group Limited (卡撒天嬌集團有限公司) (Stock Code: 2223.HK) from April 2015 to April 2018, and served as an independent director of Top Choice Medical Investment Co., Inc. (通策醫療投資

DIRECTORS AND SENIOR MANAGEMENT

股份有限公司) (Stock Code: 600763.SH) from December 2014 to February 2017. He served as the head of the strategic development department of Goodbaby International Holdings Limited (好孩子國際控股有限公司) (Stock Code: 1086.HK) from March 2013 to April 2014, and served as a joint company secretary and the chief financial officer of Huazhong In-Vehicle Holdings Company Limited (華眾車載控股有限公司) (Stock Code: 6830.HK) from May 2014 to July 2015. Mr. Zhang also held various positions in Southwest Securities (HK) Brokerage Limited (西證(香港)證券經紀有限公司), a subsidiary of Southwest Securities International Securities Limited (西證國際證券股份有限公司) (Stock Code: 0812.HK) from February 2016 to March 2020, including director of corporate finance department, head of China business department and managing director. In addition, he has been acting as the chief executive officer of Zhong Rui Capital (Hong Kong) Limited (中瑞資本(香港)有限公司), a consulting company, since May 2018.

Mr. Zhang obtained a bachelor's degree in investment economics from Fudan University (復旦大學) in July 1999. Mr. Zhang was admitted as a member of the Chinese Institute of Certified Public Accountants in December 2001, admitted as a member of the Hong Kong Institute of Certified Public Accountants in September 2011 and further admitted as a member of the American Institute of Certified Public Accountants in September 2015.

Mr. CHUNG Chong Sun (鍾創新), aged 45, is an independent non-executive Director, primarily responsible for providing independent opinion and judgement to our Board.

Mr. Chung has over 20 years of professional experience in financing and capital operations. He is the founder of Resourceful Minds Limited (滙路有限公司), a consulting company, and has been its director since its incorporation in September 2018, where he has been primarily responsible for the daily operations and providing strategic advice. From September 2018 to July 2019, he served as the chief financial officer of Xiaoi Robot Technology (H.K.) Limited. From December 2005 to September 2018, Mr. Chung worked at Hong Kong Exchanges and Clearing Limited with his last position being the senior vice president of its issuer services department, primarily responsible for establishing the ecosystem for the listing of mainland enterprises in Hong Kong, including, among others, mainland client relationship management and mainland marketing. From August 2003 to December 2005, Mr. Chung worked at mainland investment promotion unit in InvestHK of the government of Hong Kong with his last position being the manager of such unit, primarily responsible for introducing Hong Kong to overseas and Mainland entrepreneurs. From August 2001 to August 2003, Mr. Chung worked at Cooperative Rabobank U.A. Hong Kong Branch, a Dutch multinational bank with global operations, with his last position being the associate director of its merger and acquisition department. From May 2000 to July 2001, Mr. Chung worked as a senior executive in Deloitte & Touche Corporate Finance Limited (德勤企業財務顧問有限公司), where he was primarily responsible for execution of mergers and acquisitions projects and providing financial advice. From July 1997 to May 2000, Mr. Chung worked at Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) with his last position being the associate of its investment banking department.

Mr. Chung is currently an independent non-executive director of Radiance Holdings (Group) Company Limited (金輝控股(集團)有限公司) (Stock Code: 9993.HK).

Mr. Chung obtained a bachelor's degree in business administration from the Chinese University of Hong Kong in May 1997. He is also a member of the American Institute of Certified Public Accountants and a CFA of CFA Institute.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The following sets forth the biographies of the members of our senior management.

Mr. LIU Xiaofeng (劉小楓), aged 43, is our chief executive officer, the chairman of the Board and our executive Director. For details of his biography, please see “— Board of Directors — Executive Directors.”

Ms. ZHANG Qiuchen (張秋晨), aged 43, is our chief marketing officer and executive Director. For details of her biography, please see “— Board of Directors — Executive Directors.”

Mr. CHEN Chen (陳晨), aged 38, is our chief financial officer and executive Director. For details of his biography, please see “— Board of Directors — Executive Directors.”

Ms. ZHAI Fang (翟芳), aged 42, is our chief operating officer and executive Director. For details of her biography, please see “— Board of Directors — Executive Directors.”

JOINT COMPANY SECRETARIES

Ms. ZHAI Fang (翟芳), see “— Board of Directors — Executive Directors.”

Mr. WONG Keith Shing Cheung (王承鐸), aged 33, is a joint company secretary of our Company. Mr. Wong Keith Shing Cheung has been a senior manager of SWCS Corporate Services Group (Hong Kong) Limited since March 2020, mainly responsible for managing the company secretarial and compliance work for companies listed on the Stock Exchange. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, Mr. Wong worked at KPMG, an international accounting firm, the investment department of Huajun International Group Limited (Stock Code: 0377.HK) and the Listing Division of the Stock Exchange for 10 years.

Mr. Wong obtained a bachelor’s degree in finance, accounting and management from University of Nottingham in the United Kingdom in July 2009. He is currently a member of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEES

Our Company currently has three special committees under the Board, which are the Audit Committee, the Remuneration Committee and the Nomination Committee. These committees operate in accordance with their respective terms of reference established by the Board.

Audit Committee

Our Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the Corporate Governance Code. The Audit Committee consists of three Directors, being Mr. ZHANG Senquan, Mr. WANG Jun and Mr. CHUNG Chong Sun. The chairperson of the Audit Committee is Mr. ZHANG Senquan. The primary duties of the Audit Committee include, among others:

- reviewing our compliance, accounting policies and financial reporting procedures;

DIRECTORS AND SENIOR MANAGEMENT

- supervising the implementation of our internal audit system;
- advising on the appointment or replacement of external auditors;
- liaising between our internal audit department and external auditors; and
- other responsibilities as authorized by our Board.

Remuneration Committee

Our Company has established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code. The Remuneration Committee consists of three Directors, being Mr. MA Zhongjun, Mr. LIU Xiaofeng and Mr. CHUNG Chong Sun. The chairperson of the Remuneration Committee is Mr. MA Zhongjun. The primary duties of the Remuneration Committee include, among others:

- making recommendations to the Board on our policy and structure concerning remuneration of our Directors and members of the senior management;
- making recommendations to the Board on the specific remuneration package of each Director and members of the senior management;
- reviewing and approving compensations payable to executive Directors and members of senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his or her misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate; and
- other responsibilities as authorized by our Board.

Nomination Committee

Our Company has established a Nomination Committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The Nomination Committee consists of three Directors, being Mr. MA Zhongjun, Mr. LIU Xiaofeng and Mr. CHUNG Chong Sun. The chairperson of the Nomination Committee is Mr. MA Zhongjun. The primary duties of the Nomination Committee include, among others:

- reviewing the structure, size and composition of the Board annually, and advising on any changes of the Board proposed in accordance with the strategies of our Company;
- identifying, selecting or making recommendations to our Board on the selection of individuals nominated for directorships;

DIRECTORS AND SENIOR MANAGEMENT

- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of our Directors;
- assessing the independence of independent non-executive Directors; and
- other responsibilities as authorized by our Board.

CORPORATE GOVERNANCE

Pursuant to code provision A.2.1 in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Liu is currently serving as the chairman of the Board as well as the chief executive officer of our Company. As Mr. Liu is the founder of our Group and has been managing our Group's business and overall strategic planning since its establishment, our Directors consider that vesting the roles of chairman and chief executive officer in Mr. Liu is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group. Taking into account all the corporate governance measures that we are going to implement upon Listing, our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Accordingly, our Company had not segregated the roles of its chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole.

Saved as disclosed above, as of the Latest Practicable date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS' INTEREST

Except as disclosed in this prospectus, each of the Directors and members of the senior management (i) had no other relationship with any of the Directors and senior management as of the Latest Practicable Date; and (ii) did not hold any other directorship in listed companies in the three years prior to the Latest Practicable Date. For the Directors' interests in the Shares within the meaning of Part XV of the SFO, see "Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — (1) Disclosure of Interests — (a) Disclosure of interest — interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations."

Except as disclosed in this prospectus, there are no other matters in respect of each of our Directors and the members of our senior management that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to our Directors and the members of our senior management that need to be brought to the attention of our Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed in this prospectus, none of the Directors are interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business under Rule 8.10(2) of the Listing Rules.

BOARD DIVERSITY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits and contribution that the selected candidates will bring to the Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, publicity and branding, TV/web series distribution, content development, investment and financing, accounting and financial management. They obtained degrees in various majors, including in market information management, financial management, radio and journalism, business administration and investment economics. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the Board. In addition, our Board has a wide range of age, ranging from 38 years old to 63 years old. We have also taken and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. In particular, half of our executive Directors and one of our joint company secretaries are female upon Listing. Taking into account our existing business mode and specific needs as well as the different background of our Directors, we are of the view that the composition of our Board satisfies our board diversity policy.

Our Nomination Committee is responsible for ensuring the diversity of our Board. After the Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on annual basis.

PRE-IPO SHARE OPTION SCHEME

We adopted the Pre-IPO Share Option Scheme on May 11, 2020 pursuant to which share option will be granted to eligible Directors and employees. For further details of the Pre-IPO Share Option Scheme, see “Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme.”

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The compensation and remuneration of the Directors and members of the senior management of our Company are determined by the Shareholders’ meetings and the Board as appropriate in the form of salaries and bonuses. Our Company also reimburses them for expenses which are necessary and reasonably incurred in providing services to our Company or discharging their duties in relation to the operations of our Company. When reviewing and determining the specific remuneration packages for our Directors and members of the senior management of our Company, the Shareholders’ meetings and the Board take into account factors such as salaries paid by comparable companies, time commitment, level of responsibilities, employment elsewhere in our Group and desirability of performance-based

DIRECTORS AND SENIOR MANAGEMENT

remuneration. As required by the relevant PRC laws and regulations, the Company also participates in various defined contribution plans organized by relevant provincial and municipal government authorities and welfare schemes for employees of the Company, including medical insurance, injury insurance, unemployment insurance, pension insurance, maternity insurance and housing provident fund.

Our Company offers executive Directors and senior management members, who are also employees, compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. The independent non-executive Directors receive compensation based on their responsibilities.

The aggregate amounts of remuneration paid to the Directors and members of the senior management (excluding those who are also Directors) for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 were approximately RMB0.8 million, RMB43.3 million, RMB1.6 million, and RMB2.9 million, respectively.

The aggregate amounts of remuneration paid to the five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 were approximately RMB0.9 million, RMB43.5 million, RMB1.9 million, and RMB3.0 million, respectively.

An aggregate of 800 Shares of our Company were transferred from certain of our then existing Shareholders to one of our key management personnel at nil consideration in 2018, which are accounted for as a share-based compensation expense of RMB42.0 million in our Group's profit or loss for the year ended December 31, 2018. See Note 34 to the Accountants' Report in Appendix I to this prospectus for further details. In addition, a share based compensation expense of approximately RMB2.1 million relating to the Pre-IPO Share Options granted to Mr. Liu on May 11, 2020 were recognized in our Group's profit or loss for the six months ended June 30, 2020.

It is estimated that remuneration equivalent to approximately RMB12.2 million in aggregate will be paid to the Directors by our Company for the year ending December 31, 2020, based on the arrangements in force as of the date of this prospectus including certain share based compensation expense relating to the Pre-IPO Share Options granted to Mr. Liu on May 11, 2020, details of which are set out in Note 34 of the Accountants' Report in Appendix I to this prospectus.

No remuneration was paid by our Company to the Directors or the five highest paid individuals as inducement to join or upon joining the Company or as a compensation for loss of office during the Track Record Period. Furthermore, none of the Directors had waived or agreed to waive any remuneration during the Track Record Period.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Messis Capital Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules, and the compliance adviser will advise our Company in the following circumstances.

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner that is different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecasts, estimates or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares or any other matters.

The terms of the appointment of the compliance adviser will commence on the Listing Date and is expected to end on the date when the Company distributes the annual report of its financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Pre-IPO Share Options), the following persons are expected to have an interest and/or short positions in the Shares or the underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Shares held as of the Latest Practicable Date		Shares held immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon the exercise of the Pre-IPO Share Options)	
		Number	Approximate percentage	Number	Approximate percentage
Mr. Liu	Founder of a discretionary trust ⁽¹⁾	290,480,000	58.41%	290,480,000	43.81%
	Interest held through voting powers entrusted by other persons ⁽²⁾	109,520,000	22.02%	109,520,000	16.52%
Master Sagittarius	beneficiary of trust ⁽¹⁾	290,480,000	58.41%	290,480,000	43.81%
Master Genius	Interest in a controlled corporation ⁽¹⁾	290,480,000	58.41%	290,480,000	43.81%
Leading Glory	Beneficial interest ⁽¹⁾	290,480,000	58.41%	290,480,000	43.81%
Ms. Liu	Founder of a discretionary trust ⁽³⁾	73,600,000	14.80%	73,600,000	11.10%
Gold Pisces	beneficiary of trust ⁽²⁾	73,600,000	14.80%	73,600,000	11.10%
Beyond Vast	Interest in a controlled corporation ⁽³⁾	73,600,000	14.80%	73,600,000	11.10%
Glesason Global	Beneficial interest ⁽³⁾	73,600,000	14.80%	73,600,000	11.10%
Taurus Holding	Beneficial interest ⁽⁴⁾	97,320,000	19.57%	97,320,000	14.68%
iQIYI, Inc.	Interest in a controlled corporation ⁽⁴⁾	97,320,000	19.57%	97,320,000	14.68%
Family Trust Singapore	Trustee ⁽¹⁾	290,480,000	58.41%	290,480,000	43.81%
	Trustee ⁽³⁾	73,600,000	14.80%	73,600,000	11.10%
	Trustee ⁽⁵⁾	32,000,000	6.43%	32,000,000	4.83%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) Leading Glory is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu. Accordingly, each of Master Sagittarius, Master Genius and Mr. Liu is deemed to be interested in all the Shares held by Leading Glory.
- (2) Pursuant to the Voting Arrangement Agreements and Leading Glory are able to exercise voting rights entrusted from the other signing parties and are therefore deemed to be interested in the shareholding interest in our 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."
- (3) Glesason Global is owned as to (i) 99% by Beyond Vast, the holding vehicle used by Family Trust Singapore, the trustee of the LSS Family Trust which is a discretionary trust established by Ms. Liu as the settlor and protector and Ms. Liu's wholly-owned holding company Gold Pisces as the beneficiary; and (ii) 1% by Gold Pisces which is wholly owned by Ms. Liu. Accordingly, each of Gold Pisces, Beyond Vast and Ms. Liu is deemed to be interested in all the Shares held by Glesason Global.
- (4) Taurus Holding is wholly owned by iQIYI, Inc. Therefore, iQIYI, Inc. is deemed to be interested in the Shares directly held by Taurus Holding by virtue of the SFO.
- (5) Golden Basin is owned as to (i) 99% by Smart Century, the holding vehicle used by Family Trust Singapore, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai as the settlor and protector and Ms. Zhai's wholly-owned holding company Gold Fish as the beneficiary; and (ii) 1% by Gold Fish which is wholly owned by Ms. Zhai. Accordingly, each of Smart Century, Gold Fish and Ms. Zhai is deemed to be interested in all the Shares held by Golden Basin.

Save as disclosed above and in the section headed "Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders," our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming the Over-allotment Option and the Pre-IPO Share Options are not exercised), have an interest or short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering.

As of the Latest Practicable Date, our authorized share capital was US\$50,000 divided into 2,000,000,000 shares of US\$0.000025 each, consisting of (i) 1,902,680,000 Shares, and (ii) 97,320,000 Series A Preferred Shares.

The Series A Preferred Shares will be converted into Shares on a one-to-one basis by way of re-designation upon completion of the Global Offering.

Authorized Share Capital

Number of Shares		Aggregate par value
<u>2,000,000,000</u>	Shares of US\$0.000025 par value each	<u>US\$50,000</u>

Issued and to be issued, fully paid or credited as fully paid

Number of Shares		Aggregate par value	% of the issued share capital
497,320,000	Shares in issue as of the date of this prospectus (including the Shares on re-designation of the Series A Preferred Shares)	US\$12,433	75%
165,780,000	Shares to be issued pursuant to the Global Offering	US\$4,144.5	25%
<u>663,100,000</u>	Total	<u>US\$16,577.5</u>	<u>100%</u>

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the Shares are issued pursuant to the Global Offering. It takes no account of any Shares (a) which may be issued pursuant to the exercise of the Over-allotment Option; (b) which may be issued upon the exercise of the options granted under the Pre-IPO Share Options; or (c) which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below or otherwise.

SHARE CAPITAL

RANKING

Our Company will have only one class of Shares upon completion of the Global Offering, namely ordinary shares, and each ranks *pari passu* with the other Shares.

The Offer Shares are ordinary shares in the share capital of our Company and rank *pari passu* in all respects with all Shares currently in issue or to be issued (including all Series A Preferred Shares re-designated into Shares upon completion of the Global Offering) and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus.

PRE-IPO SHARE OPTION SCHEME

On May 11, 2020, we adopted a Pre-IPO Share Option Scheme. Please see “Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme” for more details.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by its Shareholders passing a special resolution. For more details, see “Appendix III — Summary of the Constitution of Our Company and the Cayman Companies Act.”

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Scheme); and
- (ii) the nominal amount of our share capital repurchased by our Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders.

SHARE CAPITAL

This mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please see “Appendix IV — Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — (3) Resolutions of Our Shareholders Passed on December 18, 2020.”

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Scheme).

This mandate relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Appendix IV — Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — (3) Resolutions of Our Shareholders Passed on December 18, 2020.”

This general mandate to repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please see “Appendix IV — Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — (3) Resolutions of Our Shareholders Passed on December 18, 2020.”

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included in the Accountants' Report set out in Appendix I to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

We generate revenue primarily from (i) licensing the broadcasting rights of our self-produced drama series to TV channels, online video platforms or third party distributors; (ii) licensing the broadcasting rights of outright-purchased drama series from online video platforms or drama series producers to TV channels, third party distributors or online video platforms; and (iii) made-to-order drama series production services per online video platforms' orders. We experienced stable growth during the Track Record Period. Our revenue increased from approximately RMB542.9 million in 2017 to approximately RMB679.1 million in 2018 and further increased to approximately RMB765.1 million in 2019; while our revenue slightly decreased to approximately RMB579.8 million in the six months ended June 30, 2020 from approximately RMB647.7 million for the same period in 2019. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our gross profit was approximately RMB152.1 million, RMB209.9 million, RMB107.6 million, RMB72.8 million and RMB135.6 million, respectively, and our gross profit margin was approximately 28.0%, 30.9%, 14.1%, 11.2% and 23.4% for the same periods, respectively. The decrease of our gross profit and profit margin from 2018 to 2019 primarily reflected the decline of the purchase prices of drama series broadcast in 2019 offered by online video platforms while the production of such series had been taken place in 2017 or 2018 with a relatively high production costs before the actors' remunerations had been substantially reduced pursuant to relevant government policies.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Pursuant to the reorganization of our Company as more fully explained in the section headed “History, Reorganization and Corporate Development — Reorganization” in this prospectus, our Company became the holding company of the companies now comprising our Group on November 20, 2018. As the reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in any change of economic substances, the historical financial information has been presented as a continuation of the existing company using the pooling of interests method as if the group structure had been in place at the beginning of Track Record Period.

Due to regulatory prohibitions on foreign ownership in the production, distribution and licensing of broadcasting rights of drama series business in the PRC, the principal business carried out by Jiangsu Strawbear, Horgos Strawbear and Beijing Strawbear (the “**Consolidated Affiliated Entities**”) was prohibited or restricted from foreign ownership. The wholly owned subsidiary of our Company, Nanjing Strawbear, has entered into a series of contractual arrangements (the “**Contractual Arrangements**”) with the Consolidated Affiliated Entities and their respective equity holders (hereafter the equity holders of the Consolidated Affiliated Entities referred to the “**Registered Shareholders**”). The Contractual Arrangements enable Nanjing Strawbear to exercise effective control over the Consolidated Affiliated Entities and obtain substantially all economic benefits of the Consolidated Affiliated Entities. Accordingly, our Company regards the Consolidated Affiliated Entities as indirect subsidiaries for the purpose of the financial statement and the Consolidated Affiliated Entities are consolidated in our financial statements for the Track Record Period. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in this prospectus. Our Group does not have any equity interests in the Consolidated Affiliated Entities.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses were established or acquired, where this is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2017, 2018 and 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the subsidiaries now comprising our Group using the existing book values. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

The historical financial information has been prepared in accordance with HKFRS (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRS effective for the accounting period commencing from January 1, 2020 together with the relevant transitional provisions, have been early adopted on a consistent basis by our Group in the preparation of the historical financial information throughout the Track Record Period and for the six months ended June 30, 2019.

The historical financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the following are key factors that affect our results of operations:

Quality and popularity of the drama series and the number of projects we pitch would affect our operations and financial results.

The industry we operate in is highly competitive and rapidly changing. During the Track Record Period, our revenue was mainly derived from licensing of broadcasting rights of our self-produced drama series to TV channels, online video platforms or other third-party distributors and licensing of broadcasting rights of our outright-purchased drama series from online video platforms and drama series producers to TV channels, online video platforms or third-party distributors. Our revenue depends highly on the quality and popularity of our self-produced drama series and outright-purchased drama series. However, the acceptance of our drama series by the distribution channels and audience cannot be controlled or accurately predicted based on objective standards. As such, there is no assurance that we will be able to maintain business relationships with the existing customers and further attract new customers to purchase the broadcasting rights of drama series from us in the future. In the event we are unable to satisfy and retain the existing customers in existing projects or unable to pitch new projects continuously, our results of operation and financial condition will be adversely affected.

Our business nature is generally project based and our financial performance for a particular period highly depends on a particular drama series project or a limited number of drama series projects during the same period.

Our results of operations are largely affected by the financial performance of a particular of a limited number of drama series. The investment on and revenue recognized for each of our drama series, either a self-produced, outright-purchased or made-to-order drama series, may vary dramatically. For example, during the Track Record Period, the investment amount for our drama series generally varied from several million RMB to several hundred million RMB, with revenue recognized between several million RMB and several hundred million RMB. As a result, the range of gross profits for such drama series projects was extremely large. In addition, profit margin for our drama series projects may vary depends on its investment size and the general industry environment when we broadcast such drama series. Generally, considering the high contribution of revenue by a drama series with high investment, we may accept a relatively lower profit margin when we license the broadcasting rights of such drama series to a TV channel or an online video platform. Consequently, the contribution of certain drama series to our total revenue and their profit margin in the relevant periods will significantly affect our results of operations during the same periods.

Our ability to procure sufficient funding in a timely manner would affect the implementation of our production and investment plans and our financial condition.

Drama series production and distribution business is capital intensive in nature. Although we noticed the decrease in cast personnel costs during the Track Record Period, the costs of producing quality drama series, in general, have increased in recent years and may continue to increase in the future, which make it more important for us to procure sufficient funding. Our cost of sales for licensing of broadcasting rights of drama series mainly includes cast personnel costs, production costs, costs of scripts, post-production costs, costs of purchased copyrights (or broadcasting rights) and other miscellaneous materials and services required in the process of shooting and post-production. Many of

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these costs need to be paid upfront before we receive payment from our customers. Therefore, sufficient funding in a timely manner is crucial for our implementation of our production and investment plans. During the Track Record Period, we mainly satisfy our working capital needs from cash inflows from our operations, bank loans and other borrowings and equity financing from our shareholders. If we fail to procure sufficient funding in the future, our daily operation will be interrupted and our production and investment plans will be affected, which will in turn negatively affect our financial condition.

Relevant government policies and the market trends would affect our financial condition and results of operations.

The distribution of drama series and the production of made-to-order drama series are generally subject to the government regulations and policies that affect the drama series market in the PRC and the evolving market trends, which can be uncertain during the drama series production and distribution stages. In the event that the market trends and government policies change so that we are not able to distribute the drama series according to our business plan, we may be required to defer distribution, distribute drama series at a lower price than we anticipated, or distribute alternative drama series that may be more costly than the original drama series under our plan. This may adversely affect our results of operations and financial condition.

Our ability to collect our trade and notes receivables on a timely basis would affect our financial results.

Our revenue directly comes from or is settled by various parties, including TV channels, online video platforms or third party distributors. Our cash flow and profitability are affected by the timely settlement of payments by our customers for the services we have rendered to them. Although generally it is contractually agreed to pay on a one-off basis or in installments in accordance with the milestone payment schedules set out in the relevant agreements, the actual settlement periods for our customers may be significantly longer in practice. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our trade and notes receivables were approximately RMB294.5 million, RMB185.3 million, RMB491.9 million and RMB789.0 million, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade and notes receivables turnover days were 139, 129, 162 and 201 days, respectively. We believe the large outstanding balance of trade and notes receivables and this long trade and notes receivables turnover is a common issue in the industry. We expect that our ability to collect trade and notes receivables on a timely basis will be continuously critical to maintain our liquidity and the pace of our expansion.

Our ability to continue to enjoy preferential tax treatment and receive governmental grants to our Consolidated Affiliated Entities will affect our financial results.

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%, except Horgos Strawbear, which enjoys an exemption from EIT during the period from 2019 to 2023. There is no assurance that we are able to continue to enjoy tax exemption and tax refund in the future due to changes in the tax policies to be adopted by the PRC government authorities. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, local governments have also granted us various financial subsidies and we recorded government grants of RMB2.5 million, RMB0.9 million, RMB20.4 million and RMB2.4 million, respectively, in our consolidated statements of profit or loss. To the extent that there is any loss of, or significant reduction in, any preferential tax treatment or government grant applicable to us, or increase in the effective tax rate, our tax expenses would increase accordingly. Any occurrence of these changes will adversely affect our business, results of operations and financial condition.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which our Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. When the contract contains a financing component which provides our Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Our Group is mainly involved in the business of licensing of broadcasting rights of drama series. Revenue is measured based on the fair value of consideration received or receivable specified in the contracts with customers.

Licensing of broadcasting rights of drama series

Revenue from the licensing of broadcasting rights of drama series is recognized at the point in time when the drama series are available to the licensee, generally on delivery of the drama series after the approval from the NRTA or receipt of the license for distribution of drama series from the provincial counterpart of the NRTA when a customer is provided with a right to use the drama series as it exists at the point in time when the license is granted. Our Group do not expect to have any contracts where the period between the transfer of the licensed drama series to the customer and the payment by the customer exceeds one year. As a consequence, Our Group do not adjust any of the transaction prices for the time value of money.

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Production of made-to-order drama series

Revenue from the production of made-to-order drama series is recognized over time, using an input method to measure progress towards the completion of the made-to-order drama series production, because our Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

Broadcasting are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Our Group use the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which our Group will be entitled.

Revenue from other Sources

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Net licensing fees received from investments in drama series as a non-executive producer with share of copyrights are recognized when the investors' right to receive payment has been established. It is probable that the economic benefits associated with the investment income will flow to our Group and the amount can be measured reliably. Revenue from other sources is measured at the amount of net licensing fees paid to our Group and the relevant inventories are recognized in cost of sales when the revenue is recognized.

Net licensing fees received from investments in drama series without share of copyrights or distribution rights are recognized in accordance with HKFRS 9. Revenue from other sources is measured at the amount of changes in fair value of these financial assets which accumulatively and eventually equals to the total of the net licensing fees paid to our Group less the sum paid by our Group under co-financing arrangements.

Accounting for Co-investment Arrangements and Co-financing Arrangements

Under co-investment arrangements where we act as an executive producer, the investment from our co-investors are considered as the selling of shares of interests and copyrights in drama series to such co-investors by us. If our co-investors bear full risk for the shares of interests and copyrights of drama series that they invested in, the amounts received from such co-investors are recognized as reductions of the costs of drama series upon the receipt of the license for distribution of drama series from the NRTA.

When co-investors are not entitled to any share of copyrights in drama series that they invested in under co-investment arrangements and our Group is obligated to share the licensing revenue with such co-investors on a fixed-return basis or based on our respective investment ratios, the amounts received from such co-investors are recognized as financial liabilities.

The amount paid under co-financing arrangements to third-party investors by our Group in order to obtain shares of copyrights and/or broadcasting rights of drama series that we invested in are recognized as prepayments under co-investment arrangements and reclassified as inventories upon the receipt of the license for distribution of drama series from the NRTA.

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The amount paid under co-financing arrangements to third-party investors by our Group, where we are not entitled to any share of copyrights and/or broadcasting rights of drama series that we invested in, are recognized as financial assets.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the year/period within the Track Record Period, taking into consideration the interpretations and practices prevailing in the countries in which our Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the year/period within the Track Record Period between (i) the tax bases of assets and liabilities and (ii) their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (i) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- (i) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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The carrying amount of deferred tax assets is reviewed at the end of each of the year/period within the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each of the year/period within the Track Record Period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the year/period within the Track Record Period.

Deferred tax assets and deferred tax liabilities are offset if and only if our Group have a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair value of assets transferred by our Group, liabilities assumed by our Group to the former owners of the acquiree and the equity interests issued by our Group in exchange for control of the acquiree. For each business combination, our Group elect whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When our Group acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of our Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

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After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Our Group perform the annual impairment test of goodwill as at the end of each of the year/period within the Track Record Period. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of our Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The recoverable amounts of Hangzhou Yide cash-generating unit and Nova Film cash-generating unit are determined based on a value in use calculation method using cash flow projections based on financial budgets covering a five-year period approved by the management. Such calculation is made based on the following key assumptions:

Key Assumptions for Different Cash-generating Units

Hangzhou Yide Cash-generating Unit

- The combination of gross profit margin and operating expenses: gross profit margin is based on the average gross profit margin achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect management's commitment to maintain them at an acceptable level. The gross profit margin was 14.0% and 14.0% for the estimate of Hangzhou Yide cash-generating unit's recoverable amount as of December 31, 2019 and June 30, 2020, respectively.
- Pre-tax discount rates: the pre-tax discount rates reflect management's estimate of the risks specific to the unit. The pre-tax discount rate applied to cash flow projections was 20.9% and 19.1% for the estimate of Hangzhou Yide cash-generating unit's recoverable amount as of December 31, 2019 and June 30, 2020, respectively; and
- Growth rates: the growth rates are based on published industry research and used to extrapolate the cash flows beyond the five-year period. The terminal growth rate was 3.0% and 3.0% for the estimate of Hangzhou Yide cash-generating unit's recoverable amount as of December 31, 2019 and June 30, 2020, respectively.

Nova Film Cash-generating Unit

- Annual revenue growth rate: the predicted revenue growth rate for the five years subsequent to the date of assessment is based on the historical data and management's expectation on the future market, which was 7.5% for the estimate of Nova Film cash-generating unit's recoverable amount as of June 30, 2020;

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- Pre-tax discount rate: the pre-tax discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate applied to cash flow projections was 19.6% for the estimate of Nova Film cash-generating unit's recoverable amount as of June 30, 2020; and
- Growth rate: the growth rate is based on published industry research and used to extrapolate the cash flows beyond the five-year period. The terminal growth rate was 3.0% for the estimate of Nova Film cash-generating unit's recoverable amount as of June 30, 2020.

The values assigned to the key assumptions on the combination of gross profit margin and operating expenses, annual revenue growth rate, discount rates and growth rates are consistent with management's past experience and external information sources.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As of December 31 2019	As of June 30 2020
	<i>(RMB in thousands)</i>	
Hangzhou Yide cash-generating unit	108,341	108,341
Nova Film cash-generating unit	–	4,642
Total	108,341	112,983

As of December 31, 2019, the recoverable amount of Hangzhou Yide cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB39.3 million. As of June 30, 2020, the recoverable amounts of Hangzhou Yide cash-generating unit and Nova Film cash-generating unit to each of which goodwill is allocated exceeded their carrying amounts by RMB13.1 million and RMB0.1 million, respectively. Therefore, we did not identify an impairment for goodwill.

Sensitivity Analysis for Different Cash-generating Units

Hangzhou Yide Cash-generating Unit

Decreases in the combination of gross profit margin and operating expenses or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Hangzhou Yide cash-generating unit's recoverable amount to equal to its carrying amount.

	As of December 31, 2019	As of June 30, 2020
	%	%
The combination of gross profit margin and operating expenses	3.02	1.13
Pre-tax discount rate	6.54	1.50

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Nova Film Cash-generating Unit

Decreases in the annual revenue growth rate or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Nova Film cash-generating unit's recoverable amount to equal to its carrying amount.

	As of 30 June, 2020
	%
Annual revenue growth rate	0.04
Pre-tax discount rate	<u>0.07</u>

Except for the above, we believe no reasonably possible change in key assumptions on which the recoverable amounts are based would cause any of the cash-generating unit's carrying amounts to exceed their recoverable amounts as of December 31, 2019 and June 30, 2020. Our Directors did not identify any event that would have significantly changed the assets and liabilities making up Nova Film cash-generating unit and the forecast of future cash flow of Nova Film since the acquisition date considering that the short time interval between the acquisition date of June 23, 2020 and June 30, 2020. Therefore, the recoverable amount is very close to the carrying amount of Nova Film cash-generating unit and resulted in the percentage of headroom for Nova Film cash-generating unit appears to be less than 10% as of June 30, 2020.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets (Other than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful life of three to five years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years.

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Backlog

Backlog is stated at cost less any impairment loss and is amortized based on the consumption upon the fulfilment of the underlying contracts with customers.

Patents

Patents are stated at cost less any impairment loss and are amortised on the straight-line basis over their estimated useful lives of eight years.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statements of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Electronic equipment	19.0% - 31.7%
Vehicles	19.0%
Office equipment	19.0%
Leasehold improvements	20.0% - 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the consolidated statements of profit or loss and other comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Such cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Our Group's financial liabilities include trade and other payables, lease liabilities, financial liabilities at fair value through profit or loss, amounts due to a joint venture, amounts due to a related party, dividend payable and interest-bearing bank and other borrowings.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by our Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statements of profit or loss and other comprehensive income. The net fair value gain or loss recognized in the consolidated statements of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognized in the consolidated

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statements of profit or loss and other comprehensive income, except for the gains or losses arising from our Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the consolidated statements of profit or loss and other comprehensive income. The net fair value gain or loss recognized in the consolidated statements of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Our Group designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognized in profit or loss. The preferred shares are classified as non-current liabilities because the holders of the preferred shares cannot demand our Company to redeem the preferred shares until at least 12 months after the end of each of the year/period during the Track Record Period.

We measured our financial liabilities at fair value through profit or loss at the end of each year/period during the Track Record Period. Details of the fair value measurement of the level 3 financial liabilities, particularly the fair value hierarchy, the valuation techniques and significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Notes 2.4 and 39 to the Accountants' Report set out in Appendix I to this prospectus.

As of the end of each year/period during the Track Record Period, we only recognized fair value of financial liabilities categorized within level 3 of fair value measurement hierarchy. In relation to the valuation of our financial liabilities categorized within the level 3 of fair value hierarchy, we have adopted the following procedures: (i) engaged independent third-party professional valuers and provided them with all underlying documents used for valuation of such financial liabilities; (ii) reviewed the fair value measurement of the financial liabilities report presented by the third-party professional valuers, and carefully considered all information available and various applicable assumptions, methodology and valuation techniques applied in determining the valuation of the relevant investments; and (iii) reviewed the relevant notes set forth in the Accountant's Report included in the Appendix I to this prospectus. Based on the above procedures, our Directors are of the view that the valuation of our financial liabilities categorized within the level 3 of fair value hierarchy is fair and reasonable, and our financial statements have been properly prepared.

The Reporting Accountants have performed procedures on the investment valuation of level 3 financial liabilities as at each end of the Track Record Period in accordance with Hong Kong Standards on Auditing ("HKSA") 540 (Revised) and other related HKSA's issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

The Joint Sponsors have conducted, among others, the following due diligence work in respect of the valuation analysis on level 3 financial liabilities performed by the valuer: (1) discussed with the Company to understand the nature and details of the financial liabilities; (2) obtained and reviewed the credentials of the valuer to ascertain its expertise and industry experience; (3) discussed with the Company about the key basis and assumptions for the valuation of the financial liabilities; (4) discussed with and understood from the Reporting Accountants that they had performed the audit procedures on the valuations of financial liabilities in accordance with HKSA 540 (Revised) and other related HKSA's issued by the HKICPA) and discussed with the Reporting Accountants about the accounting treatment of such financial liabilities; (5) discussed with the valuer about the assumptions and methodology used in the valuation report; and (6) reviewed the relevant notes in the Accountants' Report as contained in Appendix I to this Prospectus and relevant documents provided by valuer, including the valuation report.

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Having considered the work done by the Company and the Reporting Accountants as mentioned above, and the relevant due diligence work conducted as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis performed by the Company and the valuer on the level 3 financial liabilities, which the Reporting Accountants have also performed procedures on as mentioned above.

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the consolidated statements of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the consolidated statements of profit or loss and other comprehensive income. If an entity revises its estimates of payments or receipts (excluding modifications in accordance with HKFRS 9.5.4.3 and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset or amortized cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortized cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The adjustment is recognized in profit or loss as income or expense.

Inventories

Inventories include raw materials, work-in-progress and finished goods, and are stated at the lower of cost and net realizable value. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. For the inventories that have been contracted with a customer, the estimated selling price is mainly based on the contract terms, while for those that have not been contracted with a customer, the estimated selling price is based on the current market conditions and our historical experience in distributing drama series of similar nature, particularly taking into account the factors of directors, editors and artists of the drama series. The estimated costs of completion are mainly based on the budget which is prepared by reference to the estimated selling price and our historical experience in producing drama series of similar nature.

For self-produced and made-to-order drama series, the amount of raw materials mainly represents the cost of screenplays, scripts and IP rights for the production of drama series, which will be transferred to work-in-progress once the production process commences. And the amount of work-in-progress is recorded at cost incurred in the production of drama series and will be transferred to finished goods once the Television Drama Distribution License is obtained. For outright-purchased drama series, the cost of purchasing the broadcasting rights of the drama series is recorded as inventories and will be fully recognized in cost of sales when the revenue is recognized.

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For self-produced drama series, the amount of inventories recognized as cost of sales for a given period is determined using the drama series forecast computation method. Under this method, the amortization of inventories and the accrual of participations and residuals is based on the proportion of the drama series' revenues recognized for such period to the drama series' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a drama series' life cycle).

We carry out an inventory review on a project-by-project basis at the end of each reporting period and make provision for obsolete projects accordingly. Impairment of inventories is made based on the comparison of the net realizable value and the carrying amount thereof. We made provision of RMB2.9 million, RMB16.0 million, RMB16.0 million and RMB13.8 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

Impairment for Non-Financial Assets

We assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each period during the Track Record Period. All non-financial assets of our Group are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for Expected Credit Losses on Trade Receivables

We use a provision matrix to calculate Expected Credit Losses (the "ECLs") for trade receivables. The provision rates are based on aging period and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on our Group's historical expected default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as the debtors and the economic environment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. Our Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The provision for impairment of trade receivables as of December 31, 2017, 2018 and 2019 and June 30, 2020 amounted to approximately RMB4.6 million, RMB5.0 million, RMB6.5 million and RMB12.4 million, respectively.

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Provision for Expected Credit Losses on Other Receivables

We have applied the general approach to provide for ECLs for other receivables and considered the default event, historical loss rate and adjusted for forward looking macroeconomic data in calculating the expected credit loss rate.

Application of HKFRS 9, HKFRS 15 and HKFRS 16

Effective from January 1, 2018, HKFRS 9 “Financial Instruments” (the “**HKFRS 9**”) replaced the previous standard HKAS 39 “Financial Instruments: Recognition and Measurement”; and HKFRS 15 “Revenue from contracts with customers” and related amendments to HKFRS 15 “Clarifications to HKFRS 15 Revenue from Contracts with Customers” (the “**HKFRS 15**”) replaced the previous revenue standards HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and related interpretations, and effective for annual periods beginning on or after January 1, 2019, HKFRS 16 “Leases” (the “**HKFRS 16**”) replaced the previous standards HKAS 17 “Leases” and related interpretations. We have early adopted HKFRS 9, HKFRS 15 and HKFRS 16 and consistently applied them throughout the Track Record Period. Our Directors consider that the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have significant impact on our financial position and performance during the Track Record Period.

For other new and revised financial reporting standards that were not yet effective as of June 30, 2020, please refer to Note 2.3 to the Accountants’ Report set forth in Appendix I to this prospectus.

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DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The table below sets forth selected consolidated statements of profit or loss items for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
REVENUE	542,864	679,109	765,097	647,745	579,832
Cost of sales	(390,812)	(469,246)	(657,457)	(574,962)	(444,190)
Gross profit	152,052	209,863	107,640	72,783	135,642
Other income and gains	4,008	4,411	34,343	22,279	10,448
Selling and distribution expenses	(24,375)	(75,758)	(33,498)	(29,443)	(32,364)
Administrative expenses	(15,430)	(64,047)	(17,655)	(9,810)	(29,831)
Other expenses	(829)	(386)	(128)	(128)	–
Finance costs	(22,792)	(34,871)	(9,734)	(5,018)	(5,513)
Changes in fair value of financial liabilities at fair value through profit or loss	–	936	(14,996)	(4,328)	(3,720)
PROFIT BEFORE TAX	92,634	40,148	65,972	46,335	74,662
Income tax expense	(28,604)	(29,635)	(15,572)	(8,537)	(20,534)
PROFIT FOR THE YEAR/PERIOD	64,030	10,513	50,400	37,798	54,128
Attributable to:					
Owners of the parent	60,566	12,434	50,032	37,800	54,128
Non-controlling interests	3,464	(1,921)	368	(2)	–
	64,030	10,513	50,400	37,798	54,128
NON-HKFRS MEASURE⁽¹⁾:					
Adjusted net profit ⁽²⁾	64,030	51,528	65,396	42,126	72,081

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Notes:

- (1) To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.
- (2) We define adjusted net profit as profit for the period adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also non-cash items and unrelated to our principal business, and therefore are not indicative of our profit from operations post-completion of our Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which will be converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing. See “— Non-HKFRS Measure.”

Revenue

During the Track Record Period, we generated our revenue primarily from (i) licensing of broadcasting rights of self-produced drama series; (ii) licensing of broadcasting rights of outright-purchased drama series; (iii) made-to-order drama series production and (iv) others. See “Business — Our Business Model.”

Our business is generally on project basis. Revenue generated from each drama series largely depends on the licensing fees or production fees we may collect from our customers, which are primarily affected by a series of factors, including but not limited to:

- (i) *Investment size.* Drama series with a larger investment size usually could be distributed with a relatively higher price. According to Frost & Sullivan, investment size of over RMB100.0 million is considered large scale investment, investment size between RMB60.0 million and RMB100.0 million is considered mid-scale investment, and investment size below RMB60.0 million is considered small scale investment. In addition, drama series with well-known core crew, including screenwriters, directors and actors, generally have higher investment size and could be distributed with higher price;
- (ii) *Genre of drama series.* Drama series with genre that meet the preferences of the target customers generally have higher distribution prices. For example, online video platforms usually have stronger preference for drama series with genre of period fantasy and romance, which are in line with the popular trends of the market and catering to the preferences of the relatively young audiences of online video platforms; and TV channels generally prefer drama series with genre of metropolitan and war/spy, which are closer to the life of audiences of all age groups;

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- (iii) *Distribution channels.* Generally, online video platforms have stronger purchasing power than TV channels, and satellite TV channels have stronger purchasing power than terrestrial TV channels. In addition, licensing fees of drama series directly distributed to TV channels are usually higher than those of the drama series distributed through third party distributors as we generally undertake the responsibility of promoting the drama series distributed to TV channels and will take account into the higher selling and distribution expenses when determining the licensing fee for such drama series;
- (iv) *Time slot (i.e. prime time or otherwise) for broadcasting.* Generally, licensing fees of drama series broadcast during the prime time are higher than those broadcast during other time slots;
- (v) *Round of broadcasting.* Generally, the licensing fee per episode of first-run broadcasting of drama series is much higher than that for re-run broadcast;
- (vi) *Market conditions.* Made-to-order drama series was a new business model and has lower market price in 2017, while it gradually matured and became a main source of content for online video platforms in 2019, from when the production fees began to increase accordingly; and
- (vii) *Communication with our customers.* The continuous negotiations with relevant TV channels, online video platforms or third party distributors starting from an early stage of the production might bring a relatively higher purchase price.

The table below sets forth a breakdown of our revenue by drama series for the periods indicated:

No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue ⁽¹⁾				Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					Year ended December 31,						
					2017	2018	2019				
<i>(RMB in millions)</i>											
(1)	The Impossible Mission (不可能完成的任務)	Self-produced drama series	Action/war	46	4.5	2.1	0.2	-	February 18, 2016	November 8, 2016	
(2)	Starry April (繁星四月)	Self-produced drama series	Romance	42	91.3	2.4	0.2	0.1	December 29, 2016	April 18, 2017	
(3)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌)	Self-produced drama series	Period fantasy	48	-	255.4	-	-	December 15, 2017	January 30, 2018	
(4)	Mr. Nanny (月嫂先生)	Self-produced drama series	Romance	45	-	185.3	4.4	-	August 15, 2018	August 23, 2018	

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No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue ⁽¹⁾			Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					Year ended December 31,					
					2017	2018	2019			
<i>(RMB in millions)</i>										
(5)	Treasure Adventure (國寶奇旅)	Self-produced drama series	War/spy	42	-	-	204.7	0.2	October 9, 2018	February 6, 2019
(6)	Love Journey (一場遇見愛情的旅行)	Self-produced drama series	Romance	52	-	-	250.2	4.0	March 12, 2019	April 20, 2019
(7)	Second Time Is A Charm (第二次也很美)	Self-produced drama series	Metropolitan	57	-	-	111.7	-	April 18, 2019	November 20, 2019
(8)	The Love Lasts Two Minds (兩世歡)	Self-produced drama series	Romance	36	-	-	-	233.0	December 4, 2019	February 11, 2020
(9)	Inside Man (局中人)	Self-produced drama series	Modern revolution	49	-	-	-	243.5	December 9, 2019	June 23, 2020
(10)	Lost Love In Times (醉玲瓏)	Outright-purchased drama series/ Co-financing arrangement where we act as a non-executive producer ⁽²⁾	Romance	56	348.7	-	4.1 ⁽³⁾	-	July 5, 2017	July 13, 2017
(11)	Little Sweetheart (小情人)	Outright-purchased drama series	Romance	40	17.0	-	-	-	March 22, 2017	May 29, 2017
(12)	My! P.E. Teacher (我的!體育老師)	Outright-purchased drama series	Romance	38	57.4	6.6	-	-	December 23, 2016	November 13, 2017
(13)	Untouchable Lovers (鳳囚凰)	Outright-purchased drama series	Romance	54	-	120.3	-	-	November 20, 2017	January 14, 2018
(14)	Mask (面具)	Outright-purchased drama series	War	38	-	59.2	-	-	January 25, 2018	March 2, 2018
(15)	The Drug Hunter (獵毒人)	Outright-purchased drama series	Crime	50	-	28.7	-	-	June 25, 2018	July 6, 2018

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No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue ⁽¹⁾			Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					Year ended December 31,					
					2017	2018	2019			
<i>(RMB in millions)</i>										
(16)	The Legends (招搖)	Outright-purchased drama series	Period	56	-	-	140.1	-	December 29, 2018	January 28, 2019
(17)	Detective Ke Chen (神探柯晨)	Outright-purchased drama series	Crime	44	-	-	43.2	-	August 20, 2018	June 24, 2019
(18)	A Sword Across The Sky (一劍橫空)	Outright-purchased drama series/Co-financing arrangement where we act as a non-executive producer ⁽⁴⁾	Action/war fantasy	40	2.6 ⁽³⁾	1.6 ⁽³⁾	-	7.1 ⁽⁵⁾	November 28, 2016	February 2, 2017
(19)	A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記)	Made-to-order drama series production	Period fantasy	40	5.2	-	-	-	N/A ⁽⁶⁾	January 18, 2018
(20)	Customer First (獵心者)	Made-to-order drama series production	Metropolitan	30	-	-	-	84.9	July 3, 2019	March 9, 2020
(21)	Princess Agents (楚喬傳)	Co-financing arrangement where we act as a non-executive producer	Period	67	9.4	-	-	-	December 27, 2016	June 5, 2017
(22)	Adoptive Mother's Mood For Love (養母的花樣年華)	Co-financing arrangement where we act as a non-executive producer	Metropolitan	55	1.0	2.5	0.8	-	June 27, 2017	March 14, 2018

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No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue ⁽¹⁾				Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					Year ended December 31,						
					2017	2018	2019				
					<i>(RMB in millions)</i>						
(23)	The Elder Brother And Sister's Good Age (哥哥姐姐的花樣年華)	Co-financing arrangement where we act as a non-executive producer	Romance	50	-	4.2	-	-	August 20, 2018	October 15, 2018	
	Others ⁽³⁾				5.8	10.8	5.6	7.0			
	Total				542.9	679.1	765.1	579.8			

Notes:

- (1) For purpose of discussion in this section, unless otherwise stated, the revenue set forth in this table includes the revenue we generated from (i) licensing of broadcasting rights of self-produced drama series; (ii) licensing of broadcasting rights of outright-purchased drama series; (iii) made-to-order drama series production; and (iv) net licensing fees received from investment in drama series where we act as a non-executive producer. For more information on these drama series, see “Business — Our Drama Series — Our Broadcast Drama Series Projects.”
- (2) Lost Love In Times (醉玲瓏) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 20%. We subsequently purchased its broadcasting right and distributed it to iQIYI, Tencent Video and Youku.
- (3) Represent the revenue we generated from the drama series where we act as a non-executive producer.
- (4) A Sword Across The Sky (一劍橫空) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 25%. We subsequently purchased its broadcasting right and distributed it to iQIYI.
- (5) Include revenue we generated from (i) licensing of broadcasting rights to iQIYI; and (ii) net licensing fees received from investment in this drama series where we act as a non-executive producer.
- (6) This drama series is a web series which does not need to apply for or obtain any distribution license.
- (7) Represent the revenue that cannot be directly attributed to the licensing of broadcasting rights or production of our drama series.

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Revenue by Business Line

The table below sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of revenue)</i>									
	<i>(Unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	95,804	17.6%	445,295	65.6%	571,412	74.7%	459,388	70.9%	480,848	83.0%
Licensing of broadcasting rights of outright-purchased drama series	423,061	77.9%	224,174	33.0%	183,272	24.0%	183,272	28.3%	2,288	0.4%
Made-to-order drama series production	5,178 ⁽²⁾	1.0%	-	-	-	-	-	-	84,906	14.6%
Others ⁽¹⁾	18,821	3.5%	9,640	1.4%	10,413	1.3%	5,085	0.8%	11,790	2.0%
Total	542,864	100.0%	679,109	100.0%	765,097	100.0%	647,745	100.0%	579,832	100.0%

Notes:

- (1) Others primarily comprise revenues from (i) the net licensing fees received from investments in drama series as a non-executive producer; and (ii) IP derivatives, such as online games, and product placements for advertisers.
- (2) Represented production service fees we charged for made-to-order drama series A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記), the revenue of which was recognized over time until completion of the production in 2017. See “— Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin — Made-to-order Drama series.”

Our revenue increased from RMB542.9 million for the year ended December 31, 2017 to RMB679.1 million for the year ended December 31, 2018 and further increased to RMB765.1 million for the year ended December 31, 2019, primarily attributable to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series for the same years in line with our business development in such business line, which was partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series. The slight decrease of our revenue from RMB647.7 million for the six months ended June 30, 2019 to RMB579.8 million for the same period in 2020 was primarily due to the significant decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series, which was partially offset by the increase in revenue generated from licensing of broadcasting rights of made-to-order drama series and self-produced drama series in the first half of 2020.

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Licensing of Broadcasting Rights of Self-produced Drama Series

During the Track Record Period, we commenced producing our own drama series and licensing the broadcasting rights of these self-produced drama series to major TV channels, top online video platforms and sometimes third party distributors. We developed our self-produced drama series either solely by ourselves or jointly with third party co-investors under co-investment arrangements where we act as an executive producer. Under such co-investment arrangements, we share with our co-investors in proportion to their investment amount the net licensing fees after deduction of the relevant expenses and/or distribution commission, and are generally entitled to the distribution commission as a percentage of the total licensing fees. When we jointly own the copyright of our drama series with the co-investors, we record the licensing fees in proportion to our investment amount as revenue and pay the rest of the net licensing fees to our co-investors, which is recognized as trade payables before payment. When we solely own the copyright of the drama series, we recognize all the licensing fees generated from licensing the broadcasting rights of such drama series as our revenue and pay our co-investors the net licensing fees in proportion to their investment amount. The revenue from licensing of broadcasting rights of drama series is measured based on the fair value of consideration received or receivable specified in the licensing agreements, and recognized at the point generally on delivery of the drama series after the approval from the NRTA or receipt of the Television Drama Distribution License from the provincial counterpart of the NRTA. For more details of this business model, see “Business — Our Business Model — Licensing of Broadcasting Rights of Self-produced Drama Series.”

Our revenue generated from licensing of broadcasting rights of self-produced drama series significantly increased from RMB95.8 million for the year ended December 31, 2017 to RMB445.3 million for the year ended December 31, 2018, primarily attributable to (i) the licensing fees of RMB255.4 million for Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and licensing fees of RMB185.3 million for Mr. Nanny (月嫂先生), both of which were drama series with large scale investment and first-run broadcast and recognized revenue in 2018, and (ii) the revenue continuously generated from the re-run broadcast of Starry April (繁星四月) and The Impossible Mission (不可能完成的任務) in 2018.

Our revenue generated from licensing of broadcasting rights of self-produced drama series increased from RMB445.3 million for the year ended December 31, 2018 to RMB571.4 million for the year ended December 31, 2019, primarily due to (i) the licensing fees of three drama series, Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行), all of which were drama series with large scale investment and first-run broadcast in 2019, amounting to RMB204.7 million, RMB111.7 million and RMB250.2 million, respectively, and (ii) the revenue generated from the re-run broadcast of drama series, such as Mr. Nanny (月嫂先生).

Our revenue generated from licensing of broadcasting rights of self-produced drama series remained relatively stable at RMB459.4 million for the six months ended June 30, 2019 and RMB480.8 million for the same period in 2020.

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Licensing of Broadcasting Rights of Outright-purchased Drama Series

Under this business model, we purchase the broadcasting rights of drama series from copyrights owners which are mainly online video platforms or sometimes drama series producers and license broadcasting rights of these drama series to TV channels, third party distributors or sometimes online video platforms. We charge TV channels, third party distributors or online video platforms a fixed amount licensing fee of each episode for their broadcasting of the outright-purchased drama series, and the revenue is generally recognized at the point of delivery of the drama series. For more details of this business model, see “Business — Our Business Model — Licensing of Broadcasting Rights of Outright-purchased Drama Series.”

Our revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB423.1 million for the year ended December 31, 2017 to RMB224.2 million for the year ended December 31, 2018 despite the number of outright-purchased drama series generating revenue in the same years increased from three to five, primarily because the revenue of RMB348.7 million generated from *Lost Love In Times* (醉玲瓏) broadcast in 2017 was much higher than the revenue generated from the drama series broadcast in 2018, such as *Untouchable Lovers* (鳳囚凰) and *Mask* (面具). The significantly higher revenue of *Lost Love In Times* (醉玲瓏) was primarily because it was distributed to all of the top three online video platforms, which were willing to pay high licensing fees for such large investment scale drama series with genre of period fantasy and then most popular starring actors to satisfy the preferences of their young audience base; whereas our outright-purchased drama series broadcast in 2018 were mostly distributed to only one TV channel, which generally offer relatively lower licensing fees compared to online video platforms.

Our revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB224.2 million for the year ended December 31, 2018 to RMB183.3 million for the year ended December 31, 2019, primarily because we only distributed and broadcast two drama series, *The Legends* (招搖) and *Detective Ke Chen* (神探柯晨) in 2019, with recognized revenue of RMB140.1 million and RMB43.2 million, respectively. The decrease of the number of our outright-purchased drama series from 2018 to 2019 was due to the nature of this business model, which highly relies on the market opportunities because sometimes there may be no suitable drama series identified by us to perfectly match the demands of the copyright owners and distribution channels.

Our revenue generated from licensing of broadcasting rights of outright-purchased drama series significantly decreased from RMB183.3 million for *The Legends* (招搖) and *Detective Ke Chen* (神探柯晨) for the six months ended June 30, 2019 to RMB2.3 million for *A Sword Across The Sky* (一劍橫空) for the same period in 2020, primarily because *A Sword Across The Sky* (一劍橫空) was a drama series with small scale investment and had been broadcast on several terrestrial TV channels for several years prior to the distribution by us to online video platform in the first half of 2020.

Made-to-order Drama Series

Under such business model, we provide production services for online video platforms per their orders. The online video platforms are responsible for investing in, developing and distributing such drama series, and we charge them production fees for provision of the overall production services, including cast talents and filming and production crew assembling, production management and quality control as well as post-production editing. Revenue from the production of made-to-order drama series is recognized over time, using an input method to measure progress towards complete production of the made-to-order drama series. For more details of this business model, see “Business — Our Business Model — Made-to-order Drama Series Production.”

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Our revenue generated from made-to-order drama series was RMB5.2 million, nil, nil and RMB84.9 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. The significant difference between the revenue generated by A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記) in 2017 and the revenue generated from Customer First (獵心者) in 2020 was primarily due to the changes in the market conditions. In 2017, market players just started to attempt this new business model and the price of made-to-order drama series was therefore relatively lower, while this business model gradually became matured and became a main source of content for online video platforms in 2020, and the price of made-to-order drama series increased accordingly. In addition, we recorded our revenue from A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記) on a net basis and revenue from Customer First (獵心者) on a gross basis, primarily due to the different arrangements regarding production fees and third-party costs. Please refer to “— Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin — Made-to-order Drama Series.” We also started to produce one and four made-to-order drama series in 2018 and 2019, respectively, including Customer First (獵心者) broadcast in March 2020 and Marry Me (三嫁惹君心) and Dating In The Kitchen (我，喜歡你) broadcast in September 2020, and the rest two are expected to be broadcast in the first quarter of 2021. See “Business — Our Drama Series — Our Drama Series to be Broadcast.”

Revenue by Customer Type

The table below sets forth a breakdown of our revenue by customer type for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of total)</i>									
	<i>(Unaudited)</i>									
TV channels	128,712	23.7%	414,209	61.0%	173,385	22.7%	173,245	26.7%	69,488	12.0%
Online video platform	353,857	65.2%	244,703	36.0%	310,701	40.6%	195,681	30.2%	461,984	79.7%
Others ⁽¹⁾	60,295	11.1%	20,197	3.0%	281,011	36.7%	278,819	43.1%	48,360	8.3%
Total	542,864	100.0%	679,109	100.0%	765,097	100.0%	647,745	100.0%	579,832	100.0%

Note:

(1) Others refer to third party distributors who generally will distribute our drama series to TV channels eventually.

Our revenue generated from TV channels significantly increased from RMB128.7 million for the year ended December 31, 2017 to RMB414.2 million for the year ended December 31, 2018, primarily because the number of and revenue generated from our self-produced drama series significantly increased from 2017 to 2018 and most of those drama series were distributed to TV channels. Our revenue generated from TV channels decreased from RMB414.2 million for the year ended December 31, 2018 to RMB173.4 million for the year ended December 31, 2019, primarily due to the increase in the revenue generated from third party distributors of RMB260.8 million, who generally will distribute our drama

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series to TV channels eventually. Our revenue generated from TV channels decreased from RMB173.2 million for the six months ended June 30, 2019 to RMB69.5 million for the same period in 2020, primarily due to the decrease in the number of drama series distributed to TV channels.

Our revenue generated from online video platforms decreased from RMB353.9 million for the year ended December 31, 2017 to RMB244.7 million for the year ended December 31, 2018, primarily because the successful distribution of *Lost Love In Times* (醉玲瓏) to all of the top three online video platforms in 2017, which had large recognized revenue of RMB348.7 million; while our drama series broadcast online in 2018, including *Legend Of Zu Mountain 2* (蜀山戰紀2踏火行歌) and *Mr. Nanny* (月嫂先生), were distributed to iQIYI only. Our revenue generated from online video platforms increased slightly from RMB244.7 million for the year ended December 31, 2018 to RMB310.7 million for the year ended December 31, 2019, primarily because the increase in the number of drama series distributed to online video platform in 2019, which mainly include *Love Journey* (一場遇見愛情的旅行), *Second Time Is A Charm* (第二次也很美) and *Treasure Adventure* (國寶奇旅), amounting to RMB117.8 million, RMB111.7 million and RMB77.5 million attributable to online video platforms, respectively. Our revenue generated from online video platforms increased from RMB195.7 million for the six months ended June 30, 2019 to RMB462.0 million for the same period in 2020, primarily attributable to the increase in the number of drama series distributed to online video platforms and the high revenue attributable to *The Love Lasts Two Minds* (兩世歡) broadcast in the first half of 2020. The high revenue attributable to *The Love Lasts Two Minds* (兩世歡) was mainly because the innovative and scarce genre and theme of such drama series is highly attractive to online video platforms who are able to offer higher purchasing prices.

The fluctuations of our revenue generated from third party distributors during the Track Record Period generally made up for the fluctuations in our revenue generated from TV channels as we either distributed our drama series directly to TV channels or through third party distributors to TV channels.

Cost of Sales

Our cost of sales primarily consists of production cost, cost of outright-purchased drama series, cost of co-investment and distribution cost. Our cost of sales amounted to approximately RMB390.8 million, RMB469.2 million, RMB657.5 million, RMB575.0 million and RMB444.2 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. During the Track Record Period, our cost of sales was primarily affected by a series of factors, including but not limited to:

- (i) *Actors' remuneration.* The actors' remuneration is largely affected by policies and the reputation and popularity of the actors, which will affect the production cost of the drama series;
- (ii) *Genre of drama series.* Generally, drama series of period fantasy will incur larger cost for make-ups, costumes, production sets and post-production, especially the special effects; and
- (iii) *Rounds of distribution and broadcasting.* For licensing of broadcasting rights of outright-purchased drama series, the procurement cost of drama series which have been distributed and broadcast for several rounds is generally lower than that of first-run broadcasting drama series, which results in lower cost of outright-purchased drama series.

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Cost of Sales by Business Line

The table below sets forth a breakdown of our cost of sales by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of total)</i>									
	<i>(Unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	40,905	10.5%	337,505	71.9%	507,633	77.2%	425,250	74.0%	366,337	82.5%
Licensing of broadcasting rights of outright-purchased drama series	346,557	88.6%	125,064	26.7%	148,933	22.7%	148,933	25.9%	297	0.1%
Made-to-order drama series production	-	-	-	-	-	-	-	-	70,755	15.9%
Others	3,350	0.9%	6,677	1.4%	891	0.1%	779	0.1%	6,801	1.5%
Total	390,812	100.0%	469,246	100.0%	657,457	100.0%	574,962	100.0%	444,190	100.0%

The fluctuation of our cost of sales during the Track Record Period is generally in line with the fluctuation of our revenue during the same period.

The cost of sales increased from RMB390.8 million for the year ended December 31, 2017 to RMB469.2 million for the year ended December 31, 2018, primarily due to the significant increase in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB296.6 million, primarily reflecting the cost recognized for producing and distributing Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) broadcast in 2018, partially offset by the decrease in cost of sales for licensing of broadcasting rights of outright-purchased drama series of RMB221.5 million, primarily because the purchase cost of such drama series recognized in 2018 was significantly lower than the high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017.

The cost of sales increased from RMB469.2 million for the year ended December 31, 2018 to RMB657.5 million for the year ended December 31, 2019, primarily due to the increase in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB170.1 million as a result of the production cost and distribution cost recognized for our self-produced drama series, Love Story (一場遇見愛情的旅行) and Treasure Adventure (國寶奇旅), which were broadcast in 2019.

The cost of sales decreased from RMB575.0 million for the six months ended June 30, 2019 to RMB444.2 million for the same period in 2020, primarily attributable to (i) the decrease in cost of sales for licensing of broadcasting rights of outright-purchased drama series of RMB148.6 million as a result of the significantly lower procurement cost of A Sword Across The Sky (一劍橫空) as it had been broadcast on several terrestrial TV channels for several years before we purchased its broadcasting rights

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from the copyright owner and further distributed it to the online video platform in the first half of 2020; and (ii) the decrease in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB58.9 million as the cost of sales we incurred for Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) in the first half of 2019 was higher than that of The Love Lasts Two Minds (兩世歡) and Inside Man (局中人) broadcast in the first half of 2020, which was mainly because (i) the actors' remuneration had been reduced in the industry according to the governmental policies; and (ii) The Love Lasts Two Minds (兩世歡) has lower actors' remuneration since freshman actors were engaged in this drama series. The decrease was partially offset by the production cost for our made-to-order drama series in the first half of 2020 of RMB70.8 million as a result of the broadcast of Customer First (獵心者), while we did not incur any cost of sales for made-to-order drama series in the first half in 2019.

Cost of Sales by Nature

The table below sets forth a breakdown of our cost of sales by nature of cost for the periods indicated:

	Year ended December 31,			Six months ended June 30,						
	2017	2018		2019		2020				
	<i>(RMB in thousands, except percentages of total cost of sales)</i>									
	<i>(unaudited)</i>									
Production cost ⁽¹⁾	27,959	7.2%	296,935	63.3%	443,777	67.5%	375,586	65.3%	417,459	93.9%
Cost of										
outright-purchased										
drama series ⁽²⁾	346,557	88.6%	125,064	26.7%	148,933	22.7%	148,933	25.9%	297	0.1%
Distribution cost ⁽³⁾	16,296	4.2%	47,247	10.0%	64,394	9.7%	50,098	8.7%	26,434	6.0%
Others ⁽⁴⁾	-	-	-	-	353	0.1%	345	0.1%	-	-
Total	390,812	100.0%	469,246	100.0%	657,457	100.0%	574,962	100.0%	444,190	100.0%

Notes:

- (1) Production cost represents the cost incurred for producing our drama series, primarily including cost for IP rights, actors' remuneration, cost for other production crew, cost for pre-production, filming and post-production.
- (2) Cost of outright-purchased drama series represents the cost for procuring our outright-purchased drama series.
- (3) Distribution cost represents the direct cost for promoting and distributing our drama series to certain TV channels, online video platforms and/or third party distributors.
- (4) Others represent payments for sharing of revenue in relation to the broadcasting of a web film.

Our cost of sales increased by 20.1% to RMB469.2 million for the year ended December 31, 2018 from RMB390.8 million for the year ended December 31, 2017, primarily due to the increase in production cost of RMB269.0 million as a result of the relatively higher production cost of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) recognized in 2018, partially offset by the decrease in cost of outright-purchased drama series of RMB221.5 million primarily because the purchase cost of drama series recognized in 2018 was significantly lower than the high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017. The relatively higher production cost of Legend Of Zu Mountain

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2 (蜀山戰紀2踏火行歌) recognized in 2018 was primarily due to the period fantasy genre which incurred significant cost for make-ups, costumes, production set and post-production, especially the special effects. The high production cost of Mr. Nanny (月嫂先生) recognized in 2018 was primarily due to the higher actors' remuneration for the popular starring. The high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017 was primarily due to (i) the higher actors' remuneration before the actors' remunerations had been substantially reduced pursuant to relevant government policies and at a stage when the starring for such drama series were the most popular; (ii) the higher production cost generally required for drama series with such genre; and (iii) the first-run online broadcasting right of such drama series we procured which generally incur higher cost than re-run broadcasting right.

Our cost of sales increased by 40.1% to RMB657.5 million for the year ended December 31, 2019 from RMB469.2 million for the year ended December 31, 2018, primarily due to the increase in production cost of RMB146.8 million as a result of the relatively higher production cost of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) recognized in 2019, and the increase in cost of outright-purchased drama series of RMB23.9 million as a result of the relatively high purchase cost of The Legends (招搖) recognized in 2019. The relatively higher production costs of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) were primarily due to the higher cost for actors' remuneration for the two drama series produced before the actors' remunerations had been substantially reduced pursuant to relevant government policies and when the actors' remuneration was at the peak in recent years in the industry. The relatively high purchase cost of The Legends (招搖) was also primarily due to the higher production cost for make-ups, costumes, production set and post-production, especially the special effects due to its genre of period fantasy.

Our cost of sales decreased by 22.7% to RMB444.2 million for the six months ended June 30, 2020 from RMB575.0 million for the same period in 2019, primarily attributable to the decrease in cost of outright-purchased drama series of RMB148.6 million resulted from the significantly lower procurement cost of A Sword Across The Sky (一劍橫空) as it had been broadcast on several terrestrial TV channels for several years before we purchased the broadcasting rights of such drama series from the copyright owner and further distributed it to online video platform in the first half of 2020. Such decrease was partially offset by an increase in production cost of RMB41.9 million, primarily due to the production of The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and Inside Man (局中人) broadcast in the first half of 2020.

Gross Profit and Gross Profit Margin

Our gross profit consists of our revenue less cost of sales. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our gross profit was approximately RMB152.1 million, RMB209.9 million, RMB107.6 million, RMB72.8 million and RMB135.6 million, respectively. Gross profit margin represents gross profit divided by total revenue, expressed as a percentage. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our gross profit margin was approximately 28.0%, 30.9%, 14.1%, 11.2% and 23.4%, respectively.

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

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Gross Gross Profit Profit	Profit Margin	Gross Gross Profit Profit	Profit Margin	Gross Gross Profit Profit	Profit Margin	Gross Gross Profit Profit	Profit Margin	Gross Gross Profit Profit	Profit Margin
	<i>(RMB in thousands, except gross profit margin)</i>									
	<i>(unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	54,899	57.3%	107,790	24.2%	63,779	11.2%	34,138	7.4%	114,511	23.8%
Licensing of broadcasting rights of outright-purchased drama series	76,504	18.1%	99,110	44.2%	34,339	18.7%	34,339	18.7%	1,991	87.0%
Made-to-order drama series production	5,178	100.0%	-	-	-	-	-	-	14,151	16.7%
Others	15,471	82.2%	2,963	30.7%	9,522	91.4%	4,306	84.7%	4,989	42.3%
Total	<u>152,052</u>	<u>28.0%</u>	<u>209,863</u>	<u>30.9%</u>	<u>107,640</u>	<u>14.1%</u>	<u>72,783</u>	<u>11.2%</u>	<u>135,642</u>	<u>23.4%</u>

Our overall gross profit margin decreased significantly from 30.9% for the year ended December 31, 2018 to 14.1% for the year ended December 31, 2019, primarily due to the decrease in gross profit margins for the business lines of licensing of broadcasting rights of self-produced and outright-purchased drama series for the same period. Our overall profit margin increased from 11.2% for the six months ended June 30, 2019 to 23.4% for the same period in 2020, primarily attributable to the increase in gross profit margins for our businesses of licensing of broadcasting rights of both self-produced and outright-purchased drama series.

During the Track Record Period, our overall gross profit margins seemed relatively lower compared with some of our comparable companies. We believe this phenomenon was mainly because we shared part of the gross profit with the filming and production studios that provide production services to us due to our platform business model. Specifically, the revenue generated from distribution of the broadcasting rights of self-produced drama series contributed most of our total revenue during the Track Record Period. Compared to some of our peer companies who mainly produce drama series through their in-house production teams, we have adopted a platform business model for the production of our self-produced drama series by engaging filming and production studios and other premium industry resources to constantly produce quality drama series that attract audiences with different preferences to meet the diversified procurement demands of TV channels and online video platforms, which enables us to break through the scalability-bottleneck in the drama series industry resulting from limited quality resources, and enhances our leading market position by enabling us to produce and/or distribute more drama series than our competitors. Moreover, we distributed more drama series through third-party distributors in 2019, which generally led to lower gross profit margins due to sharing part of the gross profit with those third-party distributors.

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Licensing of Broadcasting Rights of Self-produced Drama Series

Our gross profit margin for licensing of broadcasting rights of self-produced drama series decreased from 57.3% for the year ended December 31, 2017 to 24.2% for the year ended December 31, 2018, primary due to the relatively low gross profit margin of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) broadcast in 2018, mainly because drama series with genre of period fantasy generally incur high production cost for make-ups, costumes, production set and post-production, especially the special effects. Our gross profit margin for licensing of broadcasting rights of self-produced drama series decreased from 24.2% for the year ended December 31, 2018 to 11.2% for the year ended December 31, 2019, primary due to lower gross profit margins of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) broadcast in 2019, despite the considerable gross profit of Love Journey (一場遇見愛情的旅行), compared to the gross profit margin of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) broadcast in 2018, primarily as a result of (i) the relatively lower licensing fees for Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) as online video platforms generally reduced their purchase prices of TV series per episode in 2019, which was in line with the market trend; while (ii) the higher actors' remuneration for such drama series as they were produced before actors' remuneration had been substantially reduced pursuant to relevant government policies. Our gross profit margin for licensing of broadcasting rights of self-produced drama series increased significantly from 7.4% for the six months ended June 30, 2019 to 23.8% for the same period in 2020, primarily attributable to the higher gross profit margin of The Love Lasts Two Minds (兩世歡) broadcast in the first half of 2020 which was primarily attributable to its higher licensing fees partially determined by its innovative and scarce genre and theme, and its lower production cost which was mainly because it engaged freshman actors with relatively lower remuneration.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Our gross profit margin for licensing of broadcasting rights of outright-purchased drama series increased from 18.1% for the year ended December 31, 2017 to 44.2% for the year ended December 31, 2018, primary because the gross profit margins of our outright-purchased drama series distributed in 2018 were generally higher than the gross profit margin of Lost Love In Times (醉玲瓏) broadcast in 2017. The lower gross profit margin of Lost Love In Times (醉玲瓏) was primarily because its procurement cost was significantly higher than that of our other outright-purchased drama series, despite its considerable gross profit. Our gross profit margin for licensing of broadcasting rights of outright-purchased drama series decreased from 44.2% for the year ended December 31, 2018 to 18.7% for the year ended December 31, 2019, primary due to the lower gross profit margins of The Legends (招搖) and Detective Ke Chen (神探柯晨) broadcast in 2019 mainly because they were distributed to third party distributors, which generally resulted in lower gross profit margin, and the procurement cost of The Legends (招搖) was higher than that of the outright-purchased drama series broadcast in 2018. Our gross profit margin for licensing of broadcasting rights of outright-purchased drama series increased significantly from 18.7% for the six months ended June 30, 2019 to 87.0% for the same period in 2020, primary attributable to the significantly higher gross profit margin of A Sword Across The Sky (一劍橫空), mainly due to its lower procurement cost as it had been broadcast on several terrestrial TV channels for several years before we purchased its broadcasting rights.

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Made-to-order Drama Series

Our gross profit margin for made-to-order drama series production was 100.0% for the year ended December 31, 2017, because we produced only one made-to-order drama series Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記) in 2017, pursuant to the made-to-order agreement of which, we are entitled to receive a fixed amount production fee while the online video platform who ordered such series share bear all the costs incurred for production services provided by third parties during the whole production process. However, for all of our other made-to-order drama series, we shall bear all third-party costs as our cost of sales pursuant to the made-to-order agreements. Our made-to-order drama series broadcast in the first half of 2020, namely, Customer First (獵心者), recorded a gross profit margin of 16.7% on a gross basis.

Other Income and Gains

Our other income and gains primarily consist of (i) government grants related to income, (ii) interest income from loans receivables, (iii) bank interest income, (iv) investment income from financial assets at fair value through profit or loss, (v) investment income from the co-investment arrangements in drama series, (vi) net foreign exchange gains, (vii) gains on disposal of items of property, plant and equipment, (viii) gains on disposal of an associate and (ix) others. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our other income and gains were approximately RMB4.0 million, RMB4.4 million, RMB34.3 million, RMB22.3 million and RMB10.4 million, respectively.

The table below sets forth a breakdown of other income and gains for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousand)</i>				
	<i>(Unaudited)</i>				
Government grants related to income	2,540	900	20,396	14,000	2,415
Interest income from loans receivables	125	2,849	9,415	3,958	6,788
Bank interest income	706	613	407	200	314
Investment income from financial assets at fair value through profit or loss	637	49	–	–	–
Investment income from the co-investment arrangements in drama series ⁽¹⁾	–	–	4,125	4,121	5
Net foreign exchange gains	–	–	–	–	677
Gains on disposal of items of property, plant and equipment	–	–	–	–	152
Gains on disposal of an associate ⁽²⁾	–	–	–	–	56
Others	–	–	–	–	41
Total	4,008	4,411	34,343	22,279	10,448

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Notes:

- (1) Under the co-investment arrangements for drama series where we act as an executive producer and our co-investors do not have any share of copyright of the drama series, our co-investors shall pay us their investment amount pre-determined based on the estimated total investment amount for such drama series multiplied by their investment percentage, which is recognized as our financial liabilities. And we shall pay our co-investors the net licensing fees after deduction of the relevant expenses and/or distribution commission by deducting from our financial liabilities. When the deducted net licensing fees paid to our co-investors is less than the originally recorded financial liabilities, the differences between such two figures shall be recognized as the “investment income from the co-investment arrangements in drama series.” The investment income from the co-investment arrangements in drama series recognized in 2019 and the six months ended June 30, 2020 was because the income generated as the amount of investment that we received from our co-investors who had no share in the copyright of our self-produced drama series, Treasure Adventure (國寶奇旅), were higher than the amount of net licensing fee that we allocated to them subsequently.
- (2) Represent the gains we recorded for disposal of the 20% equity interest in Wuxi Youkong to an Independent Third Party in May 2020. See “History, Reorganization and Corporate Development — Reorganization — Onshore Reorganization — Disposal of equity interest in Wuxi Youkong and establishment of Wuxi Strawbear” for details.

Our other income and gains increased significantly from RMB4.4 million for the year ended December 31, 2018 to RMB34.3 million for the year ended December 31, 2019, primarily attributable to the increases in government grants related to income received and the interest income from loans receivables recognized in 2019. Government grants primarily represent incentives awarded by the local governments to support our Group’s operation. Our government grants related to income increased significantly from RMB0.9 million for the year ended December 31, 2018 to RMB20.4 million for the year ended December 31, 2019, primarily because (i) government grants of approximately RMB9.0 million that one of our subsidiaries, Jiangsu Strawbear, was entitled to receive in 2018 were actually granted in 2019 due to the new local government policy, the Notice on Further Standardizing Tax Order of Film and Television Industry (《關於進一步規範影視行業稅收秩序有關工作的通知》) (the “**Notice**”) issued by the SAT on October 2, 2018, pursuant to which government grants to film and television industry companies were suspended from October 2018 to July 2019 to standardize the tax order of such industry; and (ii) we applied and obtained an one-off government grant pursuant to a new local policy to support the development of the modern service industry (press, publication, radio and television) in 2019. There were no unfulfilled conditions or contingencies attached to these government grants. Our other income and gains decreased from RMB22.3 million for the six months ended June 30, 2019 to RMB10.4 million for the same period in 2020, primarily due to (i) the decrease in government grants of RMB11.6 million, mainly because of the impact of coronavirus disease 2019 (“**COVID-19**”) in the first half of 2020, resulting in the delay in application for government grants, and (ii) the decrease in investment income from the co-investment arrangements in drama series of RMB4.1 million, which was in line with the decrease in revenue generated from Treasure Adventure (國寶奇旅) for the same period.

FINANCIAL INFORMATION

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) advertising expenses, which relate to the market promotion and advertising activities of our drama series, (ii) travelling and entertainment expenses, and (iii) others. The selling and distribution expenses vary by different customer types. The selling and distribution expenses for drama series distributed to TV channels are generally higher than those distributed to online video platforms as online video platforms generally take more active role for the promotion of drama series broadcast on their platforms under which situation we may make less efforts to promote such drama series. The selling and distribution expenses for drama series distributed to TV channels are generally higher than those distributed to third party distributors mainly because we make efforts to promote the drama series to be broadcast on TV channels while third party distributors generally do not require us to promote the drama series. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages)</i>									
	<i>(unaudited)</i>									
Advertising expenses	23,479	96.3%	72,886	96.2%	29,947	89.4%	27,927	94.9%	30,982	95.7%
Travelling and entertainment expenses	647	2.7%	1,561	2.1%	3,318	9.9%	1,344	4.6%	921	2.9%
Others	249	1.0%	1,311	1.7%	233	0.7%	172	0.5%	461	1.4%
Total	24,375	100.0%	75,758	100.0%	33,498	100.0%	29,443	100.0%	32,364	100.0%

Our selling and distribution expenses increased by 210.8% from RMB24.4 million for the year ended December 31, 2017 to RMB75.8 million for the year ended December 31, 2018, primarily due to the significant increase in advertising expenses because the number of drama series incurring advertising expenses of over RMB1.0 million increased from three in 2017 to nine in 2018, most of which were distributed to TV channels and we undertook the responsibility of promoting the drama series. Our selling and distribution expenses decreased by 55.8% from RMB75.8 million for the year ended December 31, 2018 to RMB33.5 million for the year ended December 31, 2019, primarily due to the decrease in advertising expenses of RMB42.9 million mainly because the number of drama series incurring advertising expenses of over RMB1.0 million decreased from nine to four from 2018 to 2019, most of which were distributed to TV channels and we undertook the responsibility of promoting the drama series. Our selling and distribution expenses increased from RMB29.4 million for the six months ended June 30, 2019 to RMB32.4 million for the same period in 2020, primarily due to the high advertising expenses for promoting The Love Lasts Two Minds (兩世歡), which was partially offset by the decrease in advertising expenses for promoting our drama series distributed to TV channels. The high advertising expenses incurred for The Love Lasts Two Minds (兩世歡) were primarily because (i) we proactively enhanced the promotion of such drama series since it had an innovative and scarce genre and theme; and (ii) it was the first drama series produced after our acquisition of Hangzhou Yide and we strategically planned to further improve the market recognition of our content production ability.

FINANCIAL INFORMATION

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, (ii) office expenses, (iii) business tax and government surcharges and other tax, (iv) depreciation and amortization, (v) professional service fees, (vi) depreciation charge of right-of-use assets, (vii) expense relating to short-term leases, (viii) impairment loss, (ix) travelling and entertainment expenses, (x) equity-settled share award expense, (xi) listing expenses, (xii) screenwriting fees and (xiii) others. The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages)</i>									
	<i>(unaudited)</i>									
Employee benefit expenses	1,982	12.8%	3,182	5.0%	4,331	24.5%	2,064	21.0%	2,356	7.9%
Office expenses	294	1.9%	384	0.6%	481	2.7%	324	3.4%	604	2.0%
Business tax and government surcharges and other tax	4,188	27.1%	3,849	6.0%	2,874	16.3%	1,529	15.6%	460	1.5%
Depreciation and amortization	353	2.3%	850	1.3%	1,183	6.7%	577	5.9%	634	2.1%
Professional service fees	2,493	16.2%	8,684	13.6%	4,168	23.6%	2,519	25.7%	1,784	6.0%
Depreciation charge of right-of-use assets	891	5.8%	1,583	2.5%	945	5.4%	457	4.7%	552	1.9%
Expense relating to short-term leases	317	2.1%	240	0.4%	1,088	6.2%	602	6.1%	425	1.4%
Impairment loss	3,826	24.8%	1,909	3.0%	1,528	8.7%	936	9.5%	5,887	19.7%
Travelling and entertainment expenses	648	4.2%	800	1.2%	782	4.4%	622	6.3%	226	0.8%
Equity-settled share award expense ⁽¹⁾	–	–	41,951	65.5%	–	–	–	–	2,146	7.2%
Listing expenses	–	–	–	–	–	–	–	–	12,087	40.5%
Screenwriting fees	–	–	–	–	–	–	180	1.8%	2,670	9.0%
Others	438	2.8%	615	0.9%	275	1.5%	–	–	–	–
Total	15,430	100.0%	64,047	100.0%	17,655	100.0%	9,810	100.0%	29,831	100.0%

Note:

⁽¹⁾ Equity-settled share award expense represents (i) the expense incurred for transferring certain of equity interests in our Group at no consideration to Gold Fish Management Holding Limited in 2018, which is controlled by a key employee of our Group, and (ii) share-based compensation expense incurred in relation to our Pre-IPO Share Option Scheme in 2020. See Note 34 to the Accountants' Report included in Appendix I to this prospectus for more information.

FINANCIAL INFORMATION

Our administrative expenses increased by 315.1% from RMB15.4 million for the year ended December 31, 2017 to RMB64.0 million for the year ended December 31, 2018 and then decreased by 72.4% to RMB17.7 million for the year ended December 31, 2019, primarily due to the occurrence of the equity-settled share award expense of RMB42.0 million in 2018. Our administrative expenses increased significantly by 204.1% from RMB9.8 million for the six months ended June 30, 2019 to RMB29.8 million for the same period in 2020, primarily due to (i) the occurrence of listing expenses of RMB12.1 million in the first half of 2020, (ii) the increase in impairment loss of RMB5.0 million primarily due to the increase in provision of trade receivables and (iii) the increase in screenwriting fees of RMB2.5 million due to replacing the screenwriter of On The Stream Of Silence And Loneliness (在寂與寞的川流上).

Other Expenses

Our other expenses primarily comprise of (i) donations and (ii) others. Our other expenses was approximately RMB0.8 million, RMB0.4 million, RMB0.1 million, RMB0.1 million and nil for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

Finance Costs

Our finance costs primarily comprise of (i) interest on bank loans, (ii) interest on borrowings from a related party, (iii) interest on other borrowings — from third parties, (iv) interest on lease liabilities, (v) interest on other borrowings — from an investor, (vi) interest expense under the co-investment arrangements in drama series and (vii) interest on discounted notes receivable. The table below sets forth a breakdown of our finance costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of total)</i>									
	<i>(unaudited)</i>									
Interest on bank loans	1,100	4.8%	2,182	6.3%	2,597	26.7%	753	15.0%	3,145	57.0%
Interest on borrowings from a related party	–	–	6,108	17.5%	4,913	50.5%	2,395	47.7%	1,246	22.6%
Interest on other borrowings — from third parties	64	0.3%	332	1.0%	557	5.7%	245	4.9%	864	15.7%
Interest on lease liabilities	50	0.2%	79	0.2%	76	0.8%	43	0.9%	32	0.6%
Interest on other borrowings — from an investor	21,578	94.7%	23,422	67.2%	–	–	–	–	–	–
Interest expense under the co-investment arrangements in drama series ⁽¹⁾	–	–	2,282	6.5%	1,467	15.0%	1,463	29.1%	226	4.1%
Interest on discounted notes receivables	–	–	466	1.3%	124	1.3%	119	2.4%	–	–
Total	22,792	100.0%	34,871	100.0%	9,734	100.0%	5,018	100.0%	5,513	100.0%

FINANCIAL INFORMATION

Note:

- (1) Under the co-investment arrangements for drama series where we act as an executive producer and our co-investors do not have any share of copyright of the drama series, our co-investors shall pay us their investment amount pre-determined based on the estimated total investment amount for such drama series multiplied by their investment percentage, which is recognized as our financial liabilities. And we shall pay our co-investors the net licensing fees after deduction of the relevant expenses and/or distribution commission by deducting from our financial liabilities. When the net licensing fees to be paid to our co-investors is more than our originally recognized financial liabilities, the difference between such two figures shall be recognized as “interest expense under the co-investment arrangements in drama series.” The interest expense under the co-investment arrangements in drama series refers to the amount of net licensing fee (i.e. the investment return) that we allocated to our co-investors who had no share in the copyright of our drama series minus the amount of the investment that we received from such co-investors.

Our finance costs increased by 53.0% from RMB22.8 million for the year ended December 31, 2017 to RMB34.9 million for the year ended December 31, 2018, primarily due to the increase in interest on borrowings from a related party of RMB6.1 million due to the borrowings from Mr. Liu at the principal amount of RMB350.0 million in August 2018 to (i) repurchase the equity investment in our Group by a former investor and (ii) fund our working capital. See “— Material Related Party Transactions.” Our finance costs decreased by 72.1% from RMB34.9 million for the year ended December 31, 2018 to RMB9.7 million for the year ended December 31, 2019, primarily attributable to the decrease in interest on other borrowings — from an investor since the underlying borrowings had been repaid in August 2018. See “History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital.” Our finance costs increased by 9.9% from RMB5.0 million for the six months ended June 30, 2019 to RMB5.5 million for the same period in 2020, primarily due to the increase in interest on bank loans of RMB2.4 million, mainly as a result of the increase in bank loans of RMB80.0 million and the increase in interest rate of such loans in 2020.

Income Tax Expense

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

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(unaudited)</i>				
Current — Mainland China					
charge for the year/ period	30,551	39,357	27,474	17,834	29,601
Deferred tax	(1,947)	(9,722)	(11,902)	(9,297)	(9,067)
Total	28,604	29,635	15,572	8,537	20,534

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

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The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%, except Horgos Strawbear. According to the Notice of the Preferential EIT Policy in relation to Kashgar and Horgos as Two Special Economic Development Zones in Xinjiang 《關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》, Horgos Strawbear enjoys an exemption from EIT during the period from 2019 to 2023. Our effective income tax rate was 30.9%, 73.8%, 23.6% and 27.5%, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Our effective income tax rate increased significantly from 30.9% for the year ended December 31, 2017 to 73.8% for the year ended December 31, 2018, primarily due to the non-tax deductible item, the equity-settled share award expense, of RMB42.0 million in 2018, which was not operating related and lead to the much higher administrative expenses incurred in 2018. Our effective income tax rate decreased from 73.8% for the year ended December 31, 2018 to 23.6% for the year ended December 31, 2019, primarily because the equity-settled share award expense did not incur in 2019 and our subsidiary, Horgos Strawbear, started to enjoy the tax preferential treatment in 2019. Our effective income tax rate increased to 27.5% for the six months ended June 30, 2020, which was primarily because our subsidiary, Horgos Strawbear, did not generate any revenue in the first half of 2020.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

NON-HKFRS MEASURE

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net profit as profit for the period adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also a non-cash items and unrelated to our principal business, and therefore are not indicative of our profit from operations post-completion of our Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which will be converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing.

FINANCIAL INFORMATION

The table below reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is the net profit for the year/period:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Reconciliation of net profit to adjusted net profit					
Net profit for the year/period	64,030	10,513	50,400	37,798	54,128
Add:					
Changes in fair value of financial liabilities at fair value through profit or loss	–	(936)	14,996	4,328	3,720
Equity-settled share award expense	–	41,951	–	–	2,146
Listing expenses	–	–	–	–	12,087
Adjusted net profit	64,030	51,528	65,396	42,126	72,081

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2020 compared to six months ended June 30, 2019

Revenue

Our revenue slightly decreased by 10.5% to RMB579.8 million for the six months ended June 30, 2020 from RMB647.7 million for the same period in 2019, primarily due to the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB181.0 million, partially offset by (i) the increase in revenue generated from made-to-order drama series production of RMB84.9 million, and (ii) the slight increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB21.5 million.

Licensing of Broadcasting Rights of Self-produced Drama Series

Revenue generated from licensing of broadcasting rights of self-produced drama series remained relatively stable, amounting to RMB459.4 million for the six months ended June 30, 2019 and RMB480.8 million for the same period in 2020.

FINANCIAL INFORMATION

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB183.3 million for the six months ended June 30, 2019 to RMB2.3 million for the same period in 2020, primarily due to the significantly lower licensing fees of A Sword Across The Sky (一劍橫空) recognized in the first half of 2020 than that of The Legends (招搖) and Detective Ke Chen (神探柯晨) recognized in the first half of 2019. See “— Description of Key Statement of Profit or Loss Items — Revenue” for more details.

Made-to-order Drama Series

Revenue generated from made-to-order drama series increased significantly from nil for the six months ended June 30, 2019 to RMB84.9 million for the same period in 2020, primarily attributable to Customer First (獵心者) broadcast in the first half of 2020 when the business model of made-to-order drama series became matured and became a main source of content for online video platforms.

Cost of Sales

Our cost of sales decreased by 22.7% to RMB444.2 million for the six months ended June 30, 2020 from RMB575.0 million for the same period in 2019, primarily attributable to (i) the decrease in cost of sales for licensing of broadcasting rights of outright-purchased drama series of RMB148.6 million as a result of the significantly lower procurement cost of A Sword Across The Sky (一劍橫空) distributed in the first half of 2020, and (ii) the decrease in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB58.9 million as the cost of sales we incurred for Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) in the first half of 2019 was higher than that of The Love Lasts Two Minds (兩世歡) and Inside Man (局中人) in the first half of 2020. The decrease was partially offset by the cost of sales occurred for made-to-order drama series production in the first half of 2020 of RMB70.8 million as a result of the broadcast of Customer First (獵心者) in the same period, while we did not incur any cost of sales for made-to-order drama series in the first half in 2019.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 86.4% to RMB135.6 million for the six months ended June 30, 2020 from RMB72.8 million for the same period in 2019. Our gross profit margin increased to 23.4% for the six months ended June 30, 2020 from 11.2% for the same period in 2019, primarily because our gross profit increased while our revenue slightly decreased from the six months ended June 30, 2019 to the same period in 2020.

Other Income and Gains

Our other income and gains decreased by 53.1% to RMB10.4 million for the six months ended June 30, 2020 from RMB22.3 million for the same period in 2019, primarily due to (i) the decrease in government grants related to income of RMB11.6 million, mainly as a result of the impact of COVID-19 in the first half of 2020, resulting in the delay in application for government grants and (ii) the decrease in investment income from the co-investment arrangements in drama series of RMB4.1 million, which was in line with the decrease in revenue generated from Treasure Adventure (國寶奇旅) for the same period.

FINANCIAL INFORMATION

Selling and Distribution Expenses

Our selling and distribution expenses increased by 9.9% to RMB32.4 million for the six months ended June 30, 2020 from RMB29.4 million for the same period in 2019, primarily due to the increase in advertising expenses for the promotion of *The Love Lasts Two Minds* (兩世歡) and *Inside Man* (局中人) broadcast in the first half of 2020.

Administrative Expenses

Our administrative expenses increased significantly by 204.1% to RMB29.8 million for the six months ended June 30, 2020 from RMB9.8 million for the same period in 2019, primarily due to (i) the occurrence of listing expenses of RMB12.1 million in the first half of 2020, (ii) the increase in impairment loss of RMB4.9 million primarily due to the increase in provision of trade receivables and (iii) the increase in screenwriting fees of RMB2.5 million due to replacing the screenwriter of *On The Stream Of Silence And Loneliness* (在寂與寞的川流上).

Other Expenses

Our other expenses was nil for the six months ended June 30, 2020.

Finance Costs

Our finance costs increased by 9.9% to RMB5.5 million for the six months ended June 30, 2020 from RMB5.0 million for the same period in 2019, primarily due to the increase in interest on bank loans of RMB2.4 million mainly as a result of the increase in bank loans of RMB80.0 million and the increase in interest rate of such loans in 2020.

Income Tax Expense

Our income tax expense increased significantly by 140.5% to RMB20.5 million for the six months ended June 30, 2020 from RMB8.5 million for the same period in 2019, primarily due to our subsidiary, Horgos Strawbear, did not enjoy any tax preferential treatment since it did not generate any revenue in the first half of 2020. For the same reason discussed above, our effective income tax rate increased to 27.5% for the six months ended June 30, 2020 from 18.4% for the same period in 2019.

Profit for the Period and Net Profit Margin

As a result of the foregoing, our net profit significantly increased to RMB54.1 million for the six months ended June 30, 2020 from RMB37.8 million for the same period in 2019. Our net profit margin, which represents profit and total comprehensive income for the period as a percentage of revenue, increased to 9.3% for the six months ended June 30, 2020 from 5.8% for the same period in 2019 as the increase of our net profit outpaced the increase of our revenue for the same period.

FINANCIAL INFORMATION

Year ended December 31, 2019 compared to year ended December 31, 2018

Revenue

Our revenue increased by 12.7% to RMB765.1 million for the year ended December 31, 2019 from RMB679.1 million for the year ended December 31, 2018, primarily attributable to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB126.1 million, partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB40.9 million.

Licensing of Broadcasting Rights of Self-produced Drama Series

Revenue generated from licensing of broadcasting rights of self-produced drama series increased from RMB445.3 million for the year ended December 31, 2018 to RMB571.4 million for the year ended December 31, 2019, primarily due to (i) the broadcasting of new drama series in 2019, such as Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行), all of which were drama series with large scale investment and first-run broadcast in 2019, and (ii) the revenue generated from the re-run broadcast of drama series, such as Mr. Nanny (月嫂先生).

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB224.2 million for the year ended December 31, 2018 to RMB183.3 million for the year ended December 31, 2019, in line with the decrease of number of outright-purchased drama series that we broadcast in 2019 which was determined by the business model of such business and the market opportunities in 2019.

Made-to-order Drama Series

Revenue generated from made-to-order drama series remained stable at nil for the year ended December 31, 2018 and 2019.

Cost of Sales

Our cost of sales increased by 40.1% to RMB657.5 million for the year ended December 31, 2019 from RMB469.2 million for the year ended December 31, 2018. The increase was primarily due to the increase of cost of sales for licensing of broadcasting rights of self-produced drama series of RMB170.1 million attributable to the higher cost recognized for the new drama series broadcast in 2019, such as Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行).

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

Since the increase in cost of sales outpaced the increase in revenue from 2018 to 2019, our gross profit decreased by 48.7% to RMB107.6 million for the year ended December 31, 2019 from RMB209.9 million for the year ended December 31, 2018. Our gross profit margin decreased to 14.1% for the year ended December 31, 2019 from 30.9% for the year ended December 31, 2018, primarily due to the decline of the purchase prices of drama series broadcast in 2019 offered by online video platforms while such drama series were produced in 2017 or 2018 with a relatively high production costs before the actors' remunerations had been substantially reduced pursuant to relevant government policies, which was in line with the industry trend.

Other Income and Gains

Our other income and gains increased by 678.6% to RMB34.3 million for the year ended December 31, 2019 from RMB4.4 million for the year ended December 31, 2018, primarily attributable to (i) the increase in government grants related to income of RMB19.5 million, (ii) the increase in interest income from loans receivables of RMB6.6 million primarily attributable to the lendings for Inside Man (局中人) and My Unicorn Girl (穿盔甲的少女), and (iii) the increase in investment income of RMB4.1 million from the co-investment in Treasure Adventure (國寶奇旅).

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 55.8% to RMB33.5 million for the year ended December 31, 2019 from RMB75.8 million for the year ended December 31, 2018, mainly because the number of drama series incurring advertising expenses of over RMB1.0 million decreased from nine in 2018 to four in 2019, most of which were distributed to TV channels and we undertook the responsibility of promoting such drama series.

Administrative Expenses

Our administrative expenses decreased by 72.4% to RMB17.7 million for the year ended December 31, 2019 from RMB64.0 million for the year ended December 31, 2018, primarily attributable to the decrease in equity-settled share award expense of RMB42.0 million in 2019.

Other Expenses

Our other expenses decreased by 66.8% to RMB0.1 million for the year ended December 31, 2019 from RMB0.4 million for the year ended December 31, 2018.

Finance Costs

Our finance costs decreased by 72.1% to RMB9.7 million for the year ended December 31, 2019 from RMB34.9 million for the year ended December 31, 2018, primarily due to the decrease in interest on other borrowings — from an investor of RMB23.4 million since we had repaid the underlying borrowings in August 2018.

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Income Tax Expense

Our income tax expense decreased by 47.5% to RMB15.6 million for the year ended December 31, 2019 from RMB29.6 million for the year ended December 31, 2018, primarily due to the tax preferential treatment enjoyed by our subsidiary, Horgos Strawbear, in 2019. As a result of the above as well as the effect of the equity-settled award expense on the effective income tax rate of 2018, our effective income tax rate decreased to 23.6% for the year ended December 31, 2019 from 73.8% for the year ended December 31, 2018.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our net profit increased to RMB50.4 million for the year ended December 31, 2019 from RMB10.5 million for the year ended December 31, 2018. Our net profit margin, which represents profit and total comprehensive income for the year as a percentage of revenue, increased from 1.5% for the year ended December 31, 2018 to 6.6% for the year ended December 31, 2019.

Year ended December 31, 2018 compared to year ended December 31, 2017

Revenue

Our revenue increased by 25.1% to RMB679.1 million for the year ended December 31, 2018 from RMB542.9 million for the year ended December 31, 2017, primarily due to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB349.5 million, partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB198.9 million.

Licensing of Broadcasting Rights of Self-produced Drama Series

Revenue generated from licensing of broadcasting rights of self-produced drama series increased significantly from RMB95.8 million for the year ended December 31, 2017 to RMB445.3 million for the year ended December 31, 2018, primarily due to the broadcasting of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生), both of which were drama series with large scale investment and first-run broadcast and recognized revenue in 2018.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB423.1 million for the year ended December 31, 2017 to RMB224.2 million for the year ended December 31, 2018, primarily because the revenue of RMB348.7 million generated from Lost Love In Times (醉玲瓏) broadcast in 2017 was much higher than the revenue of the drama series broadcast in 2018. See “— Description of Key Statement of Profit or Loss Items — Revenue” for more details.

Made-to-order Drama Series

Revenue generated from made-to-order drama series decreased from RMB5.2 million for the year ended December 31, 2017 to nil for the year ended December 31, 2018. Such business model was relatively immature in 2017 and 2018 and the price of made-to-order drama series was therefore relatively lower. We did not receive any suitable order in 2018.

FINANCIAL INFORMATION

Cost of Sales

Our cost of sales increased by 20.1% to RMB469.2 million for the year ended December 31, 2018 from RMB390.8 million for the year ended December 31, 2017. The increase was primarily due to the increase in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB296.6 million, primarily reflecting the cost recognized for producing and distributing Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) that were broadcast in 2018, partially offset by the decrease in cost of sales recognized for licensing of broadcasting rights of outright-purchased drama series of RMB221.5 million, primarily because the purchase cost of drama series recognized in 2018 was significantly lower than the high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 38.0% to RMB209.9 million for the year ended December 31, 2018 from RMB152.1 million for the year ended December 31, 2017. Our gross profit margin increased to 30.9% for the year ended December 31, 2018 from 28.0% for the year ended December 31, 2017 as the increase in our gross profit outpaced the increase in our revenue from 2017 to 2018.

Other Income and Gains

Our other income and gains increased by 10.1% to RMB4.4 million for the year ended December 31, 2018 from RMB4.0 million for the year ended December 31, 2017, primarily due to the increase in interest income from loans receivables, partially offset by the slight decrease in government grants.

Selling and Distribution Expenses

Our selling and distribution expenses significantly increased by 210.8% to RMB75.8 million for the year ended December 31, 2018 from RMB24.4 million for the year ended December 31, 2017, primarily because the number of drama series incurring advertising expenses of over RMB1.0 million increased from three in 2017 to nine in 2018, most of which were distributed to TV channels and we undertook the responsibility of promoting such drama series.

Administrative Expenses

Our administrative expenses increased by 315.1% to RMB64.0 million for the year ended December 31, 2018 from RMB15.4 million for the year ended December 31, 2017, primarily due to the increase in the equity-settled share award expense of RMB42.0 million in 2018.

Other Expenses

Our other expenses decreased by 53.4% to RMB0.4 million for the year ended December 31, 2018 from RMB0.8 million for the year ended December 31, 2017, primarily due to the decrease in donations.

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Finance Costs

Our finance costs increased by 53.0% to RMB34.9 million for the year ended December 31, 2018 from RMB22.8 million for the year ended December 31, 2017, primarily due to the increase in interest on borrowings from a related party in 2018 due to the borrowings from Mr. Liu at the principal amount of RMB350.0 million in August 2018 to (i) repurchase the equity investment in our Group by a former investor and (ii) fund our working capital. See “— Material Related Party Transactions.”

Income Tax Expense

Our income tax expense increased by 3.6% to RMB29.6 million for the year ended December 31, 2018 from RMB28.6 million for the year ended December 31, 2017, primarily due to the increase in profit made in 2018. Our effective income tax rate increased to 73.8% for the year ended December 31, 2018 from 30.9% for the year ended December 31, 2017, primarily due to the increase in a non-deductible expenses, equity-settled share award expense, from 2017 to 2018.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our net profit decreased by 83.6% to RMB10.5 million for the year ended December 31, 2018 from RMB64.0 million for the year ended December 31, 2017. Our net profit margin, which represents profit and total comprehensive income for the year as a percentage of revenue, decreased from 11.8% for the year ended December 31, 2017 to 1.5% for the year ended December 31, 2018 as a result of the decrease of our net profit and the increase of our revenue from 2017 to 2018.

DISCUSSION OF CERTAIN BALANCE SHEET ITEMS

The following is a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Non-current assets:				
Property, plant and equipment	1,628	2,921	2,665	10,367
Right-of-use assets	3,313	1,730	894	4,071
Goodwill	–	–	108,341	112,983
Other intangible assets	28	24	42,920	27,200
Investment in an associate	–	300	300	–
Investment in a joint venture	–	–	14,000	14,000
Deferred tax assets	6,429	16,151	28,053	30,020
	11,398	21,126	197,173	198,641

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	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Current assets:				
Inventories	314,509	536,664	919,119	681,121
Trade and notes receivables	289,851	180,344	485,396	776,634
Prepayments, other receivables and other assets	83,981	244,498	340,906	254,012
Due from a related party	–	–	3,000	–
Financial assets at fair value through profit or loss	20,000	–	–	–
Cash and cash equivalents	153,258	97,255	52,349	83,295
Restricted cash	–	–	54,312	18
Total current assets	861,599	1,058,761	1,855,082	1,795,080
Current liabilities:				
Trade payables	189,570	236,863	449,190	425,521
Other payables and accruals	177,894	177,497	734,535	602,808
Interest-bearing bank and other borrowings	43,000	66,000	125,000	140,500
Lease liabilities	1,493	907	509	896
Due to a joint venture	–	–	51,000	71,260
Tax payable	19,585	16,648	6,604	7,999
Due to a related party	–	81,013	105,926	–
Dividend payable	–	80,000	81,507	80,000
Total current liabilities	431,542	658,928	1,554,271	1,328,984
Net current assets	430,057	399,833	300,811	466,096
Non-current liabilities:				
Lease liabilities	1,379	472	–	2,874
Financial liabilities at fair value through profit or loss	–	274,525	289,521	401,491
Interest-bearing bank and other borrowings	246,578	–	–	–
Deferred tax liabilities	–	–	14,012	8,676
Total non-current liabilities	247,957	274,997	303,533	413,041
Net assets	193,498	145,962	194,451	251,696

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Inventories

The table below sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Raw materials	19,916	25,882	60,873	69,523
Work in progress	102,750	308,351	462,944	494,138
Finished goods	191,843	202,431	395,302	117,460
Total	314,509	536,664	919,119	681,121

Our inventories increased by 70.6% to RMB536.7 million as of December 31, 2018 from RMB314.5 million as of December 31, 2017, primarily due to the increase in our work in progress of RMB205.6 million as a result of the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域).

Our inventories increased by 71.3% to RMB919.1 million as of December 31, 2019 from RMB536.7 million as of December 31, 2018, primarily due to (i) the increase in finished goods of RMB192.9 million primarily because we completed the production of our drama series, Inside Man (局中人), The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) in 2019 which were yet to be broadcast as of December 31, 2019, partially offset by the decrease as a result of the broadcast of Treasure Adventure (國寶奇旅); (ii) the increase in work in progress of RMB154.6 million primarily attributable to the production of our drama series, Spirit Realm (靈域); and (iii) the increase in raw materials of RMB35.0 million primarily attributed to the purchase of IP rights and screenplays.

Our inventories decreased by 25.9% to RMB681.1 million as of June 30, 2020 from RMB919.1 million as of December 31, 2019, primarily due to a decrease of finished goods of RMB277.8 million since our drama series, Inside Man (局中人), The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and A Sword Across The Sky (一劍橫空), were broadcast and recognized revenue in the first half of 2020, partially offset by the increase in work in progress of RMB31.2 million as a result of the continuous production of our drama series, such as Breath Of Destiny (一起深呼吸), My Bargain Queen (我的砍價女王), Dating In The Kitchen (我，喜歡你) and Spirit Realm (靈域) in the first half of 2020.

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For the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020, our inventory turnover days were 171 days, 331 days, 404 days and 328 days, respectively. We calculate the inventory turnover days using the average of the opening and ending inventory balances for the period, divided by cost of sales for the relevant period, multiplied by 365 days for 2017, 2018 and 2019, and 182 days for the six months ended June 30, 2020. Inventory turnover days increased from 171 days in 2017 to 331 days in 2018, primarily because our cost of sales increased slightly while the inventories increased significantly from the year ended December 31, 2017 to the year ended December 31, 2018, which was in line with the increase in the number of drama series we produced. Inventory turnover days increased from 331 days in 2018 to 404 days in 2019, primarily due to the delay in broadcast schedule of certain of our self-produced drama series related to war or spy from late 2019 to the first half of 2020 as a result of the readjusted broadcasting plan of TV channels and online video platforms for celebrating the 70th anniversary of the National Day of the PRC. Inventory turnover days decreased from 404 days in 2019 to 328 days for the six months ended June 30, 2020, primarily attributable to the decrease in the inventory balances as a result of the broadcast of four drama series in the first half of 2020.

As of the Latest Practicable Date, approximately RMB158.0 million, or 22.7% of our inventories as of June 30, 2020 were subsequently utilized or sold. Among the remaining inventories of approximately RMB523.1 million that had not been utilized or sold as of the Latest Practicable Date, approximately RMB446.9 million for our drama series, Spirit Realm (靈域), Breath of Destiny (一起深呼吸) and My Bargain Queen (我的砍價女王), all of which were in post-production stage as of the same date, are expected to be utilized or sold in 2021 based on the expected broadcasting schedules of these three drama series arranged by online video platforms. Specifically, (i) pursuant to the relevant licensing agreement, our self-produced drama series My Bargain Queen (我的砍價女王) is expected to be broadcast on Youku in 2021; and (ii) Spirit Realm (靈域) and Breath of Destiny (一起深呼吸) are our made-to-order drama series, the broadcasting time of which is determined by the online video platform pursuant to the relevant production agreements. Based on iQIYI's confirmations, these two drama series are expected to be broadcast in 2021. The rest of the inventories as of June 30, 2020 that had not been utilized or sold as of the Latest Practicable Date are mainly IP rights and screenplays that were at the pre-production stage as of the same date, the expected settlement time of which is not practicable to predict at this stage.

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The tables below set forth the aging analysis of our inventories as of the dates indicated:

	As of December 31, 2017			Total
	Less than 1 year	1 to 2 years	Over 2 years	
	<i>(RMB in thousands)</i>			
Raw materials	10,380	9,536	–	19,916
Work-in-progress				
Mr. Nanny (月嫂先生)	100,703	–	–	100,703
Treasure Adventure (國寶奇旅)	2,047	–	–	2,047
Sub-total	102,750	–	–	102,750
Finished goods				
Adoptive Mother's Mood For Love (養母的花樣年華)	2,280	–	–	2,280
Starry April (繁星四月)	–	459	–	459
The Impossible Mission (不可能完成的任務)	–	823	–	823
Legend Of Zu Mountain 2 (蜀山戰紀2劍俠傳奇)	184,706	–	–	184,706
A Sword Across The Sky (一劍橫空)	–	6,435	–	6,435
Sub-total	186,986	7,717	–	194,703
Sub-total	300,116	17,253	–	317,369
Impairment	–	(2,860)	–	(2,860)
Total	300,116	14,393	–	314,509

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	As of December 31, 2018			Total
	Less than 1 year	1 to 2 years	Over 2 years	
	<i>(RMB in thousands)</i>			
Raw materials	7,700	9,565	8,617	25,882
Work-in-progress				
Love Journey (一場遇見愛情的旅行)	175,150	–	–	175,150
Inside Man (局中人)	118,090	–	–	118,090
Spirit Realm (靈域)	15,111	–	–	15,111
Sub-total	308,351	–	–	308,351
Finished goods				
Adoptive Mother's Mood For Love (養母的花樣年華)	–	538	–	538
Starry April (繁星四月)	–	–	42	42
The Impossible Mission (不可能完成的任務)	–	–	54	54
A Sword Across The Sky (一劍橫空)	–	–	4,803	4,803
Treasure Adventure (國寶奇旅)	196,959	–	–	196,959
Mr. Nanny (月嫂先生)	2,169	–	–	2,169
Other	13,820	–	–	13,820
Sub-total	212,948	538	4,899	218,385
Sub-total	528,999	10,103	13,516	552,618
Impairment	(13,820)	–	(2,134)	(15,954)
Total	515,179	10,103	11,382	536,664

FINANCIAL INFORMATION

	As of December 31, 2019			Total
	Less than 1 year	1 to 2 years	Over 2 years	
	<i>(RMB in thousands)</i>			
Raw materials	34,206	9,933	16,734	60,873
Work-in-progress				
Spirit Realm (靈域)	218,588	15,112	–	233,700
Breath of Destiny (一起深呼吸)	85,822	–	–	85,822
Marry Me (三嫁惹君心)	89,041	–	–	89,041
My Bargain Maker (我的砍價女王)	22,383	–	–	22,383
Dating In The Kitchen (我，喜歡你)	31,808	–	–	31,808
Other	190	–	–	190
Sub-total	447,832	15,112	–	462,944
Finished goods				
A Sword Across The Sky (一劍橫空)	–	–	4,803	4,803
Treasure Adventure (國寶奇旅)	–	5,723	–	5,723
The Love Lasts Two Minds (兩世歡)	128,635	–	–	128,635
Inside Man (局中人)	187,520	–	–	187,520
Customer First (獵心者)	70,755	–	–	70,755
Other	–	13,820	–	13,820
Sub-total	386,910	19,543	4,803	411,256
Sub-total	868,948	44,588	21,537	935,073
Impairment	–	(13,820)	(2,134)	(15,954)
Total	868,948	30,768	19,403	919,119

FINANCIAL INFORMATION

	As of June 30, 2020			Total
	Less than 1 year	1 to 2 years	Over 2 years	
	<i>(RMB in thousands)</i>			
Raw materials	40,823	9,395	19,305	69,523
Work-in-progress				
Spirit Realm (靈域)	7,485	218,588	15,112	241,185
Breath of Destiny (一起深呼吸)	168,975	–	–	168,975
My Bargain Queen (我的砍價女王)	14,350	22,383	–	36,733
Dating In The Kitchen (我，喜歡你)	42,948	–	–	42,948
Others	4,297	–	–	4,297
Sub-total	238,055	240,971	15,112	494,138
Finished goods				
Marry Me (三嫁惹君心)	104,775	–	–	104,775
Treasure Adventure (國寶奇旅)	–	5,534	–	5,534
Inside Man (局中人)	7,151	–	–	7,151
Other	–	13,820	–	13,820
Sub-total	111,926	19,354	–	131,280
Sub-total	390,804	269,720	34,417	694,941
Impairment	–	(13,820)	–	(13,820)
Total	390,804	255,900	34,417	681,121

As of December 31, 2017, 2018 and 2019 and June 30, 2020, approximately 94.6%, 95.7%, 92.9% and 56.2% of our inventories were aged less than one year. The significant decrease in our inventories with a term of less than one year as of June 30, 2020 was primarily because (i) our made-to-order drama series, Spirit Realm (靈域), had longer production cycle primarily due to its fantasy features which required a longer period for post-production efforts, including special effects; and (ii) our self-produced drama series, My Bargain Queen (我的砍價女王) had longer pre-production period and incurred certain pre-production cost in the first half of 2019 which remain unutilized as of June 30, 2020.

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Raw materials mainly represent the cost of screenplays and IP rights for production of our drama series. Depending on genre, theme and length of the screenplays and producers' requirements on the screenplays, it usually takes from months to years to develop the screenplays, which is in line with market practice. As of June 30, 2020, we recorded raw materials aged over two years of RMB19.3 million, mainly relating to nine screenplays which were at the pre-production stage as of the Latest Practicable Date. We believe there is no material recoverability issue for our raw materials aged over two years and we did not record any impairment of our raw materials during the Track Record Period.

We closely monitor our inventory level and carry out an inventory review on a project-by-project basis at the end of each reporting period, and make provision for obsolete and slow-moving projects accordingly. See "Business — Inventory — Inventory Provision Policy" for details. Through the implementation of stringent inventory review procedures and provision policy, we are able to effectively monitor the balance of our aged inventories.

Trade and Notes Receivables

The table below sets forth the breakdown of our trade and notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Trade receivables	293,481	178,301	491,881	769,006
Notes receivables	1,000	7,000	–	20,000
	294,481	185,301	491,881	789,006
Impairment	(4,630)	(4,957)	(6,485)	(12,372)
	289,851	180,344	485,396	776,634
Total	289,851	180,344	485,396	776,634

Trade Receivables

Trade receivables mainly represent the balances due from our customers, such as TV channels, online video platforms and third party enterprises.

Our trade receivables decreased by 39.2% to RMB178.3 million as of December 31, 2018 from RMB293.5 million as of December 31, 2017, primarily due to the decrease in trade receivables of RMB97.0 million and RMB33.2 million for Lost Love In Times (醉玲瓏) and My! P.E. Teacher (我的！體育老師), respectively.

Our trade receivables increased by 175.9% to RMB491.9 million as of December 31, 2019 from RMB178.3 million as of December 31, 2018, primarily due to the increases in trade receivables of RMB270.5 million from a top online video platform for Second Time Is A Charm (第二次也很美) and trade receivables of RMB96.2 million from a top satellite TV channel for Love Journey (一場遇見愛情的旅行).

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Our trade receivables increased by 56.3% to RMB769.0 million as of June 30, 2020 from RMB491.9 million as of December 31, 2019, primarily due to the increase in trade receivables of RMB357.6 million for Inside Man (局中人) broadcast in the first half of 2020.

The table below sets forth the aging analysis of trade receivables, based on the transaction dates and net of loss allowance, as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>June 30,</u>
	<i>(RMB in thousands)</i>			<u>2020</u>
Within 3 months	141,952	76,738	340,901	373,644
3 to 6 months	49,740	–	817	2,820
6 to 12 months	51,793	920	125,626	297,513
1 to 2 years	45,366	66,919	12,882	82,420
2 to 3 years	–	28,767	5,170	237
Total	<u>288,851</u>	<u>173,344</u>	<u>485,396</u>	<u>756,634</u>

As of the Latest Practicable Date, approximately RMB515.2 million, or 67.0% of our trade receivables as of June 30, 2020 were subsequently settled, among which approximately RMB293.6 million, or 81.4% of our trade receivables due from iQIYI as of June 30, 2020 were subsequently settled. Among the remaining trade receivables of approximately RMB253.8 million that had not been settled as of the Latest Practicable Date, (i) approximately RMB15.4 million of trade receivables due from iQIYI is expected to be settled by the end of 2020 and the rest is expected to be settled by June 30, 2021 based on iQIYI's confirmation; and (ii) approximately RMB10.0 million is expected to be settled by the end of 2020 based on our communications with other customers, and the rest is expected to be mainly settled in 2021 based on the past settlement experience with them.

As indicated above, approximately 84.3%, 44.8%, 96.3% and 89.1% of trade receivables net of loss allowance as of December 31, 2017, 2018 and 2019 and June 30, 2020 were aged within one year as of the same dates, respectively. The significant increase in trade receivables aged more than one year as of December 31, 2018 was due to the receivables of approximately RMB40.5 million for Starry April (繁星四月) and approximately RMB23.4 million for Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), both from Anhui TV, which had been subsequently settled in 2019. Our trade receivables aged more than one year as of the end of each year/period during the Track Record Period were mainly receivables from TV channels, which are generally state-owned entities, where the collection is usually time-consuming involving prolonged internal administrative procedures. However, the risk of failing to settle the trade receivables from such state-owned TV channels is relatively low as state-owned entities generally have good payment ability. In addition, according to our Industry Consultant, Frost & Sullivan, it is an industry norm for drama series production and distribution companies in the PRC to grant relatively favorable credit terms, e.g., 2 to 3 years, to their major customers, state-owned TV channels, considering the long-term business relationships after conducting reasonable risk assessments as to (i) the track record and credibility of such customers; and (ii) the amount of gross payables arising from such contracts.

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As of December 31, 2017, 2018 and 2019 and June 30, 2020, we made provisions for impairment of trade receivables of approximately RMB4.6 million, RMB5.0 million, RMB6.5 million and RMB12.4 million, respectively, which we believe were sufficient as of the end of each year/period during the Track Record Period.

In addition, in order to minimize potential credit risks, we have established record system to monitor receivables and outstanding invoices, in particular, we maintain a customer credit profile, continuously evaluate the credit of customers, maintain trade receivables management account and aging analysis tables, and will take appropriate follow-up actions such as active communications with our customers and legal actions, depending on the specific circumstances. We also usually check the balance of our trade receivables on a regular basis and will send payment reminders to our customers to collect the trade receivables. Through the implementation of stringent credit control procedures, we are able to effectively monitor the balance and collection progress of our trade receivables. As a result, approximately RMB48.6 million, or 58.8% of our outstanding trade receivables aged over one year as of June 30, 2020 net of loss allowance had been settled as of the Latest Practicable Date. Based on the above, our Directors are of the view that there is no material recoverability issue of our trade receivables aged over one year that may adversely affect our financial position and we believe that the default risk of our trade receivables is relatively low.

Notes Receivables

Notes receivables mainly represent the balances due from TV channels.

Our notes receivables increased by 600.0% to RMB7.0 million as of December 31, 2018 from RMB1.0 million as of December 31, 2017, primarily due to the increase in notes receivables from a satellite TV channel to pay the licensing fees of *Starry April* (繁星四月) and *Legend Of Zu Mountain* (蜀山戰紀之劍俠傳奇) broadcast in 2017 and 2015, respectively, which were settled in 2019. Our notes receivables increased from nil as of December 31, 2019 to RMB20.0 million as of June 30, 2020, primarily due to the increase in notes receivables from a top satellite TV channel for the licensing fees of *Love Journey* (一場遇見愛情的旅行) broadcast in 2019.

As of the Latest Practicable Date, RMB20.0 million, or 100.0% of our notes receivables as of June 30, 2020 were subsequently settled.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade and notes receivables turnover days were 139 days, 129 days, 162 days and 201 days, respectively. We calculate the trade and notes receivables turnover days using the average of the opening and closing trade and notes receivables (before deduction of loss allowance) balances for the period, divided by revenue for the relevant period, multiplied by 365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020. Trade and notes receivables turnover days decreased from 139 days in 2017 to 129 days in 2018, primarily attributable to payments from a drama production entity, a top satellite TV channel and a top online video platform. Trade and notes receivables turnover days increased from 129 days in 2018 to 162 days in 2019, primarily due to the delay of payments from a top online video platform and a top satellite TV channel. Trade and notes receivables turnover days increased from 162 days in 2019 to 201 days for the six months ended June 30, 2020, primarily due to the increase in trade and notes receivables for the same period.

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Our relatively long trade and notes receivables turnover days was primarily due to the fact that certain of our major customers are state-owned TV channels, the settlement with which is usually time-consuming involving prolonged internal administrative procedures, which is in line with the industry norm as advised by Frost & Sullivan. Frost & Sullivan further advised although the turnover days of trade and notes receivables from customers such as TV channels are normally longer than those from the online video platforms, the risk of failing to settle payments by TV channels is relatively low as they are generally state-owned entities.

Prepayment, Other Receivables and Other Assets

The table below sets forth the breakdown of our prepayment, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Prepayments	44,229	114,477	113,041	99,728
Prepayments under the co-investment arrangement ⁽¹⁾	19,670	4,331	45,448	74,397
Deductible input value-added tax	12,965	23,782	13,244	2,791
Deposits and other receivables	7,117	6,648	8,493	4,082
Prepaid listing expenses	–	–	–	3,687
Loans receivables ⁽²⁾	–	95,260	160,680	69,327
Total	83,981	244,498	340,906	254,012

Notes:

- (1) Prepayments under the co-investment arrangement mainly represent the investment we made in drama series.
- (2) Loans receivables represent (i) investments in the drama series of other companies with fixed return, (ii) lendings to our co-investors for the production of our self-produced drama series, and (iii) lendings to third parties.

Our prepayment, other receivables and other assets increased significantly by 191.1% to RMB244.5 million as of December 31, 2018 from RMB84.0 million as of December 31, 2017, primarily due to (i) the increase in loans receivables of RMB95.3 million due from certain drama production entities for the production of Love Journey (一場遇見愛情的旅行) and Inside Man (局中人); and (ii) the increase in prepayments of RMB70.2 million for the production fee of Second Time Is A Charm (第二次也很美) paid to the production company, partially offset by the decrease in prepayments under the co-investment arrangement of RMB15.3 million primarily because the certain amount under prepayment had been recognized as inventories in 2018.

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Our prepayment, other receivables and other assets increased by 39.4% to RMB340.9 million as of December 31, 2019 from RMB244.5 million as of December 31, 2018, primarily due to (i) the increases in loans receivables of RMB65.4 million as a result of new loans to a drama series production company for the investment in My Unicorn Girl (穿盔甲的少女) and (ii) the increase in prepayments under the co-investment arrangement of RMB41.1 million as a result of our investment in Legend Of Yong Ye (永夜), Dear Physicist (親愛的物理學家) and My Bargain Queen (我的砍價女王), which was partially offset by the decrease in deductible input value-added tax of RMB10.5 million.

Our prepayment, other receivables and other assets decreased by 25.5% to RMB254.0 million as of June 30, 2020 from RMB340.9 million as of December 31, 2019, primarily attributable to (i) the decrease in loans receivables of RMB91.4 million mainly as a result of the repayment of loans from a drama series production company for My Unicorn Girl (穿盔甲的少女), and the settlement with our co-investor for our lendings to it for Inside Man (局中人), (ii) the decrease in prepayments of RMB13.3 million since certain amount of prepayment for producing our drama series, Breath Of Destiny (一起深呼吸), had been recognised as work-in-progress under inventories according to the production schedule in the first half of 2020. The decrease was partially offset by the increase in prepayments under the co-investment arrangement of RMB28.9 million as a result of our investment in, and development of the IP reserve for, Two Capitals (兩京十五日) in the first half of 2020.

Prepayments

Prepayments mainly represent (i) prepayments relating to drama series, including prepaid production fees to third parties, prepaid screenwriting fees, prepaid tax, (ii) prepaid consideration of equity transfer and (iii) others. According to our accounting policy, (i) prepaid production fees to third parties for a drama series shall be recognized as inventories when the relevant expense incurs and further be recognized as cost of sales once we recognize revenue for the relevant drama series; (ii) prepaid screenwriting fees shall be recognized as raw materials under inventories when the complete screenplays received and accepted by us; (iii) prepaid tax shall be recognized as deductible input value-added tax on the invoice date; (iv) prepaid consideration of equity transfer shall be recognized as consideration of equity transfer upon completion of such equity transfer; and (v) others shall be recognized in its respective corresponding line items once it takes place.

The table below sets forth the breakdown of our prepayments by nature as of the dates indicated below:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Prepayments relating to drama series ⁽¹⁾	43,496	99,420	112,493	99,462
Prepaid consideration of equity transfer ⁽²⁾	–	15,000	–	–
Others ⁽³⁾	733	57	548	266
Total	44,229	114,477	113,041	99,728

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Notes:

- (1) Prepayments relating to drama series mainly include prepaid production fees, prepaid screenwriting fees and prepaid tax relating to relevant drama series. Prepaid tax represents value-add tax included in prepayments for production of our drama series, which had not yet issued invoices.
- (2) Represents the prepaid consideration of equity transfer of RMB15.0 million to one of the transferring shareholders of Hangzhou Yide, an Independent Third Party, in 2018, which had been subsequently settled on January 31, 2019.
- (3) Others mainly include prepayments relating to renovation, decoration and agency fees of our offices.

As of the Latest Practicable Date, approximately RMB19.0 million, or 19.1% of our prepayments as of June 30, 2020 were subsequently settled. Among the prepayments of approximately RMB80.7 million that had not been settled as of the Latest Practicable Date, approximately RMB21.5 million is expected to be settled by June 30, 2021, and approximately RMB25.0 million is expected to be settled by the end of 2021. In addition, the remaining amount mainly represents the prepayments for drama series that are at an early stage of development, the expected settlement time of which is not practicable to predict at this stage.

The table below sets forth an aging analysis of our prepayments relating to drama series, based on date of payment, as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Within 1 year	43,496	99,420	108,051	44,505
over 1 year	–	–	4,442	54,957
Total	43,496	99,420	112,493	99,462

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our prepayments relating to drama series aged over one year was nil, nil, RMB4.4 million and RMB55.0 million, respectively. The higher balance as of June 30, 2020 mainly represented prepayments relating to (i) On The Stream Of Silence And Loneliness (在寂與寞的川流上), which was under development as of the Latest Practicable Date; and (ii) Hello Baby (你好寶貝), which had applied for public record and registered with the local counterpart of the NRTA and is expected to be settled by the end of 2021. We believe there is no material recoverability issue for our prepayments relating to drama series aged over one year and we did not record any impairment of prepayments relating to drama series during the Track Record Period.

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Prepayments under the Co-investment Arrangement

Prepayments under the co-investment arrangement mainly represent the investment we made in drama series.

Our prepayments under the co-investment arrangement decreased significantly from RMB19.7 million as of December 31, 2017 to RMB4.3 million as of December 31, 2018, primarily because the number of drama series under the co-investment arrangement decreased from four in 2017 to two in 2018 and we made higher investments in two drama series in 2017, Crazy Troupe (瘋狂劇團) and Love Journey (一場遇見愛情的旅行). Our prepayments under the co-investment arrangement increased significantly from RMB4.3 million as of December 31, 2018 to RMB45.4 million as of December 31, 2019, primarily as a result of the number of drama series under co-investment arrangements increased from two in 2018 to seven in 2019. Our prepayments under the co-investment arrangement further increased to RMB74.4 million as of June 30, 2020, primarily because we significantly increased the investments in one drama series, Two Capitals (兩京十五日).

As of the Latest Practicable Date, approximately RMB22.8 million, or 30.6% of our prepayments under the co-investment arrangement as of June 30, 2020 were subsequently settled.

The table below sets forth an aging analysis of our prepayments under the co-investment arrangement, based on date of payment, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Within 1 year	19,670	2,981	41,117	62,397
over 1 year	–	1,350	4,331	12,000
Total	19,670	4,331	45,448	74,397

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our prepayments under the co-investment arrangement aged over one year was nil, RMB1.4 million, RMB4.3 million and RMB12.0 million, respectively. The relatively higher balance as of June 30, 2020 mainly represented our investments in Dear Physicist (親愛的物理學家) and Legend Of Yong Ye (永夜), both of which were still under development as of the Latest Practicable Date. We believe there is no material recoverability issue for our prepayments under the co-investment arrangement aged over one year and we did not record any impairment of prepayments under the co-investment arrangement during the Track Record Period.

Loans Receivables

Loans receivables represent (i) investments in the drama series of other companies with fixed return, (ii) lendings to our co-investors for the production of our self-produced drama series, and (iii) lendings to third parties. The annual effective interest rates of such loans receivables ranged from 10.0% to 13.0% during the Track Record Period. As advised by our PRC Legal Advisors, fixed return investment contracts, which are arrangements between our Group and other third parties for the purpose of the

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production and distribution of drama series, do not fall under the definition of a loan agreement under the PRC Contract Law. Such contracts reflect the true intention of both parties, and do not involve the circumstances as set forth in Article 52 of the PRC Contract Law which will result in the invalidity of the contracts. The content of such contracts do not violate the mandatory provisions in PRC laws and regulations. Thus, our fixed return investment contracts are valid. Further, regarding the loan agreements entered into between third-party non-financial institutions and us, according to Article 11 of the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the “**Provisions**”), a private loan agreement entered into among legal persons and other organizations for the purpose of production or business operation shall be valid, except under the circumstances as set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions. Article 26 of the Provisions provides that where the interest rate agreed upon by the borrower and the lender does not exceed four times the LPR for one-year loan when the loan agreement is concluded, and the lender requests the borrower’s payment of interest at the agreed interest rate, the people’s court shall support such a request. LPR for one-year loan refers to the loan prime rate for one-year loan to be published on a monthly basis by the National Interbank Funding Center authorized by the People’s Bank of China as of August 20, 2019. As advised by our PRC Legal Advisors, the loan agreements entered into between third-party non-financial institutions and us do not involve the circumstances prescribed in Article 52 of the PRC Contract Law or Article 14 of the Provisions, and the annual interest rates are below four times the LPR for one-year loan when the loan agreements were concluded; therefore, our loan agreements related to the loans receivables shall be valid.

The table below sets forth the breakdown of our loans receivables by category as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Investments in the drama series of other companies with fixed return	–	–	91,972	46,543
Lendings to our co-investors for the production of our self-produced drama series ⁽¹⁾	–	82,760	34,070	–
Lendings to third parties	–	12,500	34,638	22,784
Total	–	95,260	160,680	69,327

Note:

- (1) During the Track Record Period, we provided loans to two of our co-investors, who were also our suppliers for the production of the same self-produced drama series, to finance part of their respective contribution under relevant co-investment agreements. We believe such lending arrangement can not only motivate them to ensure the quality of their production, but also enable us to share with them the investment risk inherent in the self-produced drama series.

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Our loans receivables increased from RMB95.3 million as of December 31, 2018 to RMB160.7 million as of December 31, 2019, mainly due to the increase in investments in the drama series of other companies with fixed return for Love In A Fallen City (一身孤注擲溫柔) and My Unicorn Girl (穿盔甲的少女), partially offset by the decrease in lendings to our co-investors for the production of our self-produced drama series, Love Journey (一場遇見愛情的旅行). Our loans receivables decreased from RMB160.7 million as of December 31, 2019 to RMB69.3 million as of June 30, 2020, primarily due to (i) the repayment from a drama series production company for our investment with fixed return in My Unicorn Girl (穿盔甲的少女), and (ii) the settlement with our co-investor for our lendings to it for the production of our self-produced drama series, Inside Man (局中人).

As of the Latest Practicable Date, approximately RMB33.4 million, or 48.2% of our loans receivables as of June 30, 2020 had been subsequently settled. Among the remaining loans receivables of approximately RMB35.9 million that had not been settled as of the Latest Practicable Date, approximately RMB33.7 million is expected to be settled by the end of 2020, and the rest is expected to be settled by the end of 2021.

Financial Assets at Fair Value through Profit or Loss

We recorded financial assets at fair value through profit or loss of RMB20.0 million as of December 31, 2017, which represented the low risk wealth management products that do not have a stated maturity and are redeemable at will issued by PRC commercial banks. We have settled such investment in 2018. As we did not invest in any wealth management products from 2018 to the end of the Track Record Period, our financial assets at fair value through profit or loss remained nil, nil and nil as of December 31, 2018 and 2019 and June 30, 2020, respectively.

Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of consideration transferred over and (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date. Our goodwill was nil as of December 31, 2017 and December 31, 2018. Our goodwill increased to RMB108.3 million as of December 31, 2019, primarily due to our acquisition of Hangzhou Yide in January 2019. Our goodwill further increased to RMB113.0 million as of June 30, 2020, primarily due to our acquisition of Nova Film in June 2020.

Other Intangible Assets

Other intangible assets represent identifiable intangible assets including software, trademarks, backlog and patents, among of which, we obtained backlog and patents through our acquisition of Hangzhou Yide and Nova Film. Our other intangible assets were RMB28.0 thousands, RMB24.0 thousands, RMB42.9 million and RMB27.2 million, as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively. Our other intangible assets increased from RMB24.0 thousands as of December 31, 2018 to RMB42.9 million as of December 31, 2019, primarily due to the increase in identifiable intangible assets as a result of the acquisition of Hangzhou Yide. Our other intangible assets decreased from RMB42.9 million as of December 31, 2019 to RMB27.2 million as of June 30, 2020, primarily due to the amortization of intangible assets of RMB28.4 million for our drama series, The Love Lasts Two Minds (兩世歡), partially offset by the increase in intangible assets of RMB12.7 million as a result of the acquisition of Nova Film.

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Trade Payables

Trade payables primarily represent payables to our co-investors for the drama series that they invested in, as well as payables for the production or purchase of broadcasting rights of drama series.

Our trade payables increased by 24.9% from RMB189.6 million as of December 31, 2017 to RMB236.9 million as of December 31, 2018, and further increased by 89.6% to RMB449.2 million as of December 31, 2019, primarily due to the increase of recognized revenue as more drama series were broadcast from 2017 to 2018 and further to 2019, which contained investment returns entitled by our co-investors for such drama series. Our trade payables decreased by 5.3% from RMB449.2 million as of December 31, 2019 to RMB425.5 million as of June 30, 2020, primarily due to the settlement of our payables of production fees of Customer First (獵心者) and The Love Lasts Two Minds (兩世歡) and our payables for purchasing the broadcasting rights of The Legends (招搖).

The table below sets forth an aging analysis of our trade payables, based on invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Within 3 months	186,293	123,388	284,097	67,657
3 to 6 months	989	–	34,075	23,723
6 to 12 months	–	32,957	106,040	305,276
1 to 2 years	2,288	78,230	14,770	17,052
2 to 3 years	–	2,288	7,920	11,798
Over 3 years	–	–	2,288	15
Total	189,570	236,863	449,190	425,521

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade payables turnover days were 87 days, 166 days, 190 days and 179 days, respectively. We calculate the trade payables turnover days using the average of the opening and closing trade payable balances for the period, divided by cost of sales for the relevant period, multiplied by 365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020. Trade payables turnover days increased from 87 days in 2017 to 166 days in 2018, primarily due to the significant increase in trade payables as a result of allocating the revenue of My! PE Teacher (我的！體育老師), Mask (面具) and Mr. Nanny (月嫂先生), while the cost of sales increased slightly. Trade payables turnover days increased from 166 days in 2018 to 190 days in 2019, primarily due to the increase in our trade payables as a result of the broadcast of Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行) in 2019. Trade payables turnover days decreased from 190 days in 2019 to 179 days for the six months ended June 30, 2020, primarily attributable to the relatively high cost of sales recognized in the first half of 2020 primarily due to the broadcast of The Love Lasts Two Minds (兩世歡), Inside Man (局中人) and Customer First (獵心者) in the same period.

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The slow subsequent settlement of our trade payables from 2017 to 2019 was mainly due to the slow-down collection of our trade and notes receivables, which had prolonged the settlement period of our trade payables. Based on our long-term and good relationships with our major co-investors and certain suppliers, such as our suppliers in relation to purchasing the broadcasting rights of outright-purchased drama series, we will generally explicitly stipulate that we shall settle the trade payables to such co-investors and suppliers upon the receipt of payments from corresponding customers for the underlying drama series in the co-investment or supplying agreements with them. If relevant customers delay their payments, which could affect our timely settlement with the relevant co-investors or suppliers, we will communicate with such co-investors or suppliers in advance and postpone our payments accordingly under mutual consent. To the best of our knowledge, we had not been involved in or subject to any dispute or disagreement with our co-investors, suppliers or creditors over trade payables that we believe would have a material adverse effect on our results of operations and financial condition during the Track Record Period and up to the Latest Practicable Date.

As of the Latest Practicable Date, approximately RMB264.2 million, or 62.1% of our trade payables as of June 30, 2020 were subsequently settled. Among the remaining trade payables of approximately RMB161.4 million that had not been settled as of the Latest Practicable Date, approximately RMB52.3 million is expected to be settled by the end of 2020, and the rest amount to be mainly settled in 2021 according to our current payment plan.

Other Payables and Accruals

The table below sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Contract liabilities ⁽¹⁾	79,966	41,823	535,762	405,414
Other payables ⁽²⁾	4,840	11,775	84,264	78,385
Accrued liabilities ⁽³⁾	18,228	43,693	89,773	93,887
Other tax payables ⁽⁴⁾	1,324	20,795	21,747	22,924
Interest payable	1,835	1,036	1,370	349
Payroll and welfare payable	11	375	347	319
Amount received under the co-investment arrangements — without share of copyrights ⁽⁵⁾	19,012	58,000	1,272	1,229
Amount received under the co-investment arrangements — with share of copyrights ⁽⁶⁾	52,678	—	—	—
Advances from a customer	—	—	—	301
Total	177,894	177,497	734,535	602,808

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Notes:

- (1) Contract liabilities represent advances received from customers for purchasing broadcasting rights or copyrights of relevant drama series or procuring our production services.
- (2) Other payables primarily represent payables for purchasing equity interest, amounts to be refunded to third parties and others.
- (3) Accrued liabilities represent accrued distribution expenses.
- (4) Other tax payables represent tax other than income tax.
- (5) Amount received under the co-investment arrangements — without share of copyrights refers to the amount of investment from the co-investors to whom we transferred no share of the drama series copyright.
- (6) Amount received under the co-investment arrangements — with share of copyrights refers to the amount of investment from the co-investors to whom we transferred certain shares of the drama series copyright.

Our other payables and accruals remained stable at RMB177.5 million as of December 31, 2018 as compared with RMB177.9 million as of December 31, 2017.

Our other payables and accruals increased by 313.8% to RMB734.5 million as of December 31, 2019 from RMB177.5 million as of December 31, 2018, primarily due to the increases in contract liabilities of RMB493.9 million as a result of (i) the increase in advance from customers for *The Love Lasts Two Minds* (兩世歡), *Spirit Realm* (靈域), *Customer First* (獵心者) and *Marry Me* (三嫁惹君心) and (ii) the increase in other payables of RMB72.5 million due to the payables for acquiring the shares of Hangzhou Yide, partially offset by the decrease in amount received under the co-investment arrangements — without share of copyrights of RMB56.7 million primarily because the investment payable from our investors with no share of copyrights for *Love Journey* (一場遇見愛情的旅行) and *Treasure Adventure* (國寶奇旅) incurred in 2018 had been settled in 2019.

Our other payables and accruals decreased by 17.9% to RMB602.8 million as of June 30, 2020 from RMB734.5 million as of December 31, 2019, primarily due to the decrease in contract liabilities of RMB130.3 million since certain amount of contract liabilities had been recognized as revenue as of June 30, 2020 for *The Love Lasts Two Minds* (兩世歡) and *Customer First* (獵心者) broadcast in the first half of 2020.

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Contract Liabilities

During the Track Record Period, our contract liabilities represent advances received from customers for purchasing broadcasting rights or copyrights of relevant drama series or procuring our production services. As of June 30, 2020, our contract liabilities primarily include the advances received from our customers for procuring the production services for made-to-order drama series, which was in line with our strategic focus on our business for made-to-order drama series in 2020. The table below sets forth the breakdown of our contract liabilities by drama series as of the dates indicated:

	Nature of the contract liabilities	As of December 31,			As of
		2017	2018	2019	June 30, 2020
		<i>(RMB in thousands)</i>			
Untouchable Lovers (鳳囚凰)	Advances for purchasing broadcasting rights of outright-purchased drama series	24,057	–	–	–
Legend of Zu Mountain 2 (蜀山戰紀2 踏火行歌)	Advances for purchasing the broadcasting rights of self-produced drama series	51,840	–	–	–
Love Journey (一場遇見愛情的旅行)	Advances for purchasing the broadcasting rights of self-produced drama series	–	39,010	–	–
Mr. Nanny (月嫂先生)	Advances for purchasing the broadcasting rights of self-produced drama series	–	143	–	–
Marry Me (三嫁惹君心)	Advances for procuring our production services for made-to-order drama series	–	–	90,720	120,960
Spirit Realm (靈域)	Advances for procuring our production services for made-to-order drama series	–	–	216,000	216,000

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	Nature of the contract liabilities	As of December 31,			As of
		2017	2018	2019	June 30, 2020
		<i>(RMB in thousands)</i>			
Customer First (獵心者)	Advances for procuring our production services for made-to-order drama series	–	–	86,400	–
The Love Lasts Two Minds (兩世歡)	Advances for purchasing the broadcasting rights for self-produced drama series	–	–	142,642	–
Treasure Adventure (國寶奇旅)	Advances for purchasing the broadcasting rights for self-produced drama series	–	–	–	50
Dating In The Kitchen (我，喜歡你)	Advances for procuring our production services for made-to-order drama series	–	–	–	39,623
Breath of Destiny (一起深呼吸)	Advances for procuring our production services for made-to-order drama series	–	–	–	26,470
Others	Advances for copyrights for IP derivatives	4,069	2,670	–	2,311
Total		79,966	41,823	535,762	405,414

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The table below further sets forth the breakdown of our contract liabilities by customer type as of the dates indicated:

	Nature of the contract liabilities	As of December 31,			As of
		2017	2018	2019	June 30, 2020
		<i>(RMB in thousands)</i>			
TV channels	Advances for purchasing broadcasting rights for self-produced or outright-purchased drama series	24,057	39,010	–	–
Online video platforms	Advances for purchasing the broadcasting rights for self-produced drama series /Advances for procuring our production services for made-to-order drama series/ Advances for copyrights for IP derivatives	54,510	2,670	535,762	403,053
Others	Advances for purchasing the broadcasting rights for self-produced drama series/ Advances for copyrights for IP derivatives	1,399	143	–	2,361
Total		79,966	41,823	535,762	405,414

Our contract liabilities decreased by 47.8% from RMB80.0 million as of December 31, 2017 to RMB41.8 million as of December 31, 2018, primarily because advances from customers of RMB76.1 million for the drama series, Untouchable Lovers (鳳囚凰) and Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) had been recognized as revenue as of December 31, 2018. Our contract liabilities significantly increased by 1,181.8% from RMB41.8 million as of December 31, 2018 to RMB535.8 million as of December 31, 2019, primarily due to the increase in advances from our customers for made-to-order drama series, Marry Me (三嫁惹君心), Spirit Realm (靈域) and Customer First (獵心者), and our self-produced drama series, The Love Lasts Two Minds (兩世歡). Our contract liabilities decreased by 24.3% from RMB535.8 million as of December 31, 2019 to RMB405.4 million as of June 30, 2020, primarily because the advances of RMB142.6 million from customers for purchasing the broadcasting rights of our self-produced drama series, The Love Lasts Two Minds (兩世歡), and advances of RMB86.4 million for procuring our production services for made-to-order drama series, Customer First (獵心者), had been recognized as revenue due to the broadcasting of such drama series in the first half of 2020.

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The table below sets forth the aging analysis of our contract liabilities as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
Within 1 year	79,966	39,153	535,762	405,414
1 to 2 years	–	2,670	–	–
Total	79,966	41,823	535,762	405,414

Almost all of our contract liabilities at the end of each year/period comprising the Track Record Period are aged less than one year. Our contract liabilities aged more than one year at the amount of RMB2.7 million as of December 31, 2018 were the advances from our customer for the copyrights for IP derivatives, which had been settled in the year ended December 31, 2019. As of the Latest Practicable Date, approximately RMB161.0 million, or 39.7% of our contract liabilities as of June 30, 2020 were utilised. Among the remaining balance of RMB244.4 million that had not been settled as of the Latest Practicable Date, the contract liabilities in an aggregate amount of approximately RMB242.5 million for Spirit Realm (靈域) and Breath of Destiny (一起深呼吸) are expected to be utilized in the first quarter of 2021.

Interest-bearing Bank and Other Borrowings

The table below sets forth the breakdown of our interest-bearing bank and other borrowings as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	<i>(RMB in thousands)</i>			
Current portion				
Bank loans — secured	30,000	35,000	110,000	135,500
Other borrowings — unsecured	13,000	31,000	15,000	5,000
Sub-total	43,000	66,000	125,000	140,500
Non-current portion				
Other borrowings — unsecured	246,578	–	–	–
Sub-total	246,578	–	–	–
Total	289,578	66,000	125,000	140,500

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Our current portion of interest-bearing bank and other borrowings increased by 53.5% from RMB43.0 million as of December 31, 2017 to RMB66.0 million as of December 31, 2018, primarily due to the increase in the current portion of other borrowings of RMB18.0 million. Our current portion of interest-bearing bank and other borrowings further increased by 89.4% to RMB125.0 million as of December 31, 2019, primarily due to the increase in bank borrowings to meet the increase of our capital needs for our drama series production, partially offset by the decrease in the current portion of other borrowings as a result of repayment of loans for the production of Love Journey (一場遇見愛情的旅行) and Treasure Adventure (國寶奇旅). Our current portion of interest-bearing bank and other borrowings increased by 12.4% from RMB125.0 million as of December 31, 2019 to RMB140.5 million as of June 30, 2020, primarily due to the increase in bank loans of RMB25.5 million.

Other borrowings under non-current portion of RMB246.6 million as of December 31, 2017 was due to the equity investment by an investor who has the redemption right under certain circumstances, which is recognised as other borrowings at amortized cost. We repurchased such equity investment from such investor in August 2018, as a result of which our non-current portion of other borrowings decreased to nil as of December 31, 2018. See “History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital.”

The annual interest rates of our bank borrowings ranged from 3.75% to 6.50% during the Track Record Period, with a general term of no more than one year.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss primarily represent preferred shares held by iQIYI.

Our financial liabilities at fair value through profit or loss increased significantly from nil as of December 31, 2017 to RMB274.5 million as of December 31, 2018, primarily due to the investment of iQIYI in the form of preferred shares in November 2018.

Our financial liabilities at fair value through profit or loss increased by 5.5% from RMB274.5 million as of December 31, 2018 to RMB289.5 million as of December 31, 2019, and further increased by 38.7% to RMB401.5 million as of June 30, 2020, primarily due to the change in the fair value of the preferred shares held by iQIYI issued in November 2018 and in May 2020.

Due to a Related Party

Our due to a related party increased to RMB81.0 million as of December 31, 2018 from nil as of December 31, 2017, primarily due to the increase in the amount due to a related party to fund our working capital.

Our due to a related party increased by 30.8% to RMB105.9 million as of December 31, 2019 from RMB81.0 million as of December 31, 2018, primarily due to the increase in the amount due to a related party to finance our acquisition of Hangzhou Yide, which had been settled in late June 2020. As a result, our due to a related party was nil as of June 30, 2020.

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LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including costs for drama series production, purchase of broadcasting rights of drama series, repay bank loans and other borrowings, and related interest expenses and other working capital requirements. Historically, we financed our capital expenditure and working capital requirements mainly through cash generated from operations, bank and other borrowings and capital contributions from Shareholders. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had cash and cash equivalents of RMB153.3 million, RMB97.3 million, RMB52.3 million and RMB83.3 million, respectively.

Cash Flows

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

	<u>Year ended December 31,</u>			<u>Six months ended</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>June 30,</u>	<u>2020</u>
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Profit before tax	92,634	40,148	65,972	46,335	74,662
Adjustments	27,100	88,878	17,504	5,895	38,953
Change in working capital	(148,679)	(150,718)	(6,824)	21,761	(73,583)
Income tax paid	(27,757)	(42,294)	(37,518)	(29,922)	(28,206)
Net cash (used in)/generated from operating activities	(56,702)	(63,986)	39,134	44,069	11,826
Net cash generated from/(used in) investing activities	131,671	(89,666)	(186,570)	(68,291)	20,139
Net cash generated from/(used in) financing activities	62,431	97,649	102,530	(20,352)	(1,019)
Net increase/(decrease) in cash and cash equivalent	137,400	(56,003)	(44,906)	(44,574)	30,946
Cash and cash equivalents at the beginning of the year/period	15,858	153,258	97,255	97,255	52,349
Cash and cash equivalents at the end of the year/period	153,258	97,255	52,349	52,681	83,295

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Operating Activities

During the Track Record Period, we derive our cash inflow from operating activities primarily through the receipt of proceeds from licensing the broadcasting rights of self-produced and outright-purchased drama series and production of made-to-order drama series. Cash outflow from operating activities primarily comprises costs incurred in drama series production and distribution. Our cash from operating activities reflects our profit before tax as adjusted by non-cash and non-operating items and movements in working capital.

Our net cash generated from operating activities was approximately RMB11.8 million for the six months ended June 30, 2020. This net cash inflow was primarily attributable to (i) a profit before tax of approximately RMB74.7 million; (ii) the adjustments by adding back certain non-cash and non-operating items such as amortization of other intangible assets; (iii) the decrease in inventories of approximately RMB239.6 million primarily attributable to the decrease of finished goods since *Inside Man* (局中人), *The Love Lasts Two Minds* (兩世歡), *Customer First* (獵心者) and *A Sword Across The Sky* (一劍橫空) were broadcast and the revenues of which were recognized in the first half of 2020; (iv) the decrease in deposits, and other receivables of RMB58.3 million primarily attributable to the decrease in loans receivables as a result of settlement of loans for *Inside Man* (局中人); and (v) the decrease in restricted cash of RMB54.3 million primarily due to the usage of such cash for the production of our drama series in the first half of 2020, partially offset by (i) the increase in trade and notes receivables of RMB285.2 million primarily due to the increase in trade receivables for our self-produced drama series of *Inside Man* (局中人); (ii) the decrease in contract liabilities of RMB130.7 million primarily attributable to the decrease in contract liabilities since certain amount of contract liabilities had been recognized as revenue as of June 30, 2020 for *The Love Lasts Two Minds* (兩世歡) and *Customer First* (獵心者) broadcast in the first half of 2020; and (iii) the decrease in trade payables of RMB33.9 million primarily due to the settlement of our payables of production fees of *Customer First* (獵心者) and *The Love Lasts Two Minds* (兩世歡) and our payables for purchasing the broadcasting rights of *The Legends* (招搖).

Our net cash generated from operating activities was approximately RMB39.1 million for the year ended December 31, 2019. This net cash inflow was primarily attributable to (i) a profit before tax of approximately RMB66.0 million; (ii) the adjustments by adding back non-cash and non-operating items such as changes in fair value of financial liabilities at fair value through profit or loss and deducting the non-cash and non-operating items such as interest income from loans receivables; (iii) the increase in contract liabilities of RMB361.5 million as a result of the increase in advances from customers for *The Love Lasts Two Minds* (兩世歡), *Spirit Realm* (靈域), *Customer First* (獵心者) and *Marry Me* (三嫁惹君心); (iv) the increase in trade payables of RMB206.4 million as a result of the increase of recognized revenue as more drama series were broadcast in the same year, such as *Second Time Is A Charm* (第二次也很美) and *Love Journey* (一場遇見愛情的旅行); and (v) the decrease in deposits and other receivables of RMB102.2 million primarily because our loans receivables of RMB54.1 million for *Love Journey* (一場遇見愛情的旅行) from our co-investor was offset by our payables to the co-investor for the same drama series, partially offset by (i) the increase in trade and notes receivable of RMB306.6 million as a result of the increase in trade receivables for *Second Time Is A Charm* (第二次也很美) and *Love Journey* (一場遇見愛情的旅行); and (ii) the increase in inventories of RMB260.4 million primarily attributable to the increase in finished goods because we completed the production of our drama series, *Inside Man* (局中人), *The Love Lasts Two Minds* (兩世歡) and *Customer First* (獵心者), in 2019, and the increase in work in progress primarily due to the production of our drama series, *Spirit Realm* (靈域).

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Our net cash used in operating activities was approximately RMB64.0 million for the year ended December 31, 2018. This net cash outflow was primarily attributable to (i) a profit before tax of approximately RMB40.1 million; (ii) the adjustments by adding back non-cash and non-operating items such as finance costs and equity-settled share award expense, and write-down of inventories to net realizable value; (iii) the increase in inventories of RMB236.0 million mainly as a result of the increase in our work in progress attributable to the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域); (iv) the increase in prepayments and other assets of RMB50.7 million primarily attributable to the increase of prepayments for the production fee of Second Time Is A Charm (第二次也很美); and (v) the decrease in contract liabilities of RMB38.1 million primarily because the contract liabilities for Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌) were recognized as revenue in 2018, partially offset by (i) the decrease in trade and notes receivable of RMB107.6 million primarily due to the decrease in trade receivables for Lost Love In Times (醉玲瓏) and My! P.E. Teacher (我的! 體育老師); and (ii) the increase in trade payables of RMB47.3 million primarily attributable to the increase in payables to our co-investors for Mr. Nanny (月嫂先生) and the increase in payables for purchasing the broadcasting right of Mask (面具) broadcast in 2018.

Our net cash used in operating activities was approximately RMB56.7 million for the year ended December 31, 2017. This net cash outflow was primarily attributable to (i) a profit before tax of approximately RMB92.6 million; (ii) the adjustments by adding back non-cash and non-operating items such as finance costs; (iii) the increase in inventories of RMB262.2 million, primarily due to the commencement of production of our drama series, Mr. Nanny (月嫂先生) and Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌), in 2017; and (iv) the increase in trade and notes receivables of RMB176.6 million primarily because certain of our drama series, such as Starry April (繁星四月), Lost Love in Times (醉玲瓏), and My! P.E. Teacher (我的! 體育老師), were broadcast and the revenues were recognized in 2017, partially offset by (i) the increase in trade payables of RMB185.9 million primarily due to the increase in trade payables for Starry April (繁星四月), Lost Love in Times (醉玲瓏), and My! P.E. Teacher (我的! 體育老師); (ii) the increase in contract liabilities of RMB62.3 million mainly attributable to the increase in advances from customers for Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Untouchable Lovers (鳳囚凰); and (iii) the decrease in prepayments and other assets of RMB17.8 million primarily attributable to the decrease in prepayments for Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌).

Investing Activities

During the Track Record Period, our cash used in investing activities mainly relates to purchases of financial assets at fair value through profit or loss, acquisition of a subsidiary net of cash acquired, and advances of loans to third parties. Our cash generated from investing activities mainly comprises disposal of financial assets at fair value through profit or loss.

Our net cash generating from from investing activities was approximately RMB20.1 million for the six months ended June 30, 2020. This net cash inflow was primarily due to repayment of advances of loans to third parties, partially offset by net of cash acquired as a result of acquisition of Nova Film and Hangzhou Yide, and purchase of items of property, plant and equipment.

Our net cash used in investing activities was approximately RMB186.6 million for the year ended December 31, 2019. This net cash outflow was primarily due to (i) advances of loans to third parties; (ii) the acquisition of a subsidiary, Hangzhou Yide; and (iii) purchases of shareholding in a joint venture, Nanjing Huawen.

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Our net cash used in investing activities was approximately RMB89.7 million for the year ended December 31, 2018. This net cash outflow was primarily due to advances of loans to third parties and the acquisition of a subsidiary, Hangzhou Yide, partially offset by the disposal of financial assets at fair value through profit or loss.

Our net cash generated from investing activities was approximately RMB131.7 million for the year ended December 31, 2017. This net cash inflow was primarily due to disposal of financial assets at fair value through profit or loss, partially offset by purchases of financial assets at fair value through profit or loss.

Financing Activities

During Track Record Period, our cash inflow from financing activities mainly comprises of proceeds from bank loans and other borrowings; while our cash outflow from financing activities mainly comprises of repayment of bank loans and other borrowings, interest paid, and repayment of principal portion of lease liabilities.

Our net cash used in financing activities was approximately RMB1.0 million for the six months ended June 30, 2020. This net cash outflow was primarily due to the repayment of other borrowings, partially offset by the proceeds from financial liabilities at fair value through profit or loss and proceeds from other borrowings.

Our net cash generated from financing activities was approximately RMB102.5 million for the year ended December 31, 2019. This net cash inflow was primarily due to the proceeds from new bank loans and proceeds from other borrowings, partially offset by the repayment of bank loans and repayment of other borrowings.

Our net cash generated from financing activities was approximately RMB97.6 million for the year ended December 31, 2018. This net cash inflow was primarily due to the proceeds from other borrowings, proceeds from financial liabilities through profit or loss and new bank loans, partially offset by repayment of bank loans and repayment of other borrowings.

Our net cash generated from financing activities was approximately RMB62.4 million for the year ended December 31, 2017. This net cash inflow was primarily due to the proceeds from other borrowings and new bank loans, partially offset by repayment of bank loans.

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Net Current Assets

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

	As of December 31,			As of	As of
	2017	2018	2019	June 30, 2020	October 31, 2020
	<i>(RMB in thousands)</i>				<i>(Unaudited)</i>
Current assets:					
Inventories	314,509	536,664	919,119	681,121	656,018
Trade and notes receivables	289,851	180,344	485,396	776,634	535,686
Prepayments, other receivables and other assets	83,981	244,498	340,906	254,012	303,622
Due from a related party	–	–	3,000	–	–
Financial assets at fair value through profit or loss	20,000	–	–	–	–
Cash and cash equivalents	153,258	97,255	52,349	83,295	190,965
Restricted Cash	–	–	54,312	18	20
Total current assets	861,599	1,058,761	1,855,082	1,795,080	1,686,311
Current liabilities:					
Trade payables	189,570	236,863	449,190	425,521	357,916
Other payables and accruals	177,894	177,497	734,535	602,808	508,912
Interest-bearing bank and other borrowings	43,000	66,000	125,000	140,500	170,500
Lease liabilities	1,493	907	509	896	1,638
Due to a joint venture	–	–	51,000	71,260	72,945
Tax payable	19,585	16,648	6,604	7,999	3,648
Due to a related party	–	81,013	105,926	–	–
Dividend payable	–	80,000	81,507	80,000	80,000
Total current liabilities	431,542	658,928	1,554,271	1,328,984	1,195,559
Net current assets	430,057	399,833	300,811	466,096	490,752

Our net current assets increased from RMB466.1 million as of June 30, 2020 to RMB490.8 million as of October 31, 2020, primarily because the decrease in our current liabilities outpaced the decrease in our current assets. Our current liabilities decreased from RMB1,329.0 million as of June 30, 2020 to RMB1,195.6 million as of October 31, 2020, primarily attributable to (i) the decrease in other payables and accruals of RMB93.9 million mainly as a result of the decrease in contract liabilities since certain amount of contract liabilities for Marry Me (三嫁惹君心) had been recognized as revenue as of October 31, 2020; and (ii) the decrease in trade payables of RMB67.6 million mainly as a result of the allocation

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and payments of the licensing revenue generated from Second Time is A Charm (第二次也很美) to co-investors. Our current assets decreased from RMB1,795.1 million as of June 30, 2020 to RMB1,686.3 million as of October 31, 2020, primarily due to the decrease in trade and notes receivables of RMB240.9 million as a result of receipts of the licensing revenue generated from Inside Man (局中人), Second Time is A Charm (第二次也很美), Love Journey (一場遇見愛情的旅行) and Detective Ke Chen (神探柯晨), partially offset by the increase in cash and cash equivalents of RMB107.7 million mainly as a result of the collection of trade receivables and settlement of trade payables for our drama series.

Our net current assets increased from RMB300.8 million as of December 31, 2019 to RMB466.1 million as of June 30, 2020, primarily because the decrease in our current liabilities outpaced the decrease in our current assets. Our current liabilities decreased from RMB1,554.3 million as of December 31, 2019 to RMB1,329.0 million as of June 30, 2020, primarily attributable to (i) the repayment of due to a related party of RMB105.9 million; and (ii) the decrease in other payables and accruals of RMB131.7 million as a result of the decrease in contract liabilities since certain amount of contract liabilities had been recognized as revenue as of June 30, 2020 for The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) broadcast in the first half of 2020. Our current assets decreased from RMB1,855.1 million as of December 31, 2019 to RMB1,795.1 million as of June 30, 2020, primarily due to (i) the decrease in inventories of RMB238.0 million as a result of the broadcast of Inside Man (局中人), The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and A Sword Across The Sky (一劍橫空) in the first half of 2020, which were recognized as revenue in the same period, (ii) the decrease in prepayments, other receivables and other assets of RMB86.9 million primarily due to the decrease in loans receivables as a result of the repayment of loans for My Unicorn Girl (穿盔甲的少女) and the settlement of loans for Inside Man (局中人), and (iii) the decrease in restricted cash of RMB54.3 million primarily due to the usage of such cash for the production of our drama series, partially offset by the increase of trade and notes receivables of RMB291.2 million primarily attributable to the increase of trade receivables for Inside Man (局中人).

Our net current assets decreased from RMB399.8 million as of December 31, 2018 to RMB300.8 million as of December 31, 2019, primarily because the increase in our current liabilities outpaced the increase in our current assets. Our current liabilities increased from RMB658.9 million as of December 31, 2018 to RMB1,554.3 million as of December 31, 2019, primarily due to (i) the increase in other payables and accruals of RMB557.0 million as a result of the increase in advance from customers for The Love Lasts Two Minds (兩世歡), Spirit Realm (靈域), Customer First (獵心者) and Marry Me (三嫁惹君心) and the increase in the payables for acquiring the shares of Hangzhou Yide, (ii) the increase in trade payables of RMB212.3 million as a result of the increase of recognized revenue as more drama series were broadcast from 2018 to 2019, and (iii) the increase in interest-bearing bank and other borrowings of RMB59.0 million as a result of the increase in bank borrowings from 2018 to 2019 to meet the increase of our capital needs for our drama series production. Our current assets increased from RMB1,058.8 million as of December 31, 2018 to RMB1,855.1 million as of December 31, 2019, primarily attributable to (i) the increase in inventories of RMB382.5 million as a result of the increase in work in progress primarily attributable to the production of Spirit Realm (靈域) and the increase in finished goods primarily because we completed the production of Inside Man (局中人), The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) in 2019 which were yet to be broadcast as of December 31, 2019, and (ii) the increase in trade and notes receivables of RMB305.1 million as a result of the increase in trade receivables for Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行).

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Our net current assets decreased from RMB430.1 million as of December 31, 2017 to RMB399.8 million as of December 31, 2018, primarily due to the increase in our current liabilities outpaced the increase in our current assets. Our current liabilities increased from RMB431.5 million as of December 31, 2017 to RMB658.9 million as of December 31, 2018, primarily due to (i) the increase in due to a related party of RMB81.0 million to fund our working capital, (ii) the increase in dividend payable of RMB80.0 million of Jiangsu Strawbear in 2018, which was still outstanding as of the Latest Practicable Date, and (iii) the increase in trade payables of RMB47.3 million, primarily due to the increase of payables to our co-investors for the drama series of Mr. Nanny (月嫂先生) and the increase in payables for purchasing the broadcasting right of Mask (面具) broadcast in 2018 as a result of the revenue recognition in the same year. Our current assets increased from RMB861.6 million as of December 31, 2017 to RMB1,058.8 million as of December 31, 2018, primarily attributable to (i) the increase in prepayments, other receivables and other assets of RMB160.5 million as a result of the increase in loans receivables due from certain drama production entities and the increase in prepayments for the production fee of Second Time Is A Charm (第二次也很美) paid to the production company, and (ii) the increase in inventories of RMB222.2 million as a result of the increase in our work in progress attributable to the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域), partially offset by (i) the decrease in trade and notes receivables of RMB109.5 million as a result of the decrease in trade receivables for Lost Love In Times (醉玲瓏) and My! P.E. Teacher (我的！體育老師) and (ii) the decrease in cash and cash equivalents of RMB56.0 million.

Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations, bank and other borrowings and capital contributions from Shareholders.

Our anticipated cash needs include costs associated with the expansion of our program pipeline and business operations. Other than the bank borrowings that we may obtain, we do not have any plans for material external debt financing in the foreseeable future. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

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INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of bank borrowings, other borrowings, due to a related party, due to a joint venture and lease liabilities.

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

	As of December 31,			As of	As of
	2017	2018	2019	June 30, 2020	October 31, 2020
	<i>(RMB in thousands)</i>				<i>(Unaudited)</i>
Included in current liabilities					
Bank borrowings	30,000	35,000	110,000	135,500	165,500
Other borrowings	13,000	31,000	15,000	5,000	5,000
Due to a related party	–	81,013	105,926	–	–
Due to a joint venture	–	–	51,000	71,260	72,945
Current portion of lease liabilities	1,493	907	509	896	1,638
Sub-total	44,493	147,920	282,435	212,656	245,083
Included in non-current liabilities					
Other borrowings	246,578	–	–	–	–
Non-current portion of lease liabilities	1,379	472	–	2,874	3,902
Sub-total	247,957	472	–	2,874	3,902
Total	292,450	148,392	282,435	215,530	248,985

Bank Borrowings

Our bank borrowings during the Track Record Period were denominated in Renminbi and were used to finance our capital expenditure and working capital requirements. Certain of our borrowings during the Track Record Period were guaranteed by our Controlling Shareholders, which have been fully discharged in August and November 2020. All guarantees and mortgages provided by the former shareholders and their close family of Nova Film have been fully released in the fourth quarter of 2020. See Note 28 to the Accountants' Report included in Appendix I to this prospectus for details. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our weighted average interest rates of our bank borrowings, calculated as the total interest on bank loans for the year/period divided by the weighted average principal balance of the bank loans for the same year/period, were 4.3%, 6.1%, 5.6% and 5.7%, respectively. Our Directors confirm that we did not experience any material default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

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The table below sets forth the maturity profile of our bank borrowings as of the dates indicated:

	As of December 31,			As of	As of
	2017	2018	2019	June 30, 2020	October 31, 2020
Within one year	30,000	35,000	110,000	135,500	165,500
Total	30,000	35,000	110,000	135,500	165,500

Other Borrowings

The outstanding balance of our other borrowings amounted to RMB259.6 million, RMB31.0 million, RMB15.0 million, RMB5.0 million, and RMB5.0 million as of December 31, 2017, 2018 and 2019, June 30, 2020 and October 31, 2020, respectively. The current portion of our other borrowing represented borrowings from third parties, which were primarily used for the production of our drama series and were unsecured. All of the outstanding balance of other borrowings as of October 31, 2020 had been settled by the end of November, 2020. The non-current portion of our other borrowings of RMB246.6 million as of December 31, 2017 was due to an equity investment in our Group by a former investor, who has the redemption right, which had been repurchased by us in 2018. See “History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital.”

Due to a Related Party

The amounts due to a related party were nil, RMB81.0 million, RMB105.9 million, nil, and nil as of December 31, 2017, 2018 and 2019, June 30, 2020 and October 31, 2020, respectively. The amounts due to a related party represented the loans from Beijing iQIYI with an annual interest rate of 5.0%, which were used to fund our working capital and had been settled as of the Latest Practicable Date.

Due to a Joint Venture

In December 2019 and June 2020, we obtained two unsecured loans in the principal amount of RMB51.0 million and RMB20.0 million, respectively, from a joint venture, Nanjing Huawei, to fund the production of our drama series, among which RMB50.0 million has an annual interest rate of 10.0%. The loans are due for payment on December 31, 2020. We had paid the interests of RMB1.4 million in June 2020 and the outstanding balance of such loans were RMB72.9 million as of October 31, 2020. We plan to repay such borrowings by the maturity date using cash generated from our operations.

Lease Liabilities

We recognize lease liabilities to make lease payments for the right-of-use assets representing the right to use the underlying assets for all leases except for short-term leases and leases of low-value assets. As of October 31, 2020, we, as a lessee, had outstanding current lease liabilities of RMB1.6 million and outstanding non-current lease liabilities of RMB3.9 million.

Our Directors confirm that there has been no material change in our indebtedness position since October 31, 2020, being the latest practicable date for the purpose of the indebtedness statement.

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As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any material breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of October 31, 2020, we did not have any unutilized credit facilities. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

CONTINGENT LIABILITIES

Except as disclosed above, we did not have, as of October 31, 2020, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on property, plant and equipment. The table below sets forth the breakdown of our capital expenditures incurred during the Track Record Period

	Year ended December 31,			Six months ended	
	2017	2018	2019	June 30, 2019	2020
	<i>(RMB in thousands)</i> <i>(unaudited)</i>				
Purchase for PPE	635	2,152	130	11	1,644
Total	635	2,152	130	11	1,644

We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering as well as cash generated from our operations.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

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OFF-BALANCE SHEET ARRANGEMENTS

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

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions. For more details about our material related party transactions, see Note 37 to the Accountants' Report included in Appendix I to this prospectus.

The table below sets forth our related party transactions by nature for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(unaudited)</i>				
Sales of goods to:					
Beijing Qishibang Technology Co.,Ltd	2,830	–	–	–	–
Beijing Qiyi Century Technology Co., Ltd	116,226	244,703	92,528	92,528	2,288
Beijing iQIYI Internet Technology Co., Ltd	–	–	112,719	–	74,367
Beijing iQIYI	–	–	3,237	334	324,623
Purchases of goods from:					
Wuxi Youkong	481	7,438	1,563	1,205	158
Beijing iQIYI	5,677	112,358	148,933	148,933	–
Rental fee to:					
Mr. Liu	282	48	–	–	–
Borrowings from:					
Mr. Liu	–	350,000 ⁽¹⁾	–	–	–
Nanjing Huawei	–	–	51,000 ⁽²⁾	–	20,000 ⁽²⁾
Repayment to:					
Beijing iQIYI	–	270,000 ⁽³⁾	–	–	100,000 ⁽³⁾
Interest expenses to:					
Beijing iQIYI	–	6,108	4,913	2,395	1,246
Nanjing Huawei	–	–	–	–	1,633

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	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
	<i>(unaudited)</i>				
Loans to:					
Zhao Min	–	–	3,000	3,000	–
Shanghai Shaoyin	–	–	–	–	3,000
Repayments received:					
Zhao Min	–	–	–	–	3,000
Shanghai Shaoyin	–	–	–	–	3,000

Notes:

- (1) The borrowings from Mr. Liu in the principal amount of RMB350.0 million in August 2018 were used to (i) repurchase the equity investment in our Group by a former investor; and (ii) fund our working capital. See “History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital.” Mr. Liu transferred all rights and interests of such loan to Beijing iQIYI in November 2018.
- (2) The borrowings from Nanjing Huawen in the principal amount of RMB51.0 million and RMB20.0 million borrowed in December 2019 and June 2020, respectively, were used for the production of our drama series.
- (3) The repayment to Beijing iQIYI in the amount of RMB270.0 million in December 2018 was due to repayment of the loan transferred from Mr. Liu to Beijing iQIYI mentioned in note(1) above.

The table below sets forth the outstanding balances with related parties as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Trade in nature:				
Trade receivables due from				
Beijing Qiyi Century Technology Co., Ltd	36,960	–	–	–
Beijing Qishibang Technology Co.,Ltd	1,000	–	–	–
Beijing iQIYI Internet Technology Co., Ltd	–	–	270,522	360,772
Prepayments, deposits and other receivables due from				
Mr. Liu	214	–	–	–
Wuxi Youkong	510	3,490	3,310	3,310
	38,684	3,490	273,832	364,082

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	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Trade payables due to				
Beijing Qiyi Century				
Technology Co., Ltd	2,288	2,288	2,288	–
Beijing iQIYI	–	53,672	62,338	37,367
Other payables and accruals				
due to				
Beijing iQIYI	6,792	6,792	535,762	363,430
Beijing Qiyi Century				
Technology Co., Ltd	51,840	–	–	–
	60,920	62,752	600,388	400,797
Non-trade in nature:				
Due to a related party				
Beijing iQIYI	–	81,013	105,926	–
Due to a joint venture				
Nanjing Huawen	–	–	51,000	71,260 ⁽¹⁾
	–	81,013	156,926	71,260
Due from a related party				
Zhao Min	–	–	3,000	–
	–	–	3,000	–

Note:

- ⁽¹⁾ The outstanding balance of RMB71.3 million as of June 30, 2020 was due to two unsecured loans borrowed from Nanjing Huawen in December 2019 and June 2020, respectively, to invest in production of our drama series in the respective principal amount of RMB51.0 million and RMB20.0 million. For more details, see “— Indebtedness — Due to a Joint Venture.”

We plan to repay the outstanding balance of borrowings from Nanjing Huawen with cash generated from our operations by or on the maturity date. Our Directors believe that the related party transactions described above were carried out on an arm’s length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

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KEY FINANCIAL RATIOS

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

	Year ended/as of December 31,			Six months ended/as of June 30,
	2017	2018	2019	2020
Profitability ratios				
Gross profit margin	28.0%	30.9%	14.1%	23.4%
Net profit margin	11.8%	1.5%	6.6%	9.3%
Return on equity ⁽¹⁾	39.7%	6.2%	29.6%	N/A ⁽²⁾
Return on assets ⁽³⁾	9.7%	1.1%	3.2%	N/A ⁽²⁾
Liquidity ratios				
Current ratio ⁽⁴⁾	2.00	1.61	1.19	1.35
Quick ratio ⁽⁵⁾	1.27	0.79	0.60	0.84
Capital adequacy ratio				
Debt to equity ratio ⁽⁶⁾	71.9%	35.0%	118.3%	52.5%
Interest coverage ratio ⁽⁷⁾	5.1	2.2	7.8	14.5

Notes:

- (1) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity of the same period and multiplied by 100%.
- (2) Denotes “not applicable” as the ratios are not meaningful given the recorded profit only represented the amount for the six months ended June 30, 2020.
- (3) Return on assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets of the same period and multiplied by 100%.
- (4) Current ratio is calculated based on total current assets divided by total current liabilities as of the dates indicated.
- (5) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as of the dates indicated.
- (6) Debt to equity ratio is calculated based on net debt (of which net debt is defined as interest-bearing bank loans and other borrowings, lease liabilities, due to a joint venture and due to a related party deduct cash and cash equivalents) divided by total equity as of the dates indicated multiplied by 100%.
- (7) Interest coverage ratio is calculated based on the profit for the year/period before interest and tax divided by the interest expenses for the same period.

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Return on Equity

Our return on equity decreased from 39.7% for the year ended December 31, 2017 to 6.2% for the year ended December 31, 2018, primarily due to the decrease in our profit for the year and the increase in the arithmetic mean of the opening and closing balances of total equity from 2017 to 2018. Our return on equity increased from 6.2% for the year ended December 31, 2018 to 29.6% for the year ended December 31, 2019, primarily because our profit for the year increased significantly while the arithmetic mean of the opening and closing balances of our total equity remained relatively stable from 2018 to 2019.

Return on Assets

Our return on assets decreased from 9.7% for the year ended December 31, 2017 to 1.1% for the year ended December 31, 2018, primarily due to the decrease in profit for the year and the increase in the arithmetic mean of the opening and closing balances of total assets from 2017 to 2018. Our return on equity increased from 1.1% for the year ended December 31, 2018 to 3.2% for the year ended December 31, 2019, primarily because the increase in our profit for the year outpaced the increase in the arithmetic mean of the opening and closing balances of total assets from 2018 to 2019.

Current Ratio

Our current ratio decreased from approximately 2.00 as of December 31, 2017 to approximately 1.61 as of December 31, 2018, and further decreased to 1.19 as of December 31, 2019, primarily due to our current liabilities increased at a faster pace compared to the increase of our current assets during the same periods, which is line with the expansion and growth of our business. Our current ratio increased to approximately 1.35 as of June 30, 2020, primarily attributable to the decrease in our current liabilities outpaced the decrease in our current assets from December 31, 2019 to June 30, 2020.

Quick Ratio

Our quick ratio decreased from approximately 1.27 as of December 31, 2017 to approximately 0.79 as of December 31, 2018, primarily due to the decreases in both (i) cash and cash equivalents and (ii) trade and notes receivables from December 31, 2017 to December 31, 2018. Our quick ratio decreased from 0.79 as of December 31, 2018 to 0.60 as of December 31, 2019, primarily because the increase in our total current liabilities and inventories outpaced the increase in our total current assets from December 31, 2018 to December 31, 2019, and increased to 0.84 as of June 30, 2020, primarily because the decrease in our total current liabilities and inventories were faster than the decrease in our total current assets from December 31, 2019 to June 30, 2020.

Debt to Equity Ratio

Our debt to equity ratio decreased from approximately 71.9% as of December 31, 2017 to approximately 35.0% as of December 31, 2018, primarily attributable to the decrease of our net debt as a result of the repayment of other borrowings from an investor in August 2018. Our debt to equity ratio then increased significantly from approximately 35.0% as of December 31, 2018 to approximately 118.3% as of December 31, 2019, primarily due to the increase of our net debt as a result of (i) the increase in amounts due to a joint venture. Our debt to equity ratio decreased from approximately 118.3% as of December 31, 2019 to approximately 52.5% as of June 30, 2020, primarily attributable to the decrease in our net debt primarily attributable to the decrease in due to a related party and the increase in cash and

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cash equivalent. The increase of cash and cash equivalent balance was attributable to the increase in net cash generated from investing activities as a result of the repayment from a drama series production company for our investment with fixed return in its drama series, My Unicorn Girl (穿盔甲的少女).

Interest Coverage Ratio

Our interest coverage ratio was approximately 5.1, 2.2, 7.8 and 14.5 for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. The significant decrease in our interest coverage ratio from 5.1 in 2017 to 2.2 in 2018 was primarily due to the significant increase in our interest expenses along with the increase in our interest-bearing bank and other borrowings for the same periods. The slight increase in our interest coverage ratio from 2.2 in 2018 to 7.8 in 2019 was primarily because the decrease in our interest expenses outpaced the decrease in our profit before interest and tax for the same period. The increase in our interest coverage ratio to 14.5 for the six months ended June 30, 2020 was primarily attributable to the increase in our profit before interest and tax outpaced the increase in our interest expenses from 2019 to the first half in 2020.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, see Note 40 to the Accountants' Report set out in Appendix I to this prospectus.

Credit Risk

Our credit risk is primarily attributable to trade and notes receivables, financial assets included in prepayments, other receivables and other assets and cash deposits at banks. The maximum exposure to credit risk is represented by the carrying amounts of these financial assets in our consolidated statements of financial position.

To manage our credit risk arising from financial asset at fair value through profit or loss and cash deposits, we mainly trade with recognized and creditworthy third parties. Receivable balances are monitored on an on-going basis.

We measure loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. We do not provide any guarantees which would expose our Group to credit risk. As our historical credit loss experiences do not indicate significantly different loss patterns for different businesses, the loss allowance based on past due status is not further distinguished between our different customer bases.

For further information relating to our credit risk, see Note 40 to the Accountants' Report set forth in Appendix I to this prospectus.

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Liquidity Risk

We manage liquidity risk by closely and continuously monitoring our financial position. We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the fluctuations in cash flows. See Note 40 to the Accountants' Report set forth in Appendix I to this prospectus for more details about the maturity profile of our financial liabilities.

DIVIDENDS

For the year ended December 31, 2018, a subsidiary of our Group, Jiangsu Strawbear, declared dividends of RMB100.0 million to its then shareholders, which had not been paid yet as of the Latest Practicable Date. Such dividends are expected to be paid to the relevant shareholders of Jiangsu Strawbear within about five years from 2020 in installments with our self-owned funds. For the year ended December 31, 2019, a subsidiary of our Group, Blue Boiling Point, declared dividends of RMB1.9 million to its then shareholders, which were paid in the first quarter of 2020. See Note 11 to the Accountants' Report set forth in Appendix I to this prospectus. Other than the above, no dividend has been proposed, paid or declared by our Company or our subsidiaries since its incorporation during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

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

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DISTRIBUTABLE RESERVES

Our distributable reserves comprise undistributed profits. As of June 30, 2020, our Company did not have any retained profits under HKFRS as reserves available for distribution to our equity shareholders.

LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers and the Reporting Accountants for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, excluding any discretionary incentive fee which may be payable by us) for the Global Offering are approximately RMB51.1 million, representing 6.5% of the gross IPO proceeds. During the Track Record Period, we incurred listing expenses of RMB15.8 million, among which RMB12.1 million was charged to the consolidated statements of profit or loss for the six months ended June 30, 2020 as administrative expenses and approximately RMB3.7 million was capitalized as deferred expenses in the consolidated statements of financial position as of June 30, 2020 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately RMB35.3 million, of which approximately RMB15.6 million is expected to be recognized as administrative expenses and approximately RMB19.7 million is expected to be recognized as a deduction in equity directly upon the Listing. Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2020.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2020 as if the Global Offering had taken place on June 30, 2020.

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The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2020 or any future date.

	Consolidated net tangible assets attributable to owners of our Company as of June 30, 2020	Estimated net proceeds from the Global Offering	Estimated impact related to the change of terms of Preferred Shares upon Listing	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>(RMB'000)</i> <i>(Note 1)</i>	<i>(RMB'000)</i> <i>(Note 2)</i>	<i>(RMB'000)</i> <i>(Note 3)</i>	<i>(RMB'000)</i>	<i>(RMB)</i> <i>(Note 4)</i>	<i>(HK\$)</i> <i>(Note 5)</i>
Based on Offer price of HK\$5.10 per Share	110,639	676,919	401,491	1,189,049	1.79	2.12
Based on Offer price of HK\$6.16 per Share	110,639	822,423	401,491	1,334,553	2.01	2.38

Notes:

- (1) The consolidated net tangible assets attributable to owners of our Company as of June 30, 2020 is arrived at after deducting intangible assets of RMB27,200,000 and goodwill of RMB112,983,000 from the consolidated net assets attributable to owners of our Company of RMB250,822,000 as of June 30, 2020, as shown in the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are calculated based on the offer price of HK\$5.10 per Share or HK\$6.16 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and related expenses payable by the Company (excluding listing expenses of RMB12,087,000 charged to profit or loss during the Track Record Period) and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) Upon the Listing and the completion of the Global Offering, all the preferred shares will be converted into ordinary shares. The preferred shares will be re-classified from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the owners of our Company will be increased by RMB401,491,000, being the carrying amount of the Preferred Shares as of June 30, 2020.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share are calculated based on 663,100,000 Shares in issue (including the completion of the conversion of preferred shares into ordinary shares) assuming that the Global Offering has been completed on June 30, 2020 without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in "Statutory and General Information — Further Information about Our Company and Our Subsidiaries — Resolutions of Our Shareholders Passed on December 18, 2020" in Appendix IV to this prospectus.
- (5) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.84498 to HK\$1.
- (6) No adjustment has been made to reflect any trading results or other transactions entered into by our Group subsequent to June 30, 2020.

FINANCIAL INFORMATION

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE CONFIRMATION

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model has remained unchanged and we continue to focus on the business of licensing the broadcasting rights of self-produced and outright-purchased drama series, as well as made-to-order drama series production. Since June 30, 2020 and up to the Latest Practicable Date, we had five drama series broadcast.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, (i) there has been no material adverse change in our financial, operational, and/or trading position since June 30, 2020, being the date of the latest audited consolidated financial position of our Group as set out in the Accountants' Report in Appendix I to this prospectus and (ii) there has been no material adverse change in our business, the industry in which we operate and/or market or regulatory environment to which we are subject. The outbreak of COVID-19 had no material adverse impact on our operations and financial conditions subsequent to the Track Record Period and up to Latest Practicable Date. See "Summary — Recent Developments."

In addition, we may record net loss for the year ending December 31, 2020 primarily due to the expected loss on fair value changes of our financial liabilities at fair value through profit or loss which represent our convertible redeemable preferred shares held by iQIYI. Although our convertible redeemable preferred shares will be automatically converted to Shares upon the closing of the Listing, to the extent we need to revalue the preferred shares prior to the Listing, any changes in fair value of these convertible redeemable preferred shares will affect our financial positions and results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance." After the automatic conversion of all preferred shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

As a major drama series producer and distributor in the PRC, we focus our business in the investment, development, production and distribution of TV series and web series. In the future, we plan to continue to maintain our leading market position, further take advantage of our platform business model and explore business innovations. Besides continuing to invest, develop, produce and distribute more drama series, we plan to execute the following strategies to achieve our goals: (i) continue to deepen our platform business model and enhance our production and distribution capabilities; (ii) make selective investment in or acquisition of companies that can enhance our market position and ramp up our drama series development, production and distribution capabilities; (iii) continue to explore opportunities from online video platforms to develop new businesses in terms of cooperation models, drama series innovation and derivative opportunities to diversify our monetization methods; and (iv) further recruit seasoned professionals in support of project initiation, production and financial management, marketing and promotion, quality control as well as completion and delivery management through internal recommendation. See “Business — Our Strategies” for a detailed description of our future plans and business developments.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$872.9 million, assuming an Offer Price of HK\$5.63 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), after deducting the underwriting commissions, and estimated expenses paid or payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised.

In line with our strategies, we intend to apply the net proceeds from the Global Offering for the following purposes and in the amounts set forth below:

- approximately 70.0% of the net proceeds, or HK\$611.0 million, is expected to be used to fund our drama series production. For drama series to be funded in part with net proceeds from the Global Offering, we plan to fund the remaining amounts through cash from operations and trade receivables collected. The table below sets forth the detailed information of the drama series that we plan to use the net proceeds to fund:

No.	Name of the Drama Series	Business Nature	Genre	Number of Episodes	Estimated Total Investment Amount/Our Investment Percentage	Estimated Investment Amount from the Net Proceeds	Actual/Expected Time of Public Record	Estimated Broadcasting Time
					(RMB in millions)	(RMB/HK\$ in millions)		
(1)	Our Destiny In Self-Redemption (浮圖緣)	Made-to-order drama series	Period fantasy	30	145.0/100.0%	58.0/68.6	April 2020	In the fourth quarter of 2021
(2)	Flying To The Moon (月歌行)	Made-to-order drama series	Period Fantasy	40	191.0/100.0%	76.4/90.4	April 2020	In the first quarter of 2022

FUTURE PLANS AND USE OF PROCEEDS

No.	Name of the Drama Series	Business Nature	Genre	Number of Episodes	Estimated Total Investment Amount/Our Investment Percentage	Estimated Investment Amount from the Net Proceeds	Actual/Expected Time of Public Record	Estimated Broadcasting Time
					(RMB in millions)	(RMB/HK\$ in millions)		
(3)	Handsome Yong Master (公子傾城)	Made-to-order drama series	Period	24	73.0/100.0%	29.2/34.6	June 2020	In the fourth quarter of 2021
(4)	Hello Baby (你好寶貝)	Self-produced drama series	Metropolitan	40	180.0/60.0%	43.2/51.1	November 2018	In the second quarter of 2021
(5)	My Mr. Cat (我的貓先生)	Made-to-order drama series	Metropolitan	30	130.0/100.0%	52.0/61.5	In the fourth quarter of 2020	In the third quarter of 2021
(6)	Steal His Heart (偷走他的心)	Made-to-order drama series	Metropolitan	36	162.0/100.0%	52.0/61.5	In the fourth quarter of 2020	In the first quarter of 2022
(7)	The Wind Catcher (捕風者)	Self-produced drama series	War / Spy	40	200.0/60.0%	66.0/78.1	In 2021	In 2022
(8)	Two Capitals (兩京十五日)	Made-to-order drama series	Period fantasy	40	320.0/100.0%	191.5/226.6	In 2021	In 2022

- approximately 10.0% of the net proceeds, or HK\$87.3 million, is expected to be used to fund potential investment in, or merger and acquisition of, companies that may enhance our market position and ramp up our drama series development, production and distribution. In particular, we plan to acquire at least one downstream market player engaged in post-production. As advised by our Industry Consultant, Frost & Sullivan, there were approximately 3,000 post-production companies with various scales of operation on the market as of June 30, 2020. Even though we had not identified a definite acquisition target as of the Latest Practicable Date, we plan to secure an acquisition target with an estimated market value between approximately RMB300 million and RMB500 million within about two years after the Listing. We believe that, after consulting with Frost & Sullivan, the suitable targets are available on the market as the post-production market is highly fragmented involving various types of market players with different backgrounds and scales. Our key motivation behind the merger and acquisition is to improve our post-production ability and capacity through acquiring post-production resources and strengthen the synergies among our business lines. Other than the net proceeds from the Global Offering, we plan to fund the acquisition through cash generated from operations as well as bank loans. We believe the proposed acquisition will enhance our production capacities, reduce our production costs and increase our profitability. See “Business — Our Strategies — Further expand our business through selective investments, mergers and acquisitions;”
- approximately 10.0% of the net proceeds, or HK\$87.3 million, is expected to be used to secure more IPs to guarantee the stable growth of our drama series production and distribution by acquiring one premium copyright company which focuses on investment, development, production and distribution of web series. As advised by our Industry Consultant, Frost & Sullivan, there were more than 900 copyright companies focusing on

FUTURE PLANS AND USE OF PROCEEDS

investment, development, production and distribution of web series with various scales of operation on the market as of June 30, 2020. Although we did not have any ascertainable target company to acquire as of the Latest Practicable Date, our development department will closely monitor the market trend and conduct market research regarding the preference of audience, especially online video viewers, from time to time, to help us select a suitable target with an estimated market value of no more than approximately RMB200 million within about two years after the Listing. Therefore, we believe that, after consulting with Frost & Sullivan, the suitable targets are available on the market as the market landscape of IP exploitation is highly dynamic with various market players which have diversified backgrounds and scales. Our key motivation behind the merger and acquisition is to promote our business development through acquiring resources of web series production, improve our efficiency and enhance the supply capability of higher-quality traffic. Other than the net proceeds from the Global Offering, we plan to fund the acquisition through cash generated from operations as well as bank loans. We believe that the proposed acquisition of such premium copyright company will secure our stable growth by providing us with high-quality and diversified IPs to meet our production demand to continuously deliver quality drama series and cater to the different preferences of audiences, and it should not substantively affect our cost structure but be able to help us to achieve a steady growth in our revenue;

- approximately 10.0% of the net proceeds, or HK\$87.3 million, is expected to be used for working capital and general corporate purposes.

If the Offer Price is fixed at HK\$6.16 per Offer Share, being the high end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be increased by approximately HK\$86.1 million. If the Offer Price is fixed at HK\$5.10 per Offer Share, being the low end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be reduced by approximately HK\$86.1 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$150.1 million (assuming an Offer Price of HK\$6.16 per Offer Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$137.2 million (assuming an Offer Price of HK\$5.63 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus). Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purpose accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of *force majeure* events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, and to the extent permitted by the relevant laws and regulations, we will only apply such unused net proceeds in short-term deposits with licensed banks or financial institutions in Hong Kong or the PRC.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR THE LISTING

Our Directors believe that the Listing is important and beneficial to our Company and our Shareholders as a whole for the following reasons:

- the Listing could provide us with a compelling and balanced fundraising platform in line with our business expansion. On one hand, the Listing will enhance the capital base of our Group and provide our Group with additional working capital to support our future development, especially to implement the future plans and business developments set forth in “Business — Our Strategies;” on the other hand, compared with debt financing, equity financing is interest-free, which will effectively reduce our interest expenses and financing costs to some extent while supporting our future development through building a more balanced capital structure;
- a public listing status will strengthen our Group’s profile, brand name and recognition in the market, and thereby to attract more strategic investors;
- the Listing will enhance our Group’s operational efficiency and corporate governance through compliance with rigorous disclosure requirements which we believe would lead to improvement in our corporate governance and internal control systems; and
- the Listing will enhance the liquidity of our Shares which will be freely traded on the Stock Exchange as compared to the limited liquidity of our Shares as a private company.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into certain cornerstone investment agreements with the cornerstone investors (collectively the “**Cornerstone Investors**”, and each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe for, or cause their designated entities to subscribe for, certain number of the Offer Shares (rounded down to the nearest board lot of 1,000 Shares) that may be subscribed for at an aggregate amount of US\$50 million, or approximately HK\$388 million at the Offer Price (the “**Cornerstone Placing**”).

Based on the Offer Price of HK\$6.16 per Offer Share, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 62,925,000, representing approximately 37.96% of the Offer Shares and approximately 9.49% of the total issued share capital of our Company immediately upon the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

Based on the Offer Price of HK\$5.63 per Offer Share, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 68,847,000, representing approximately 41.53% of the Offer Shares and approximately 10.38% of the total issued share capital of our Company immediately upon the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

Based on the Offer Price of HK\$5.10 per Offer Share, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 76,003,000, representing approximately 45.85% of the Offer Shares and approximately 11.46% of the total issued share capital of our Company immediately upon the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

Our Company is of the view that, leveraging on the Cornerstone Investors’ investment experience, the Cornerstone Placing will help to raise the profile of our Company and signify that such investors have confidence in our business and prospect. Our Company became acquainted with each of the Cornerstone Investors through introduction from the Underwriters in the Global Offering or the course of the general due diligence of the technology and entertainment industry in China conducted by the Cornerstone Investors.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue immediately following the completion of the Global Offering and to be listed on the Stock Exchange, and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than those to be subscribed for pursuant to their respective cornerstone investment agreements. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any Board representation in our Company, nor will any of the Cornerstone Investors become a substantial Shareholder (as defined in the Listing Rules) of our Company.

CORNERSTONE INVESTORS

To the best knowledge of our Company, (i) each of the Cornerstone Investors is an Independent Third Party and is not our connected person (as defined in the Listing Rules); (ii) each of the Cornerstone Investors is independent from the other Cornerstone Investors; (iii) none of the Cornerstone Investors is accustomed to take instructions from our Company, our Directors, chief executive, substantial Shareholders, Controlling Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates; and (iv) none of the subscription of the relevant Offer Shares by any of the Cornerstone Investors is financed by our Company, our Directors, chief executive, substantial shareholders, Controlling Shareholder or existing Shareholders or any of its subsidiaries or their respective close associates.

As confirmed by each of the Cornerstone Investors, its subscription under the Cornerstone Placing would be financed by its own internal resources. There are no side agreements or arrangements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price.

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering – The Hong Kong Public Offering” in this prospectus. Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on or around January 14, 2021. The investment amount for the Offer Shares to be subscribed for by Cornerstone Investors under the Cornerstone Placing will be paid by 8:00 a.m. (Hong Kong time) on the Listing Date. Delivery of the Offer Shares subscribed for by the Cornerstone Investors will take place on or prior to the Listing Date subject to due payment being made. There is no mechanism for the delayed settlement of the investment amounts or deferred delivery arrangement in respect of the Shares to be subscribed by the Cornerstone Investors in the respective cornerstone investment agreements.

CORNERSTONE INVESTORS

THE CORNERSTONE INVESTORS

The following tables set forth details of the Cornerstone Placing and approximate percentage of total number of Offer Shares and percentage of total issued share capital of our Company upon Listing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), based on different Offer Price scenarios:

		Based on Offer Price of HK\$6.16 (being the high-end of the indicative Offer Price range)				
Cornerstone Investor (each as defined below)	Investment Amount ⁽¹⁾	Number of Offer Shares to be subscribed for ⁽²⁾	Approximate percentage of total number of Offer Shares		Approximate percentage of total issued share capital of our Company immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Snow Lake Funds and Accounts	US\$35 million	44,048,000	26.57%	23.10%	6.64%	6.40%
Origin Flair Limited	US\$10 million	12,585,000	7.59%	6.60%	1.90%	1.83%
Vipshop	US\$5 million	6,292,000	3.80%	3.30%	0.95%	0.91%
Total	US\$50 million	62,925,000	37.96%	33.01%	9.49%	9.15%

Note:

- (1) Calculated based on the exchange rate as disclosed in this prospectus. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate as provided in the relevant cornerstone investment agreement; and
- (2) Rounded down to nearest whole board lot of 1000 Shares.

CORNERSTONE INVESTORS

Based on Offer Price of HK\$5.63
(being the mid-point of the indicative Offer Price range)

Cornerstone Investor (each as defined below)	Investment Amount ⁽¹⁾	Number of Offer Shares to be subscribed for ⁽²⁾	Approximate percentage of total number of Offer Shares		Approximate percentage of total issued share capital of our Company immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Snow Lake Funds and Accounts	US\$35 million	48,194,000	29.07%	25.28%	7.27%	7.01%
Origin Flair Limited	US\$10 million	13,769,000	8.31%	7.22%	2.08%	2.00%
Vipshop	US\$5 million	6,884,000	4.15%	3.61%	1.04%	1.00%
Total	US\$50 million	68,847,000	41.53%	36.11%	10.38%	10.01%

Note:

- (1) Calculated based on the exchange rate as disclosed in this prospectus. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate as provided in the relevant cornerstone investment agreement; and
- (2) Rounded down to nearest whole board lot of 1000 Shares.

Based on Offer Price of HK\$5.10
(being the low-end of the indicative Offer Price range)

Cornerstone Investor	Investment Amount ⁽¹⁾	Number of Offer Shares to be subscribed for ⁽²⁾	Approximate percentage of total number of Offer Shares		Approximate percentage of total issued share capital of our Company immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Snow Lake Funds and Accounts	US\$35 million	53,203,000	32.09%	27.91%	8.02%	7.73%
Origin Flair Limited	US\$10 million	15,200,000	9.17%	7.97%	2.29%	2.21%
Vipshop	US\$5 million	7,600,000	4.58%	3.99%	1.15%	1.10%
Total	US\$50 million	76,003,000	45.85%	39.87%	11.46%	11.05%

Note:

- (1) Calculated based on the exchange rate as disclosed in this prospectus. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate as provided in the relevant cornerstone investment agreement; and
- (2) Rounded down to nearest whole board lot of 1000 Shares.

CORNERSTONE INVESTORS

The following information about the Cornerstone Investors was provided to our Company by the Cornerstone Investors in relation to the Cornerstone Placing.

Snow Lake Funds and Accounts

Snow Lake China Master Fund, Ltd., Snow Lake China Master Long Fund, Ltd., and Snow Lake Asia Master Fund Limited (the “**Snow Lake Funds**”) are exempted companies established under the laws of the Cayman Islands. While Compass Offshore SAV II PCC Limited is a Guernsey protected cell Company (together with Snow Lake Funds, the “**Snow Lake Funds and Accounts**”).

Snow Lake Capital (HK) Limited (“**Snow Lake Capital**”), a Hong Kong incorporated company, serves as the investment manager of the Snow Lake Funds and Accounts with assets under management (AUM) of over USD 3 billion. Snow Lake Capital, together with its affiliates, is an Asian alternative investment management firm founded in 2009. The firm employs a long-term fundamental investment approach, leveraging its in-house proprietary research capabilities and disciplined investment process in selecting high quality businesses with forward-thinking management. Snow Lake Capital mainly invests in leading companies in the technology, consumer, healthcare and financials sectors. Snow Lake Capital manages capital, mainly for institutional clients globally, including endowments, foundations, sovereign wealth funds and pensions.

Origin Flair Limited

Origin Flair Limited, a BVI company, is wholly owned by Nimble Express Limited, a BVI company, which in turn is ultimately controlled by Xizang Zhi Xing Bing Jin Venture Capital Investment Management Co., Ltd. (西藏知行並進創業投資管理有限公司) (“**Xizang Zhi Xing Bing Jin**”). Niu Kuiguang, Lin Dongliang, Yang Fei and Wang Jingbo, IDG Capital partners, own 25.5%, 25%, 25% and 24.5% stake in Xizang Zhi Xing Bing Jin respectively.

Founded in 1992, IDG Capital is a pioneer in introducing foreign venture capital into China. During its over 20 years of operation, IDG Capital brings a powerful combination of global perspective and local experience to investment management, and its highly skilled team has an in-depth understanding of the China market with close relationships with many successful entrepreneurs and influential business leaders. IDG Capital’s clients include both international and Chinese institutional investors, such as foundations, public and private pension funds, sovereign wealth funds and family offices. IDG Capital-led funds invest primarily in technology, media and telecommunications (TMT), advanced manufacturing, clean-tech & energy, consumer & entertainment, and healthcare sectors.

Vipshop

Vipshop International Holdings Limited (the “**Vipshop**”) is a company incorporated in Hong Kong engaging in investment activities and is wholly owned by VIPSHOP HOLDINGS LIMITED. VIPSHOP HOLDINGS LIMITED is an exempted company incorporated under the laws of Cayman Islands and is listed on The New York Stock Exchange (NYSE: VIPS). VIPSHOP HOLDINGS LIMITED is China’s leading online discount retailer for brands.

Vipshop is participating as a cornerstone investor of the Company because it believes in the long-term value proposition of the Company, business model and industry in which it operates. Such investment could be a stepping-stone for Vipshop to explore potential strategic cooperation opportunity with the Company in the future.

CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;
- (b) the Offer Price having been agreed upon between the Company and the Joint Representatives (for themselves and on behalf of the other underwriters of the Global Offering);
- (c) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares (including the Shares to be subscribed for by the Cornerstone Investors as well as other applicable waivers and approvals) and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the relevant cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the respective representations, warranties, undertakings, confirmations and acknowledgements of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are (as of the date of the Cornerstone Investment Agreement) and will be (as of the Listing Date or the Delay Delivery Date) accurate and true in all respects and not misleading and that there is no breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that without the prior written consent of each of our Company, the Joint Representatives and the Joint Sponsors, it will not, whether directly or indirectly, at any time during the period of six (6) months from the Listing Date, dispose of, in any way, any of the relevant Offer Shares or any interest in any company or entity holding any of the relevant Offer Shares including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the foregoing securities, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries or affiliates who will be bound by the same obligations of such Cornerstone Investor.

UNDERWRITING

HONG KONG UNDERWRITERS

China Merchants Securities (HK) Co., Limited

China Securities (International) Corporate Finance Company Limited

China Renaissance Securities (Hong Kong) Limited

ABCI Securities Company Limited

Haitong International Securities Company Limited

BOCOM International Securities Limited

Huatai Financial Holdings (Hong Kong) Limited

CMB International Capital Limited

Futu Securities International (Hong Kong) Limited

China Galaxy International Securities (Hong Kong) Co., Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 16,578,000 Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned in this prospectus (including any Shares that may be issued, pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Option) and such approval not having been withdrawn, and (b) certain other conditions set out in the Hong Kong Underwriting Agreement (including, amongst others, the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and our Company, agreeing upon the Offer Price), the Hong Kong Underwriters have agreed, severally but not jointly to subscribe, or procure subscribers to subscribe for their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions as set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any new Law (as defined in the Hong Kong Underwriting Agreement) or any change or development involving a prospective change in existing Law or in the interpretation or application thereof by any court or any other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member thereof), the Cayman Islands or the British Virgin Islands (collectively, the “**Relevant Jurisdictions**” and each, a “**Relevant Jurisdiction**”); or
 - (ii) any change or development involving a prospective change or development in, or any event or circumstance or series of events resulting or likely to result in any change or development, or a prospective change or development, in any local, national, regional or international financial, political, military, industrial, fiscal, economic, regulatory, currency, credit, currency or market conditions, or any monetary or trading settlement system or other financial markets (including, but not limited to, a change in the conditions in stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong dollar is linked to the U.S. dollar or Reminbi is linked to any foreign currency or currencies) in or affecting any of the Relevant Jurisdictions; or
 - (iii) any moratorium, suspension, limitation or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, or in the NASDAQ Global Market; or
 - (iv) any general moratorium on commercial banking activities in or affecting Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority(as defined in the Hong Kong Underwriting Agreement)), New York (imposed at the U.S. Federal or New York State level or by other competent Authority (as defined in the Hong Kong Underwriting Agreement)), London or any other Relevant Jurisdictions (declared by the relevant authorities), or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (v) any change or development involving a prospective change in or affecting Taxation (as defined in the Hong Kong Underwriting Agreement) or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the U.S. dollar, Euro, Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (vi) any imposition of economic sanctions, or the withdrawal of trading privileges, in respect of any jurisdiction relevant to the business operations of the Group, in whatever form, directly and indirectly, by, or for, any Relevant Jurisdictions; or
- (vii) any event or series of events, in the nature of force majeure in or affecting, any of the Relevant Jurisdictions including, without limitation, declaration of a national or international emergency or war or calamity or crisis, any act of god, act of government, riot, civil commotion, public disorder, fire, flood, explosion, epidemic, pandemic or outbreak of infectious disease (including contagious coronavirus (COVID-19), SARS, swine or avian flu, H5N1, H1N1, H7N9 or such related/mutated forms), earthquake, terrorism, strike, earthquake, volcanic eruption, acts of terrorism (whether or not responsibility has been claimed), labor dispute or lock-out or any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared); or
- (viii) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus or Application Forms (or to any other documents in connection with the contemplated offer, subscription and sale of the Offer Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC, unless such supplemental or amendment has been issued with the prior consent of the Joint Sponsors; or
- (ix) any change or development involving a prospective change which has the effect of materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (x) an order or a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xi) a prohibition on the Company for whatever reason from offering, allotting, issuing, selling the Offer Shares (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

UNDERWRITING

- (xii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (xiii) any contravention by any member of the Group or any executive Director of the Listing Rules or the Companies (Winding Up and Miscellaneous Provisions) Ordinance; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer, subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws (as defined in the Hong Kong Underwriting Agreement); or
- (xv) any litigation, legal action (except for any investigation or other action as stipulated in paragraph (a)(xvi) below) or claim being threatened or instigated against any member of the Group or any Director; or
- (xvi) an Authority (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group or any executive Director; or
- (xvii) any executive Director vacating his or her office; or
- (xviii) any Director of the Company as named in this prospectus being charged with or found guilty of an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or taking directorship of a company,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Representatives (for on behalf of the Hong Kong Underwriters),

- (i) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profit, losses, results of operations, financial or trading position or condition or performance of the Group as a whole; or
- (ii) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (iii) makes or will or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed as envisaged or to market the Global Offering; or

UNDERWRITING

- (iv) has or will or is likely to have the effect of (i) making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or (ii) preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Joint Representatives after the date of the Hong Kong Underwriting Agreement:
 - (i) that any statement contained in this prospectus and the Application Forms and in any public notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto but excluding information furnished by the Underwriters, being the logo, market name, legal name and address of such Underwriters and expert qualification of the sponsor appearing in these documents) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any respect or that any forecast, estimate, expression of opinion, intention or expectation expressed or contained in any of this prospectus and the Application Forms is not fair and honest, not made on reasonable grounds or, where appropriate, not based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (ii) that there is a breach of, or any matter circumstance or event rendering any of the Warranties (as defined in the Hong Kong Underwriting Agreement) given by the Warrantors (as defined in the Hong Kong Underwriting Agreement) in the Hong Kong Underwriting Agreement is (or might when repeated be) being untrue or misleading or inaccurate; or
 - (iii) any event, act or omission which gives rise to or is likely to give rise to any material liability of the Company or the Controlling Shareholders (as the case maybe) pursuant to the indemnities given by the Company and the Controlling Shareholders (as the case may be) under the Hong Kong Underwriting Agreement; or
 - (iv) that there is a material breach of any obligations or undertakings imposed upon any party to, the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, Hong Kong Underwriters or the International Underwriters); or
 - (v) that there is any Material Adverse Change (as defined in the Hong Kong Underwriting Agreement); or
 - (vi) any of the experts specified in this prospectus (other than any of the Joint Sponsors) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

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- (vii) that the approval of the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (viii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission or misstatement from any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement); or
- (ix) that the Company withdraws this prospectus and the Application Forms or the Global Offering.

then the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors, may, in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except: (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or (b) pursuant to the Global Offering (including the Over-allotment Option).

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and the Company that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option and the Stock Borrowing Agreement), they will not, and shall procure that the relevant registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of their respective shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which Controlling Shareholders shown in this prospectus to be the beneficial owner; and

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- (b) in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have further undertaken to each of the Stock Exchange and our Company that within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, they will immediately inform the Stock Exchange and our Company in writing of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for *a bona fide* commercial loan, together with the number of such Shares or other securities of our Company so pledged or charged; and
- (b) any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholders and disclose such matters by way of an announcement published in accordance with Rule 2.07 of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Our Company has, pursuant to the Hong Kong Underwriting Agreement, undertaken to, inter alia, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters that, except for the offer, allotment, issue and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the issue of shares under the Pre-IPO Share Options, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six Month Period**”), it will not, without the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters), and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of, or agree to transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company, as applicable or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to

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receive, or any warrants or other rights to purchase, any Shares or other securities of the Company, as applicable, or any interest in any of the foregoing), or deposit any Shares or other securities of the Company, as applicable with a depositary in connection with the issue of depositary receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Shares or other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, or other securities of the Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to enter into any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in the paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company, in cash or otherwise (whether or not the issue of such Shares or other securities of the Company will be completed within the First Six-Month Period).

In the event that our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Undertakings by Controlling Shareholders

Each of the Controlling Shareholders has jointly and severally undertaken to each of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Underwriters), and unless in compliance with the requirements of the Listing Rules:

- (a) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities of the Company, as applicable), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other

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arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities of the Company, as applicable), or (iii) direct the Family Trust Singapore or the Employee Trust Hong Kong to dispose any Shares or other securities of the Company via entering into any transaction with the same economic effect as any transaction specified in paragraph (a)(i) or (a)(ii) above, or (iv) enter into any transaction with the same economic effect as any transaction specified in paragraph (a)(i), (a)(ii) or (a)(iii) above, or (iv) offer to or agree to or announce any intention to enter into any transaction specified in paragraph (a)(i), (a)(ii), (a)(iii) or (a)(iv) above, in each case, whether any of the transactions specified in paragraph (a)(i), (a)(ii), (a)(iii) or (a)(iv) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (a)(ii), (a)(iii) or (a)(iv) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance (as defined in the Hong Kong Underwriting Agreement) pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (a)(ii), (a)(iii) or (a)(iv) above or offers to or agrees to or announces any intention to enter into any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

provided that none of the foregoing shall prevent the Controlling Shareholders from (i) purchasing additional Shares or other securities of the Company and disposing of such additional Shares or other securities of the Company, (ii) using the Shares or other securities of the Company or any interest therein beneficially owned by them as security (including without limitation a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

Notwithstanding the foregoing, for the avoidance of doubt, the lock-up provisions provided above shall not apply to:

- (a) pledge, charge or other security interests of Shares granted in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan (the “**Permitted Encumbrance**”), provided that the relevant agreements concerning such Permitted Encumbrance shall be in a form satisfactory to the Joint Sponsors and shall not allow the charge or pledgee to (i) exercise their rights under the relevant agreements within the Lock-up Period; or (ii) dispose the Shares charged or pledged to them within the Lock-up Period);
- (b) exercise of options granted under the Pre-IPO Share Option Scheme; and

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- (c) shares issued by the Company pursuant to the exercise of options granted under the Pre- IPO Share Option Scheme which are beneficially owned by employees other than Directors and senior management as disclosed in this prospectus, provided that the Company shall comply with the minimum public float requirement.

Undertakings by Other Shareholders

Pursuant to the deeds of lock-up undertakings (the “**Deeds of Lock-up**”) entered into by each of Taurus Holding, Golden Basin (through which Ms. Zhai holds the Shares in the Company) and Glesason Global (through which Ms. Liu holds the Shares in the Company) (collectively, the “**Lock-up Shareholders**”) in favor of, among others, the Company and the Joint Representatives (for themselves and on behalf of the Underwriters), each of the Lock-up Shareholders has undertaken to the Company and the Joint Representatives (for themselves for and on behalf of the Underwriters) that it will not and will procure that no company controlled by it or any nominee or trustee holding the Shares in trust for it will, at any time during the period commencing on the date of the relevant Deed of Lock-up, and ending on a date which is six months from the Listing Date:

- (a) offer, pledge, charge, sell, contract or agree to sell, mortgage, charge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant, or purchase any option, warrant, contract or right to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of the Company or any interest in any of the foregoing (including, but not limited to, any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of the Company) held by it immediately prior to the completion of the Global Offering (the “**Existing Shares**”);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of, any Existing Shares;
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) offer to or contract to or agree to or publicly disclose that it will or may enter into any transaction described in (a), (b) or (c) above,

whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Shares or other equity securities of the Company, in cash or otherwise (whether or not the settlement or delivery of such Shares or other equity securities will be completed within period commencing on the date of the relevant Deed of Lock-up, and ending on a date which is six months from the Listing Date).

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Notwithstanding the foregoing, for the avoidance of doubt, the lock-up provisions provided above shall not prevent the Lock-up Shareholders from transferring any Existing Shares:

- (a) as may be required by applicable law or regulation or by any competent authority;
- (b) with the prior written consent of the Joint Representatives;
- (c) to any affiliate of such Lock-up Shareholder, provided that such affiliate transferee shall be subject to the undertakings provided by the Lock-up Shareholders in the relevant Deed of Lock-up;
- (d) as part of the acceptance of a general or public tender offer for the Shares made in accordance with the relevant public takeover rules, the provision of an irrevocable undertaking to accept such an offer, a sale to an offeror (or potential offeror) which is named in a public announcement of a firm intention to make an offer (or possible intention to make such an offer) or a sale of shares to an offeror (or potential offeror) during an offer period (as defined by the relevant public takeover rules);
- (e) pursuant to any scheme of compromise or arrangement providing for the acquisition, by any person or group of persons acting in concert, of 50% or more of the equity share capital of the Company, or any disposal of Shares in connection with a scheme of reconstruction under laws applicable to the Company; or
- (f) pursuant to an offer by the Company to repurchase its own Shares, as long as this is executed on a *pro rata* basis.

Indemnity

Each of our Company and our Controlling Shareholders has agreed to indemnify among others, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses incurred arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Commission and Expenses and Joint Sponsors' Fee

The Underwriters will receive an underwriting commission of 2.0% of the aggregate Offer Price in respect of all Offer Shares in the Global Offering, out of which they will pay any sub-underwriting commissions. In addition, at the sole and absolute discretion of our Company, the Underwriters may also receive an incentive fee of up to 1.0% of the aggregate Offer Price in respect of all Offer Shares (including any Shares to be issued pursuant to the exercise of the Over-allotment Option).

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$5.63 (being the mid-point of our Offer Price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fees, the Stock Exchange trading fee of 0.005% per Share, SFC transaction levy of 0.0027% per Share, brokerage fee, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to be approximately HK\$60.5 million.

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An aggregate amount of US\$0.8 million (excluding expenses) is payable by the Company as sponsor fees to the Joint Sponsors.

Hong Kong Underwriters' Interests in Our Company

Save for the obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding or beneficial interests in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we and our Controlling Shareholders will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement and subject to the Over-allotment Option, it is expected that the International Underwriters would, subject to certain conditions set out therein, severally but not jointly, agree to procure purchasers for, or to purchase, the International Offering Shares being offered pursuant to the International Offering or procure purchasers for their respective applicable proportions of International Offering Shares. Please refer to the section headed “Structure of the Global Offering—The International Offering” for details.

Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option and Stabilization

For more details of the arrangements relating to the Over-allotment Option and stabilization, see “Structure of the Global Offering”.

Activities by Syndicate Members

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative

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warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Independence of the Joint Sponsors

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of initially 16,578,000 Offer Shares (subject to adjustment) in Hong Kong as described below in the section headed “— The Hong Kong Public Offering”; and
- (b) the International Offering of initially 149,202,000 Offer Shares (subject to adjustment and the Over-allotment Option) outside the United States in offshore transactions in accordance with Regulation S (including to professional and institutional investors in Hong Kong), as described in “Structure of the Global Offering — The International Offering” below.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in accordance with Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed “— Reallocation” below, and in the case of the International Offering only, the Over-allotment Option as described in the section headed “— Over-allotment Option” below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

We are initially offering 16,578,000 Hong Kong Offer Shares, representing 10% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

STRUCTURE OF THE GLOBAL OFFERING

Completion of the Hong Kong Public Offering is subject to the conditions as set out below in the section headed “— Conditions of the Hong Kong Public Offering.”

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) will be divided into two pools for allocation purposes:

Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total price of HK\$5.0 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less.

Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total price of more than HK\$5.0 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of Pool B.

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the two pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B, but not from both pools. Multiple or suspected multiple applications and any application for more than 8,289,000 Hong Kong Offer Shares (being 50% of the 16,578,000 Offer Shares initially available under the Hong Kong Public Offering) will be rejected.

Reallocation

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if the International Offering are fully subscribed or oversubscribed and certain prescribed total demand levels are reached as further described below:

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 16,578,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 49,734,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering.
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 66,312,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering.
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 82,890,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate.

In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

In addition, the Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may in certain circumstances be reallocated as between these offerings at the discretion of the Joint Representatives. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of shares that may be allocated to the Hong Kong Public Offering shall be not more than 33,156,000 Offer Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$5.10 per Offer Share) stated in this prospectus.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

STRUCTURE OF THE GLOBAL OFFERING

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$6.16 per Offer Share in addition to the brokerage, SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “— Pricing and Allocation” below, is less than the maximum price of HK\$6.16 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for the Hong Kong Offer Shares”.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the International Offering will be 149,202,000, representing 90% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares initially offered under the International Offering will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance in Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section headed “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely hold or sell, Shares, after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

The Shares have not been and will not be registered under the U.S. Securities Act for offer or sale as part of their distribution and may be offered outside the United States in offshore transactions in accordance with Regulation S.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in the section headed “— The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part described in the section headed “— Over-allotment Option”, and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Joint Representatives.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters, which will be exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date to the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to 24,867,000 additional Offer Shares, representing 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offer Shares to be issued pursuant thereto will represent approximately 3.61% of our Company’s enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent any decline in the market price of the securities below the offer price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

STRUCTURE OF THE GLOBAL OFFERING

China Securities (International) Corporate Finance Company Limited has been appointed by us as the Stabilization Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, the Stabilization Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilization Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilization Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilization Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. Any market purchases of our Offer Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilization Manager or any person acting for it to conduct any such stabilizing action. Such stabilizing activity, if commenced, will be done at the absolute discretion of the Stabilization Manager and may be discontinued at any time.

Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Offer Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 24,867,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling or agreeing to sell any of our Shares in order to liquidate any position established as a result of those purchases; and

STRUCTURE OF THE GLOBAL OFFERING

(f) offering or attempting to do anything as described in (b), (c), (d) or (e) above.

Stabilizing actions by the Stabilization Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilization Manager or any person acting for it, may maintain a long position in the Shares. The size of the long position and the period for which the Stabilization Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilization Manager and is uncertain. In the event that the Stabilization Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilization Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Sunday, February 7, 2021. As a result, demand for the Shares and their market price, may fall after the end of the stabilizing period. These activities by the Stabilization Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilization Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilization Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilization Manager (or its affiliate(s)) may choose to borrow up to 24,867,000 Shares (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option) from the Controlling Shareholders pursuant to the Stock Borrowing Agreement. Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with.

Such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to Leading Glory or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option having been issued and allotted by our Company, or (c) such earlier time as the Stabilizing Manager and Leading Glory may agree in writing. No payment will be made to Leading Glory by the Stabilizing Manager or its affiliates in relation to such stock borrowing arrangement.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Friday, January 8, 2021 and in any event on or before Monday, January 11, 2021, by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

Offer Price Range

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the offer price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will not be more than HK\$6.16 per Offer Share and is expected to be not less than HK\$5.10 per Offer Share, unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

Price Payable on Application

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$6.16 per Hong Kong Offer Share (plus 1.0% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$6.16, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Representatives (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Monday, January 11, 2021, the Global Offering will not proceed and will lapse.

Reduction in indicative Offer Price range and/or number of Offer Shares

The Joint Representatives may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not

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later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.strawbearentertainment.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Representatives and our Company, will be fixed within such revised Offer Price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Representatives (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares under the Hong Kong Public Offering to withdraw their applications.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Representatives may, at their discretion, reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering.

Announcement of Offer Price and Basis of Allocations

The final Offer Price, the level of indications of interest in the Global Offering, the results of allocations and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Thursday, January 14, 2021, on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.strawbearentertainment.com).

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to, among other things, our Company and the Joint Representatives, for themselves and on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section headed “Underwriting.”

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CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares that may be issued under the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between us and the Joint Representatives (for themselves and on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters) on or before Monday, January 11, 2021, the Global Offering will not proceed and will lapse immediately.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.strawbearentertainment.com) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker(s) or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination” has not been exercised.

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APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued by us pursuant to the Global Offering.

No part of the Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, our Shares and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, January 15, 2021, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, January 15, 2021. Our Shares will be traded in board lots of 1,000 Shares each. The stock code of our Shares will be 2125.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(1) HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Representatives, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

(2) WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act) and not be a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members’ names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation’s chop.

If an application is made by a person under a power of attorney, our Company and the Joint Representatives may accept it at their discretion and on any conditions they think fit, including evidence of the attorney’s authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate and/or a close associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Our Company, the Joint Representatives and the **HK eIPO White Form** Service Provider (where applicable) or their respective agents have full discretion to reject or accept any application, in full or in part, without giving any reason.

(3) APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **IPO App** or the designated website at www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, December 31, 2020 until 12:00 noon on Friday, January 8, 2021 from:

- (i) any of the following offices of the Hong Kong Underwriters:

<u>Hong Kong Underwriters</u>	<u>Address</u>
China Merchants Securities (HK) Co., Limited	48/F, One Exchange Square 8 Connaught Place Central Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Hong Kong Underwriters	Address
China Securities (International) Corporate Finance Company Limited	18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
China Renaissance Securities (Hong Kong) Limited	Units 8107-08, Level 81 International Commerce Centre 1 Austin Road West Kowloon Hong Kong
ABCI Securities Company Limited	10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
Haitong International Securities Company Limited	22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
BOCOM International Securities Limited	9/F, Man Yee Building 68 Des Voeux Road Central Central Hong Kong
Huatai Financial Holdings (Hong Kong) Limited	2/F, The Center 99 Queen's Road Central Hong Kong
CMB International Capital Limited	45/F, Champion Tower 3 Garden Road Central Hong Kong
Futu Securities International (Hong Kong) Limited	Unit C1-2, 13/F, United Centre No. 95 Queensway Admiralty Hong Kong
China Galaxy International Securities (Hong Kong) Co., Limited	20/F, Wing On Centre 111 Connaught Road Central Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Islands	Shek Tong Tsui Branch	534 Queen's Road West Shek Tong Tsui Hong Kong
	Causeway Bay Branch	505 Hennessy Road Causeway Bay Hong Kong
Kowloon	Chuk Yuen Estate Branch	Shop S1 Chuk Yuen Shopping Centre Chuk Yuen South Estate Kowloon Hong Kong
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza 485 Castle Peak Road Kowloon Hong Kong
New Territories	Fo Tan Branch	Shop B1-1A, B2A-C 1/F Shatin Galleria 18-24 Shan Mei Street Shatin, New Territories Hong Kong
	Luen Wo Market Branch Safe Box Service Centre	Shop B, 10-16 Luen Shing Street, Luen Wo Market, Fanling, New Territories Hong Kong
	Tuen Mun San Hui Branch	G13-G14 Eldo Court Heung Sze Wui Road Tuen Mun, New Territories Hong Kong

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, December 31, 2020 until 12:00 noon on Friday, January 8, 2021 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — STRAWBEAR ENTERTAINMENT PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, December 31, 2020 – 9:00 a.m. to 4:00 p.m.
- Saturday, January 2, 2021 – 9:00 a.m. to 12:00 noon
- Monday, January 4, 2021 – 9:00 a.m. to 4:00 p.m.
- Tuesday, January 5, 2021 – 9:00 a.m. to 4:00 p.m.
- Wednesday, January 6, 2021 – 9:00 a.m. to 4:00 p.m.
- Thursday, January 7, 2021 – 9:00 a.m. to 4:00 p.m.
- Friday, January 8, 2021 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, January 8, 2021, the last day for applications or such later time as described in “— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section.

(4) TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Representatives (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus, in the Application Form, in the **IPO App** and on the designated website under the **HK eIPO White Form** service and agree to be bound by them;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus, the Application Form, the **IPO App** and the designated website under the **HK eIPO White Form** service;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "Personal Collection" section in the prospectus to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allocation of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
 - (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
 - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

(5) APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "— 2. Who can apply" section above, may apply through the **HK eIPO White Form** service for the Offer Shares to be allocated and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the **IPO App** or the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** service in the **IPO App** or at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, December 31, 2020 until 11:30 a.m. on Friday, January 8, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, January 8, 2021 or such later time as described in “— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

(6) APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Representatives and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (if the **electronic application instructions** are given for your benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another **person**) **declare that** you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that our Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- **instructed** and **authorized** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates ^(Note):

- Thursday, December 31, 2020 – 9:00 a.m. to 8:30 p.m.
- Saturday, January 2, 2021 – 8:00 a.m. to 1:00 p.m.
- Monday, January 4, 2021 – 8:00 a.m. to 8:30 p.m.
- Tuesday, January 5, 2021 – 8:00 a.m. to 8:30 p.m.
- Wednesday, January 6, 2021 – 8:00 a.m. to 8:30 p.m.
- Thursday, January 7, 2021 – 8:00 a.m. to 8:30 p.m.
- Friday, January 8, 2021 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, December 31, 2020 until 12:00 noon on Friday, January 8, 2021 (24 hours daily, except on Friday, January 8, 2021, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, January 8, 2021, the last application day or such later time as described in “—10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

Note:

The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

(7) WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, January 8, 2021.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(8) HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of our Company;
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our Company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(9) HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing and Allocation.”

(10) EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, January 8, 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, January 8, 2021 or if there is a tropical cyclone warning signal number 8 or above or, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(11) PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, January 14, 2021 on our Company's website at www.strawbearentertainment.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.strawbearentertainment.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, January 14, 2021;
- from "IPO Results" function in the **IPO App** or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, January 14, 2021 to 12:00 midnight on Wednesday, January 20, 2021;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, January 14, 2021 to Tuesday, January 19, 2021 (excluding Saturday, Sunday and public holiday in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, January 14, 2021 to Saturday, January 16, 2021 at all the designated branches of the receiving bank.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

(12) CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or

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before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Representatives, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;

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- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at www.hkeipo.hk;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

(13) REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$6.16 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, January 14, 2021.

(14) DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allocated to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

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- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Thursday, January 14, 2021. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, January 15, 2021 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, January 14, 2021 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, January 14, 2021, by ordinary post and at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collecting the refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, January 14, 2021, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, January 14, 2021, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offering Shares allocated to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, January 14, 2021 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 or more Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, January 14, 2021, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, January 14, 2021 by ordinary post at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions.

If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, January 14, 2021, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, January 14, 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, January 14, 2021 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, January 14, 2021. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, January 14, 2021.

(15) ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors

Strawbear Entertainment Group

China Merchants Securities (HK) Co., Limited

China Securities (International) Corporate Finance Company Limited

Dear Sirs,

We report on the historical financial information of Strawbear Entertainment Group (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-88, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and the statements of financial position of the Company as at 31 December 2018 and 2019 and 30 June 2020 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-88 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 December 2020 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and the Company as at 31 December 2018 and 2019 and 30 June 2020, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

31 December 2020

I HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30	
		2017	2018	2019	June	
		RMB'000	RMB'000	RMB'000	2019	2020
						<i>(Unaudited)</i>
REVENUE	5	542,864	679,109	765,097	647,745	579,832
Cost of sales		(390,812)	(469,246)	(657,457)	(574,962)	(444,190)
Gross profit		152,052	209,863	107,640	72,783	135,642
Other income and gains	5	4,008	4,411	34,343	22,279	10,448
Selling and distribution expenses		(24,375)	(75,758)	(33,498)	(29,443)	(32,364)
Administrative expenses		(15,430)	(64,047)	(17,655)	(9,810)	(29,831)
Other expenses		(829)	(386)	(128)	(128)	–
Finance costs	7	(22,792)	(34,871)	(9,734)	(5,018)	(5,513)
Changes in fair value of financial liabilities at fair value through profit or loss		–	936	(14,996)	(4,328)	(3,720)
PROFIT BEFORE TAX	6	92,634	40,148	65,972	46,335	74,662
Income tax expense	10	(28,604)	(29,635)	(15,572)	(8,537)	(20,534)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		64,030	10,513	50,400	37,798	54,128
Attributable to:						
Owners of the parent		60,566	12,434	50,032	37,800	54,128
Non-controlling interests		3,464	(1,921)	368	(2)	–
		64,030	10,513	50,400	37,798	54,128
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted	12	N/A	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December			As at
		2017	2018	2019	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	13	1,628	2,921	2,665	10,367
Right-of-use assets	14(a)	3,313	1,730	894	4,071
Goodwill	15	–	–	108,341	112,983
Other intangible assets	16	28	24	42,920	27,200
Investment in a joint venture	17	–	–	14,000	14,000
Investment in an associate	18	–	300	300	–
Deferred tax assets	29	6,429	16,151	28,053	30,020
Total non-current assets		11,398	21,126	197,173	198,641
CURRENT ASSETS					
Inventories	19	314,509	536,664	919,119	681,121
Trade and notes receivables	20	289,851	180,344	485,396	776,634
Prepayments, other receivables and other assets	21	83,981	244,498	340,906	254,012
Due from a related party	37(c)	–	–	3,000	–
Financial assets at fair value through profit or loss	22	20,000	–	–	–
Restricted cash	23	–	–	54,312	18
Cash and cash equivalents	24	153,258	97,255	52,349	83,295
Total current assets		861,599	1,058,761	1,855,082	1,795,080
CURRENT LIABILITIES					
Trade payables	26	189,570	236,863	449,190	425,521
Other payables and accruals	27	177,894	177,497	734,535	602,808
Interest-bearing bank and other borrowings	28	43,000	66,000	125,000	140,500
Lease liabilities	14(b)	1,493	907	509	896
Due to a joint venture	37(c)	–	–	51,000	71,260
Due to a related party	37(c)	–	81,013	105,926	–
Tax payable		19,585	16,648	6,604	7,999
Dividend payable		–	80,000	81,507	80,000
Total current liabilities		431,542	658,928	1,554,271	1,328,984
NET CURRENT ASSETS		430,057	399,833	300,811	466,096
TOTAL ASSETS LESS CURRENT LIABILITIES		441,455	420,959	497,984	664,737

	<i>Notes</i>	As at 31 December			As at
		2017	2018	2019	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
					<i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		441,455	420,959	497,984	664,737
NON-CURRENT LIABILITIES					
Financial liabilities at fair value through profit or loss	30	–	274,525	289,521	401,491
Interest-bearing bank and other borrowings	28	246,578	–	–	–
Lease liabilities	14(b)	1,379	472	–	2,874
Deferred tax liabilities	29	–	–	14,012	8,676
Total non-current liabilities		247,957	274,997	303,533	413,041
Net assets		193,498	145,962	194,451	251,696
EQUITY					
Equity attributable to owners of the parent					
Share capital	31	–	–	–	–
Reserves	32	190,034	144,419	194,451	250,822
		190,034	144,419	194,451	250,822
Non-controlling interests		3,464	1,543	–	874
Total equity		193,498	145,962	194,451	251,696

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent							Total equity
	Share capital	Capital reserve*	Statutory surplus reserve*	Share award or option reserve*	Retained profits*	Total	Non-controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Year ended 31 December 2017								
At 1 January 2017	-	10,000	5,882	-	113,586	129,468	-	129,468
Total comprehensive income for the year	-	-	-	-	60,566	60,566	3,464	64,030
Transfer to statutory reserve	-	-	1,461	-	(1,461)	-	-	-
At 31 December 2017	-	10,000	7,343	-	172,691	190,034	3,464	193,498
Year ended 31 December 2018								
At 1 January 2018	-	10,000	7,343	-	172,691	190,034	3,464	193,498
Total comprehensive income for the year	-	-	-	-	12,434	12,434	(1,921)	10,513
Equity-settled share award expense	-	-	-	41,951	-	41,951	-	41,951
Dividend declared by a subsidiary to its then shareholders	-	-	-	-	(100,000)	(100,000)	-	(100,000)
At 31 December 2018	-	10,000	7,343	41,951	85,125	144,419	1,543	145,962
Year ended 31 December 2019								
At 1 January 2019	-	10,000	7,343	41,951	85,125	144,419	1,543	145,962
Total comprehensive income for the year	-	-	-	-	50,032	50,032	368	50,400
Transfer to statutory reserve	-	-	746	-	(746)	-	-	-
Dividend declared by a subsidiary to its then shareholders	-	-	-	-	-	-	(1,911)	(1,911)
At 31 December 2019	-	10,000	8,089	41,951	134,411	194,451	-	194,451

Attributable to owners of the parent								
Share capital	Capital reserve*	Statutory surplus reserve*	Share award or option reserve*	Retained profits*	Total	Non-controlling interests	Total equity	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Six months ended								
30 June 2020								
At 1 January 2020	-	10,000	8,089	41,951	134,411	194,451	-	194,451
Total comprehensive income for the period	-	-	-	-	54,128	54,128	-	54,128
Equity-settled share award expense	-	-	-	2,146	-	2,146	-	2,146
Acquisition of a subsidiary (note 33(b))	-	-	-	-	-	-	971	971
Acquisition of non-controlling interests	-	97	-	-	-	97	(97)	-
Transfer to statutory reserve	-	-	6,250	-	(6,250)	-	-	-
At 30 June 2020	-	10,097	14,339	44,097	182,289	250,822	874	251,696
Six months ended								
30 June 2019								
At 1 January 2019	-	10,000	7,343	41,951	85,125	144,419	1,543	145,962
Total comprehensive income for the period (unaudited)	-	-	-	-	37,800	37,800	(2)	37,798
Transfer to statutory reserve (unaudited)	-	-	746	-	(746)	-	-	-
At 30 June 2019 (unaudited)	-	10,000	8,089	41,951	122,179	182,219	1,541	183,760

* These reserve accounts comprise the consolidated reserves of RMB190,034,000, RMB144,419,000, RMB194,451,000 and RMB250,822,000 in the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		92,634	40,148	65,972	46,335	74,662
Adjustments for:						
Depreciation of property, plant and equipment	13	348	846	1,179	575	632
Depreciation of right-of-use assets	14(a)	891	1,583	945	457	552
Amortisation of other intangible assets	16	5	4	4	2	28,402
Interest income from loans receivable	5	(125)	(2,849)	(9,415)	(3,958)	(6,788)
Finance costs		22,792	32,589	8,267	3,555	5,287
Investment income from financial assets at fair value through profit or loss	5	(637)	(49)	–	–	–
Equity-settled share award expense	34	–	41,951	–	–	2,146
Changes in fair value of financial liabilities at fair value through profit or loss		–	(936)	14,996	4,328	3,720
Net foreign exchange differences	5	–	–	–	–	(677)
Loss/(gain) on disposal of items of property, plant and equipment	6	–	10	–	–	(152)
Gain on disposal of an associate	5	–	–	–	–	(56)
Write-down of inventories to net realisable value	6	–	13,820	–	–	–
Impairment of trade receivables	20	3,826	1,909	1,528	936	5,887
		119,734	129,026	83,476	52,230	113,615
Decrease/(increase) in inventories		(262,201)	(235,975)	(260,391)	(12,562)	239,631
Decrease/(increase) in trade and notes receivables		(176,591)	107,598	(306,580)	(446,240)	(285,223)
Decrease/(increase) in prepayments and other assets		17,778	(50,726)	(43,266)	(20,383)	(3,166)
Decrease in deposits and other receivables		2,974	469	102,228	93,843	58,297
Decrease/(increase) in amount due from a related party		–	–	(3,000)	(3,000)	3,000
Decrease/(increase) in restricted cash		–	–	(54,312)	–	54,294
Increase/(decrease) in trade payables		185,861	47,293	206,439	206,069	(33,937)
Increase/(decrease) in contract liabilities		62,326	(38,143)	361,497	218,844	(130,678)
Increase/(decrease) in other payables and accruals		21,174	18,766	(9,439)	(14,810)	24,199
Cash generated from/(used in) operations		(28,945)	(21,692)	76,652	73,991	40,032
Income tax paid		(27,757)	(42,294)	(37,518)	(29,922)	(28,206)
Net cash flows from/(used in) operating activities		(56,702)	(63,986)	39,134	44,069	11,826

Note	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(635)	(2,152)	(130)	(11)	(1,644)
Proceeds from disposal of items of property, plant and equipment	–	3	–	–	242
Purchases of shares in a joint venture	–	–	(14,000)	–	–
Purchases of shares in an associate	–	(300)	–	–	–
Disposal of an associate	–	–	–	–	356
Prepayment of right-of-use assets	(456)	–	–	–	–
Advances of loans to third parties	–	(92,266)	(92,760)	–	–
Purchases of financial assets at fair value through profit or loss	(201,000)	–	–	–	–
Disposal of financial assets at fair value through profit or loss	331,000	20,000	–	–	–
Investment income received from financial assets at fair value through profit or loss	637	49	–	–	–
Interest received from loans receivable	125	–	–	–	–
Acquisition of subsidiaries, net of cash acquired	33	(15,000)	(79,680)	(66,280)	(29,313)
Repayment of advances of loans to third parties	2,000	–	–	(2,000)	50,498
Net cash flows from/(used in) investing activities	131,671	(89,666)	(186,570)	(68,291)	20,139
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financial liabilities at fair value through profit or loss	–	275,461	–	–	108,250
New bank loans	30,000	142,004	110,000	–	–
Proceeds from other borrowings	75,500	381,000	73,000	7,000	20,000
Repayment of bank loans	(36,700)	(137,004)	(35,000)	(5,000)	–
Repayment of other borrowings	(3,674)	(553,000)	(38,000)	(21,000)	(110,000)
Payment for deferred listing expenses	–	–	–	–	(3,687)
Dividend paid to a non-controlling shareholder	–	–	(404)	–	(1,507)
Interest paid	(1,896)	(9,319)	(6,087)	(880)	(13,607)
Repayment of principal portion of lease liabilities	(799)	(1,493)	(979)	(472)	(468)
Net cash flows from/(used in) financing activities	62,431	97,649	102,530	(20,352)	(1,019)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	137,400	(56,003)	(44,906)	(44,574)	30,946
Cash and cash equivalents at beginning of year/period	15,858	153,258	97,255	97,255	52,349
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>153,258</u>	<u>97,255</u>	<u>52,349</u>	<u>52,681</u>	<u>83,295</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	24 131,758	97,255	52,349	52,681	83,295
Non-pledged time deposits with original maturity of less than three months when acquired	24 21,500	–	–	–	–
Cash and cash equivalents as stated in the consolidated statements of cash flows and consolidated statements of financial position	<u>153,258</u>	<u>97,255</u>	<u>52,349</u>	<u>52,681</u>	<u>83,295</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	<i>Notes</i>	<u>As at 31 December</u>		<u>As at</u>
		<u>2018</u>	<u>2019</u>	<u>30 June</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Investment in a subsidiary	25	41,951	41,951	44,097
Total non-current assets		41,951	41,951	44,097
CURRENT ASSETS				
Due from a subsidiary	37(c)	275,461	275,461	383,711
Cash and cash equivalents	24	3	5	7
Total current assets		275,464	275,466	383,718
NET CURRENT ASSETS		275,464	275,466	383,718
TOTAL ASSETS LESS CURRENT LIABILITIES				
		317,415	317,417	427,815
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss	30	274,525	289,521	401,491
Total non-current liabilities		274,525	289,521	401,491
Net assets		42,890	27,896	26,324
EQUITY				
Share capital	31	–	–	–
Reserves	32	42,890	27,896	26,324
Total equity		42,890	27,896	26,324

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 January 2018. The registered office address of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally involved in the production, distribution and licensing of broadcasting rights of TV/Web series ("drama series").

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Development" in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Strawbear Pictures Limited (<i>note (a)</i>)	British Virgin Islands 9 January 2018	US\$1,000	100%	–	Investment holding
Strawbear Film Limited (<i>note (a)</i>)	Hong Kong 31 January 2018	US\$1,000	–	100%	Investment holding
Nanjing Strawbear Business Consulting Co., Ltd. ("Nanjing Strawbear") (南京稻草熊商務諮詢有限公司)* (<i>note (b)</i>)	People's Republic of China ("PRC")/ Mainland China 17 September 2018	US\$1,000,000	–	100%	Investment holding
Shanghai Strawbear Business Consulting Co., Ltd. ("Shanghai Strawbear") (上海稻草熊商務諮詢有限公司)* (<i>note (b)</i>)	PRC/Mainland China 3 September 2018	US\$1,000,000	–	100%	Investment holding
Jiangsu Strawbear Film Co., Ltd. ("Jiangsu Strawbear") (江蘇稻草熊影業有限公司)* (<i>note (c)</i>)	PRC/Mainland China 13 June 2014	RMB10,000,000	–	100%	Investment in, production, distribution and licensing of broadcasting rights of drama series
Horgos Strawbear Film Co., Ltd. ("Horgos Strawbear") (霍爾果斯稻草熊影業有限公司)* (<i>note (d)</i>)	PRC/Mainland China 4 August 2016	RMB3,000,000	–	100%	Investment in, production, distribution and licensing of broadcasting rights of drama series

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Strawbear Film Co., Ltd. ("Beijing Strawbear") (北京稻草熊影業有限公司)* (note (d))	PRC/Mainland China 2 September 2019	RMB3,000,000	–	100%	Investment in, production, distribution and licensing of broadcasting rights of drama series
Hangzhou Yide Cultural Creativity Co., Ltd. ("Hangzhou Yide") (杭州懿德文化創意有限公司)* (note (e))	PRC/Mainland China 25 June 2015	RMB12,500,000	–	100%	Engagement in the business of literature copyright agency and development
Nova Film Technology (Jiangsu) Co., Ltd. ("Nova Film") (諾華視創電影科技(江蘇)有限公司)* (note (f))	PRC/Mainland China 29 May 2012	RMB10,000,000	–	90.1%	Special effects editing and other post-production work for films and drama series
Wuxi Strawbear Culture Media Co., Ltd. ("Wuxi Strawbear") (無錫稻草熊文化傳媒有限公司)* (note (d))	PRC/Mainland China 4 June 2020	RMB1,000,000	–	60%	Screenplay development and assessment

Notes:

- (a) No audited financial statements have been prepared for these entities since their date of incorporation, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (b) These entities are registered as wholly-foreign-owned enterprises under PRC law. No audited financial statements have been prepared for these entities since their date of incorporation.
- (c) The entity is a limited liability enterprise established under PRC law. The statutory financial statements of Jiangsu Strawbear for the years ended 31 December 2017, 2018 and 2019 prepared under PRC Generally Accepted Accounting Principles were audited by BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.
- (d) These entities are limited liability enterprises established under PRC law. No audited financial statements have been prepared for these entities since their incorporation.
- (e) This entity was acquired by Nanjing Strawbear on 31 January 2019. The statutory financial statements of Hangzhou Yide for the year ended 31 December 2019 prepared under PRC Generally Accepted Accounting Principles were audited by ZhongHui Certified Public Accountants LLP (中匯會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.
- (f) This entity was acquired by Jiangsu Strawbear on 23 June 2020.

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Development” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 20 November 2018. As the Reorganisation only involved inserting new holding companies at the top of an existing company and has not resulted in any change of economic substances, the Historical Financial Information has been presented as a continuation of the existing company using the pooling of interests method as if the group structure had been in place at the beginning of the Relevant Periods.

Due to regulatory prohibitions on foreign ownership in the production, distribution and licensing of broadcasting rights of drama series business in the PRC, the principal business carried out by Jiangsu Strawbear, Horgos Strawbear and Beijing Strawbear (the “Consolidated Affiliated Entities”) was prohibited or restricted from foreign ownership. The wholly owned subsidiary of the Company, Nanjing Strawbear, has entered into a series of contractual arrangements (the “Contractual Arrangements”) with the Consolidated Affiliated Entities and their respective equity holders (hereafter the equity holders of the Consolidated Affiliated Entities referred to as the “Registered Shareholders”). The Contractual Arrangements enable Nanjing Strawbear to exercise effective control over the Consolidated Affiliated Entities and obtain substantially all economic benefits of the Consolidated Affiliated Entities. Accordingly, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries for the purpose of the Historical Financial Information and the Consolidated Affiliated Entities are consolidated in the Historical Financial Information for the Relevant Periods. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in the Prospectus. The Group does not have any equity interests in the Consolidated Affiliated Entities.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses were established or acquired, where this is a shorter period. The consolidated statements of financial position of the Group as of 31 December 2017, 2018 and 2019 and 30 June 2020 have been prepared to present the assets and liabilities of the subsidiaries now comprising the Group using the existing book values. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2020, including HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*, together with the relevant transitional provisions, have been early adopted on a consistent basis by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss which have been measured at fair value.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ³
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendment to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ³
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ³
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> ³
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, HKAS 41 and Illustrative Examples accompanying HKFRS 16 ³

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. More specifically, the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. In addition, management's expectations about events after the end of the reporting period, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments also clarify settlement of a liability refers to the transfer of cash, equity instruments, other assets or services that results in the extinguishment of the liability. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The adoption of the amendments will change the classification of the financial liabilities at fair value through profit or loss from non-current to current because the holders have rights to convert preferred shares into ordinary shares at any time.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group has concluded that the adoption of these new and revised HKFRSs will not have material impact on the Group's financial position and financial performance.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investments retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statements of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at the end of each of the Relevant Periods. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at the end of each of the Relevant Periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statements of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Electronic equipment	19.0% – 31.7%
Vehicles	19.0%
Office equipment	19.0%
Leasehold improvements	20.0% – 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statements of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 3 to 5 years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years, which is shorter of legal registered period and the period over which the trademark is expected to generate net cash inflows from the commercialization of product.

Backlog

Backlog is stated at cost less any impairment loss and is amortised based on the consumption upon the fulfilment of the underlying contracts with customers.

Patents

Patents are stated at cost less any impairment loss and are amortised on the straight-line basis over their estimated useful lives of 8 years, which is determined based on weighted average legal registered periods of patents after considering the expected usage, technical obsolescence and estimates of useful lives of similar assets.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	2-5 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statements of financial position.

(c) *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and vehicles (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statements of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statements of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the consolidated statements of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statements of profit or loss and other comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, financial liabilities at fair value through profit or loss, amounts due to a joint venture and a related party, dividend payable and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

The Group designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss.

Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognised in profit or loss.

The preferred shares are classified as non-current liabilities because the holders of the preferred shares cannot demand the Company to redeem the preferred shares until at least 12 months after the end of each of the Relevant Periods.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss. If an entity revises its estimates of payments or receipts (excluding modifications in accordance with HKFRS 9.5.4.3 and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset or amortised cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets). The adjustment is recognised in profit or loss as income or expense.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories include the cost of completed drama series, drama series in production and undeveloped scripts and purchased copyrights or broadcasting rights of drama series. Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses.

The amounts of inventories recognised as cost of sales for a given period is determined using the drama series forecast computation method. Under this method, the amortisation of inventories and the accrual of participations and residuals is based on the proportion of the drama series' revenues recognised for such period to the drama series' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a drama series' life cycle).

Accounting for the co-investment arrangements and co-financing arrangements

Under the co-investment arrangements where the Group acts as an executive producer, the investment from the other co-investors is considered as the selling of shares of interests and copyrights in drama series to such co-investors by the Group. If the co-investors bear full risk for the shares of interests and copyrights of drama series they invested in, the amounts received from such co-investors are recognised as reductions of the costs of the drama series upon the receipt of the license for distribution of drama series from the National Radio and Television Administration of the PRC (“NRTA”).

When co-investors are not entitled to any shares of copyrights in drama series they invested in under co-investment arrangements and the Group is obligated to share the licensing revenue with such co-investors at a fixed return basis or based on the respective investment ratio, the amounts received from such co-investors are recognised as financial liabilities.

The amount paid under co-financing arrangements to the third-party investors by the Group in order to obtain shares of legal rights (i.e. copyrights, broadcasting rights) of drama series is recognised as prepayments under the co-investment arrangements and reclassified as inventories upon the receipt of the license for distribution of drama series from the NRTA.

The amount paid under co-financing arrangements to third-party investors by the Group where the Group are not entitled to any shares of legal rights (i.e. copyrights, broadcasting rights) of the drama series is recognised as financial assets.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

The Group is mainly involved in the licensing of broadcasting rights of drama series. Revenue is measured based on the fair value of consideration received or receivable specified in the contracts with customers.

(a) *Licensing of broadcasting rights of drama series*

Revenue from the licensing of broadcasting rights of drama series is recognised at the point in time when the drama series are available to the licensee, generally on delivery of the drama series after the approval from the NRTA or receipt of the license for distribution of drama series from the provincial counterpart of the NRTA when a customer is provided with a right to use the drama series as it exists at the point in time when the license is granted. The Group does not expect to have any contracts where the period between the transfer of the licensed drama series to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(b) *Production of made-to-order drama series*

Revenue from the production of made-to-order drama series is recognised over time, using an input method to measure progress towards complete production of made-to-order drama series, because the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced.

Broadcasting are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Net licensing fees received from investments in drama series as a non-executive producer with share of legal rights (i.e. copyrights, broadcasting rights) are recognised when the investors' right to receive payment has been established, it is probable that the economic benefits associated with the investment income will flow to the Group and the amount can be measured reliably. Revenue of this type is measured at the amount of net licensing fees paid to the Group and the relevant inventories are recognised in cost of sales when the revenue is recognised.

Net licensing fees received from investments in drama series without share of legal rights (i.e. copyrights, broadcasting rights) are recognised in accordance with HKFRS 9. Revenue of this type is measured at the amount of changes in fair value of these financial assets which accumulatively and eventually equals to the total of the net licensing fees paid to the Group less the sum paid by the Group under the co-financing arrangement.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value is measured at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period, further details of which are given in note 34 to the Historical Financial Information.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government and the central government, respectively. These subsidiaries are required to contribute a certain percentage of payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The Historical Financial Information is presented in RMB, which is the Company's functional currency. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the Historical Financial Information. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the Relevant Periods and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statements of profit or loss and other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Contractual Arrangements

The Consolidated Affiliated Entities are engaged in the production, distribution and licensing of broadcasting rights of drama series. Under the scope of "Special Management Measures for Access of Foreign Investment (2020 Edition)", foreign investors are prohibited to invest in such business.

As disclosed in note 2.1 to the Historical Financial Information, as part of the Reorganisation, the Group exercises control over the Consolidated Affiliated Entities and enjoys substantially all economic benefits of the Consolidated Affiliated Entities through the Contractual Arrangements.

The Group does not have any equity interests in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Company has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is therefore considered to have control over them. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the Consolidated Affiliated Entities in the Historical Financial Information during the Relevant Periods.

Principal versus agent

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal that obtains control of any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, and when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision and write-down of inventories to net realisable value

The Group's management reviews the conditions of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a project-by-project basis at the end of each Relevant Periods and makes provision for obsolete projects. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of producing and distributing drama series of a similar nature. The Group's management reassesses the estimation at the end of each of the Relevant Periods.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each of the Relevant Periods. All non-financial assets of the Group are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing period and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical expected default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as the debtors and the economic environment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customers' actual default in the future. The provision for impairment of trade receivables at 31 December 2017, 2018 and 2019 and 30 June 2020 amounted to RMB4,630,000, RMB4,957,000, RMB6,485,000 and RMB12,372,000, respectively, details of which are set out in note 20 to the Historical Financial Information.

Provision for expected credit losses on other receivables

The Group has applied the general approach to provide for expected credit losses for other receivables and considered the default event, historical loss rate and adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate, details of which are set out in note 21 to the Historical Financial Information.

Amortisation of inventories

The amount of inventories recognised as costs of sales for a given period is determined using the revenue forecast computation method. Under this method, the amortisation of inventories and the accrual of participations and residuals are based on the proportion of the drama series' revenues recognised for such period to the drama series' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a drama series' life cycle).

Management regularly reviews the basis of the amortisation and will adjust the amortisation method when expected changes in the drama series' estimated remaining ultimate revenues arise.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses at 31 December 2017, 2018 and 2019 and 30 June 2020 were nil, RMB13,140,000, RMB13,608,000 and RMB15,836,000, respectively. Further details are contained in note 29 to the Historical Financial Information.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2017, 2018 and 2019 and 30 June 2020 were nil, nil, RMB108,341,000 and RMB112,983,000, respectively. Further details are given in note 15 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

During the Relevant Periods and the six months ended 30 June 2019, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in Mainland China. All of the non-current assets of the Group were located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the Relevant Periods and the six months ended 30 June 2019 is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Customer 1	121,405	N/A*	N/A*	N/A*	60,708
Customer 2	116,226	244,703	208,484	92,862	401,278
Customer 3	116,226	N/A*	N/A*	68,196	N/A*
Customer 4	57,384	175,651	172,824	172,824	67,523
Customer 5	N/A*	120,283	N/A*	N/A*	N/A*
Customer 6	N/A*	N/A*	140,094	140,094	N/A*

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the Relevant Periods and the six months ended 30 June 2019.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<i>Revenue from contracts with customers</i>	529,767	670,770	760,245	643,041	575,004
<i>Revenue from other sources</i>					
Net licensing fee received from investments in drama series as a non-executive producer with share of copyrights	3,663	8,339	770	622	4,828
Net licensing fee received from investments in drama series as a non-executive producer without share of copyrights	9,434	–	4,082	4,082	–
	542,864	679,109	765,097	647,745	579,832

Revenue from contracts with customers

(i) Disaggregated revenue information

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Type of goods or services					
Licensing of the broadcasting rights of self-produced drama series	95,804	445,295	571,412	459,388	480,848
Licensing of the broadcasting rights of outright-purchased drama series	423,061	224,174	183,272	183,272	2,288
Made-to-order drama series production	5,178	–	–	–	84,906
Others	5,724	1,301	5,561	381	6,962
Total revenue from contracts with customers	<u>529,767</u>	<u>670,770</u>	<u>760,245</u>	<u>643,041</u>	<u>575,004</u>

Geographical markets

All of the Group's revenue was generated from customers located in Mainland China during the Relevant Periods and the six months ended 30 June 2019.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Timing of revenue recognition					
Goods transferred at a point in time	524,589	670,770	760,245	643,041	490,098
Services transferred over time	5,178	–	–	–	84,906
Total revenue from contracts with customers	<u>529,767</u>	<u>670,770</u>	<u>760,245</u>	<u>643,041</u>	<u>575,004</u>

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of each of the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue recognised that was included in contract liabilities at the beginning of each of the Relevant Periods	<u>17,640</u>	<u>77,048</u>	<u>41,758</u>	<u>39,088</u>	<u>227,548</u>

All revenue arising from made-to-order drama series production for each of the Relevant Periods was recognised from performance obligations partially satisfied in previous periods due to constraints on variable consideration.

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Licensing of the broadcasting rights of self-produced drama series

The performance obligation is satisfied as the broadcasting rights are authorised and the customer can begin exhibiting or selling the drama series and payment is generally due within three months to six months.

Licensing of the broadcasting rights of outright-purchased drama series

The performance obligation is satisfied as the broadcasting rights are authorised and payment is generally due within three months to six months.

Made-to-order drama series production

The performance obligation is satisfied as the drama series are complete in accordance with the terms of the contract and the customer can begin exhibiting or selling the drama series.

Others

The revenue received from the licensing of drama series' side products including games, advertisements, sale of script copyrights and others and payment is generally due within three months to six months.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2017, 2018 and 2019 and 30 June 2020 are as follows:.

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts expected to be recognised as revenue:				
Within one year	269,709	180,190	316,741	19,557
	<u>269,709</u>	<u>180,190</u>	<u>316,741</u>	<u>19,557</u>

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

An analysis of other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Government grants					
– related to income (<i>note</i>)	2,540	900	20,396	14,000	2,415
Bank interest income	706	613	407	200	314
Investment income from financial assets at fair value through profit or loss	637	49	–	–	–
Investment income from the co-investment arrangements in drama series	–	–	4,125	4,121	5
Interest income from loans receivable	125	2,849	9,415	3,958	6,788
Net foreign exchange differences	–	–	–	–	677
Gain on disposal of items of property, plant and equipment	–	–	–	–	152
Gain on disposal of an associate	–	–	–	–	56
Others	–	–	–	–	41
	4,008	4,411	34,343	22,279	10,448

Note:

The government grants mainly represent incentives awarded by the local governments to support the Group's operation. There were no unfulfilled conditions or contingencies attached to these government grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Cost of inventories sold		390,812	455,426	657,457	574,962	415,790
Depreciation of property, plant and equipment	13	348	846	1,179	575	632
Depreciation of right-of-use assets	14(a)	891	1,583	945	457	552
Amortisation of other intangible assets*	16	5	4	4	2	28,402
Government grants	5	(2,540)	(900)	(20,396)	(14,000)	(2,415)
Bank interest income	5	(706)	(613)	(407)	(200)	(314)
Interest income from loans receivable	5	(125)	(2,849)	(9,415)	(3,958)	(6,788)
Changes in fair value of financial liabilities at fair value through profit or loss		–	(936)	14,996	4,328	3,720
Lease payments not included in the measurement of lease liabilities	14(c)	317	240	1,088	602	425
Net foreign exchange differences	5	–	–	–	–	(677)
Listing expenses		–	–	–	–	12,087
Auditor's remuneration		189	1,095	219	200	276
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):						
Wages and salaries		775	1,450	2,124	999	1,466
Pension scheme contributions		158	210	222	124	42
Staff welfare expenses		208	163	343	243	126
		<u>1,141</u>	<u>1,823</u>	<u>2,689</u>	<u>1,366</u>	<u>1,634</u>
Loss/(gain) on disposal of items of property, plant and equipment		–	10	–	–	(152)
Impairment of trade receivables	20	3,826	1,909	1,528	936	5,887
Write-down of inventories to net realisable value**		–	13,820	–	–	–
		<u>–</u>	<u>13,820</u>	<u>–</u>	<u>–</u>	<u>–</u>

* The amortisation of other intangible assets is included in "Cost of sales" and "Administrative expenses" in the consolidated statements of profit or loss and other comprehensive income.

** Write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statements of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest on bank loans	1,100	2,182	2,597	753	3,145
Interest on other borrowings from third parties	64	332	557	245	864
Interest on other borrowings from an investor	21,578	23,422	–	–	–
Interest on borrowings from a related party	–	6,108	4,913	2,395	1,246
Interest on discounted notes receivable	–	466	124	119	–
Interest expense under the co-investment arrangements in drama series	–	2,282	1,467	1,463	226
Interest on lease liabilities	50	79	76	43	32
	<u>22,792</u>	<u>34,871</u>	<u>9,734</u>	<u>5,018</u>	<u>5,513</u>

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Liu Xiaofeng, Mr. Chen Chen, Ms. Zhang Qiuchen, and Ms. Zhai Fang were appointed as executive directors of the Company on 24 June 2020. Mr. Wang Xiaohui and Mr. Wang Jun were appointed as non-executive directors of the Company on 24 June 2020. Mr. Liu Xiaofeng was appointed as the chief executive of the Company on 24 June 2020.

Certain of the directors received remuneration from the subsidiary now comprising the Group for their appointment as directors of this subsidiary. The remuneration of the directors as recorded is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Fees	–	–	–	–	–
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	775	1,211	1,452	628	699
Pension scheme contributions	66	148	190	70	23
Equity-settled share award expense	–	41,951	–	–	2,146
	<u>841</u>	<u>43,310</u>	<u>1,642</u>	<u>698</u>	<u>2,868</u>

Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive director during the Relevant Periods and the six months ended 30 June 2019.

Executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2017					
Executive directors:					
Mr. Liu Xiaofeng	–	238	12	–	250
Mr. Chen Chen	–	184	12	–	196
Ms. Zhang Qiuchen	–	154	12	–	166
Ms. Zhai Fang	–	199	30	–	229
	–	775	66	–	841

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Year ended 31 December 2018

Executive directors:

Mr. Liu Xiaofeng	–	407	43	–	450
Mr. Chen Chen	–	298	32	–	330
Ms. Zhang Qiuchen	–	209	27	–	236
Ms. Zhai Fang	–	297	46	41,951	42,294
	–	1,211	148	41,951	43,310

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Year ended 31 December 2019

Executive directors:

Mr. Liu Xiaofeng	–	557	68	–	625
Mr. Chen Chen	–	387	50	–	437
Ms. Zhang Qiuchen	–	210	34	–	244
Ms. Zhai Fang	–	298	38	–	336
	–	1,452	190	–	1,642

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2019					
(unaudited)					
Executive directors:					
Mr. Liu Xiaofeng	–	227	19	–	246
Mr. Chen Chen	–	162	15	–	177
Ms. Zhang Qiuchen	–	89	15	–	104
Ms. Zhai Fang	–	150	21	–	171
	–	628	70	–	698

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2020					
Executive directors:					
Mr. Liu Xiaofeng	–	269	6	2,146	2,421
Mr. Chen Chen	–	190	6	–	196
Ms. Zhang Qiuchen	–	101	5	–	106
Ms. Zhai Fang	–	139	6	–	145
	–	699	23	2,146	2,868

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019.

During the Relevant Periods and the six months ended 30 June 2019, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the six months ended 30 June 2019 included four, four, four, four and four directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the Relevant Periods and the six months ended 30 June 2019 of the remaining one, one, one, one and one highest paid employee, respectively, who is neither a director nor chief executive of the Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, bonuses, allowances and benefits in kind	79	187	192	97	91
Pension scheme contributions	12	29	24	13	4
	<u>91</u>	<u>216</u>	<u>216</u>	<u>110</u>	<u>95</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				<i>(Unaudited)</i>	
Nil to HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

During the Relevant Periods and the six months ended 30 June 2019, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the Relevant Periods and the six months ended 30 June 2019.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Xin Jiang Kashgar/Horgos special economic areas during the period from 2010 to 2020 could enjoy Enterprise Income Tax ("EIT") exemption for five years starting from the year in which the first revenue was generated. Horgos Strawbear enjoyed the benefit under the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang 《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》，and was entitled to such EIT exemption for the year ended 31 December 2019. According to the Filing Record of Preferential EIT 《企業所得稅優惠事項備案表》，Horgos Strawbear obtained the approval from the PRC tax bureau for entitlement of EIT exemption from 1 January 2019 to 31 December 2023.

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law. Preferential tax treatment is available to Nova Film, since it was recognised as High and New Technology Enterprises, and was entitled to a preferential tax rate of 15% from 1 January 2016.

- (a) The major components of the income tax expense of the Group during the Relevant Periods and the six months ended 30 June 2019 are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Current – Mainland China charge for the year/period	30,551	39,357	27,474	17,834	29,601
Deferred tax (<i>note 29</i>)	(1,947)	(9,722)	(11,902)	(9,297)	(9,067)
Total tax charge for the year/period	<u>28,604</u>	<u>29,635</u>	<u>15,572</u>	<u>8,537</u>	<u>20,534</u>

- (b) A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Profit before tax	<u>92,634</u>	<u>40,148</u>	<u>65,972</u>	<u>46,335</u>	<u>74,662</u>
Tax at the statutory tax rate of 25% in Mainland China	23,159	10,037	16,493	11,584	18,666
Effect of tax rate differences in other jurisdictions	–	(234)	3,749	1,082	930
Tax effect of tax exemption granted to subsidiaries	–	–	(4,399)	(4,475)	–
Expenses not deductible for tax*	5,455	16,547	590	79	381
Adjustments to current income tax of previous years	–	–	(978)	–	–
Tax losses utilised from previous years	(10)	–	–	–	–
Tax losses not recognised	–	3,285	117	267	557
Tax charge at the Group's effective tax rate	<u>28,604</u>	<u>29,635</u>	<u>15,572</u>	<u>8,537</u>	<u>20,534</u>

* Expenses not deductible for tax mainly consist of equity-settled share award expense, excess of advertising and entertainment expenses over deduction limit and expenses without invoices. These expenses are not to be deductible for tax.

11. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Dividends	–	100,000	1,911	–	–

For the year ended 31 December 2018, a subsidiary of the Group, Jiangsu Strawbear, declared dividends of RMB100,000,000 to its then shareholders. The dividends have not been paid by 30 June 2020.

For the year ended 31 December 2019, a subsidiary of the Group, Jiangsu Blue Boiling Point Film and Culture Co., Ltd., which was deregistered on 20 December 2019, declared dividends of RMB1,911,000 to its then shareholder. The dividends with amounts of RMB1,911,000 were paid during the six months ended 30 June 2020.

No dividend has been paid or declared by the Company since its date of incorporation and up to 30 June 2020.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of the accountant's report, is not considered meaningful due to the Reorganisation and the basis of presentation of the Historical Financial Information of the Group for the Relevant Periods and the six months ended 30 June 2019 as disclosed in note 2.1 to the Historical Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment	Vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017						
At 1 January 2017:						
Cost	59	1,487	11	–	–	1,557
Accumulated depreciation	(13)	(197)	(6)	–	–	(216)
Net carrying amount	46	1,290	5	–	–	1,341
At 1 January 2017, net of accumulated depreciation						
Additions	27	608	–	–	–	635
Depreciation provided during the year	(16)	(328)	(4)	–	–	(348)
At 31 December 2017, net of accumulated depreciation	57	1,570	1	–	–	1,628
At 31 December 2017:						
Cost	86	2,095	11	–	–	2,192
Accumulated depreciation	(29)	(525)	(10)	–	–	(564)
Net carrying amount	57	1,570	1	–	–	1,628

	Electronic equipment	Vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018						
At 1 January 2018:						
Cost	86	2,095	11	–	–	2,192
Accumulated depreciation	(29)	(525)	(10)	–	–	(564)
Net carrying amount	57	1,570	1	–	–	1,628
At 1 January 2018, net of accumulated depreciation						
	57	1,570	1	–	–	1,628
Additions	94	1,412	43	603	–	2,152
Disposals	(13)	–	–	–	–	(13)
Depreciation provided during the year	(23)	(617)	(5)	(201)	–	(846)
At 31 December 2018, net of accumulated depreciation	115	2,365	39	402	–	2,921
At 31 December 2018:						
Cost	157	3,507	43	603	–	4,310
Accumulated depreciation	(42)	(1,142)	(4)	(201)	–	(1,389)
Net carrying amount	115	2,365	39	402	–	2,921
31 December 2019						
At 1 January 2019:						
Cost	157	3,507	43	603	–	4,310
Accumulated depreciation	(42)	(1,142)	(4)	(201)	–	(1,389)
Net carrying amount	115	2,365	39	402	–	2,921
At 1 January 2019, net of accumulated depreciation						
	115	2,365	39	402	–	2,921
Additions	27	–	103	–	–	130
Acquisition of a subsidiary (note 33(a))	72	345	165	211	–	793
Depreciation provided during the year	(50)	(733)	(74)	(322)	–	(1,179)
At 31 December 2019, net of accumulated depreciation	164	1,977	233	291	–	2,665
At 31 December 2019:						
Cost	411	4,254	526	1,263	–	6,454
Accumulated depreciation	(247)	(2,277)	(293)	(972)	–	(3,789)
Net carrying amount	164	1,977	233	291	–	2,665

	Electronic equipment	Vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2020						
At 1 January 2020:						
Cost	411	4,254	526	1,263	–	6,454
Accumulated depreciation	(247)	(2,277)	(293)	(972)	–	(3,789)
Net carrying amount	164	1,977	233	291	–	2,665
At 1 January 2020, net of accumulated depreciation						
	164	1,977	233	291	–	2,665
Additions	–	916	8	451	269	1,644
Acquisition of a subsidiary (note 33(b))	3,829	–	287	32	2,604	6,752
Disposals	–	(62)	–	–	–	(62)
Depreciation provided during the period	(35)	(389)	(42)	(166)	–	(632)
At 30 June 2020, net of accumulated depreciation	3,958	2,442	486	608	2,873	10,367
At 30 June 2020:						
Cost	13,049	4,603	1,624	1,768	2,873	23,917
Accumulated depreciation	(9,091)	(2,161)	(1,138)	(1,160)	–	(13,550)
Net carrying amount	3,958	2,442	486	608	2,873	10,367

14. LEASES**The Group as a lessee**

The Group has lease contracts for office premises used in its operations. Leases of office premises generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Office premises
	<u>RMB'000</u>
As at 1 January 2017	1,496
Additions	2,708
Depreciation provided during the year (<i>note 6</i>)	<u>(891)</u>
As at 31 December 2017 and at 1 January 2018	3,313
Depreciation provided during the year (<i>note 6</i>)	<u>(1,583)</u>
As at 31 December 2018 and at 1 January 2019	1,730
Additions	109
Depreciation provided during the year (<i>note 6</i>)	<u>(945)</u>
As at 31 December 2019 and at 1 January 2020	894
Additions	3,638
Additions as a result of acquisition of a subsidiary (<i>note 33(b)</i>)	91
Depreciation provided during the period (<i>note 6</i>)	<u>(552)</u>
At 30 June 2020	<u><u>4,071</u></u>

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	<u>As at 31 December</u>			As at
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>30 June</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	1,419	2,872	1,379	509
New leases	2,252	–	109	3,638
Additions as a result of acquisition of a subsidiary (<i>note 33(b)</i>)	–	–	–	91
Accretion of interest recognised during the year/period	50	79	76	32
Payments	<u>(849)</u>	<u>(1,572)</u>	<u>(1,055)</u>	<u>(500)</u>
Carrying amount at end of year/period	<u><u>2,872</u></u>	<u><u>1,379</u></u>	<u><u>509</u></u>	<u><u>3,770</u></u>
Analysed into:				
Current portion	1,493	907	509	896
Non-current portion	<u>1,379</u>	<u>472</u>	<u>–</u>	<u>2,874</u>

The maturity analysis of lease liabilities is disclosed in note 40 to the Historical Financial Information.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest on lease liabilities	50	79	76	43	32
Depreciation charge of right-of-use assets	891	1,583	945	457	552
Expenses relating to short term leases (included in administrative expenses)	317	240	1,088	602	425
Total amount recognised in profit or loss	<u>1,258</u>	<u>1,902</u>	<u>2,109</u>	<u>1,102</u>	<u>1,009</u>

(d) The total cash outflow for leases is disclosed in note 35 to the Historical Financial Information.

15. GOODWILL

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cost and carrying amount at beginning of year/period	–	–	–	108,341
Acquisition of a subsidiary (<i>note 33</i>)	–	–	108,341	4,642
Cost and net carrying amount at end of year/period	<u>–</u>	<u>–</u>	<u>108,341</u>	<u>112,983</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- (a) Hangzhou Yide cash-generating unit which is engaged in the production of drama series; and
- (b) Nova Film cash-generating unit which is engaged in special effects editing and other post-production work for films and drama series.

The recoverable amounts of the Hangzhou Yide cash-generating unit and Nova Film cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The pre-tax discount rate applied to cash flow projections and the growth rate, gross profit margin and annual revenue growth rate used to extrapolate the cash flows of the Hangzhou Yide cash-generating unit and Nova Film cash-generating unit beyond the five-year period are as follows:

Hangzhou Yide cash-generating unit

	As at 31 December 2019	As at 30 June 2020
	%	%
Gross profit margin	14	14
Terminal growth rate	3	3
Pre-tax discount rate	20.9	19.1

Nova Film cash-generating unit

	As at 30 June 2020
	%
Annual revenue growth rate	7.5
Terminal growth rate	3
Pre-tax discount rate	19.6

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As at 31 December 2019	As at 30 June 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Hangzhou Yide cash-generating unit	108,341	108,341
Nova Film cash-generating unit	–	4,642
Total	108,341	112,983

Key assumptions used in the value in use calculation

The calculation of value in use is based on the following assumptions:

Cash-generating units	Key assumptions
Hangzhou Yide	<ul style="list-style-type: none"> • Gross profit margin and operating expenses • Pre-tax discount rates • Growth rates
Nova Film	<ul style="list-style-type: none"> • Annual revenue growth rate • Pre-tax discount rates • Growth rates

Gross profit margin and operating expenses – Gross profit margin are based on the average gross profit margin achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect management's commitment to maintain them at an acceptable level.

Annual revenue growth rate – the predicted revenue growth rate for the five years subsequent to the date of assessment is based on the historical data and management's expectation on the future market.

Pre-tax discount rates – the rates reflect management's estimate of the risks specific to the unit.

Growth rates – the rates are based on published industry research.

The values assigned to the key assumptions on gross profit margin and operating expenses, annual revenue growth rate, discount rates and growth rates are consistent with management's past experience and external information sources.

As at 31 December 2019, the recoverable amount of Hangzhou Yide cash-generating unit to which goodwill is allocated exceeded its carrying amount by RMB39,306,000. As at 30 June 2020, the recoverable amounts of Hangzhou Yide cash-generating unit and Nova Film cash-generating unit to each of which goodwill is allocated exceeded their carrying amounts by RMB13,079,000 and RMB114,000, respectively. The directors did not identify an impairment for goodwill.

Hangzhou Yide cash-generating unit

Decreases in the gross profit margin and operating expenses or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Hangzhou Yide cash-generating unit's recoverable amount equal to its carrying amount:

	As at 31 December 2019	As at 30 June 2020
	%	%
Gross profit margin and operating expenses	3.02	1.13
Pre-tax discount rate	6.54	1.50

Nova Film cash-generating unit

Decreases in the annual revenue growth rate or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Nova Film cash-generating unit's recoverable amount equal to its carrying amount:

	As at 30 June 2020
	%
Annual revenue growth rate	0.04
Pre-tax discount rate	0.07

In the opinion of the directors, except for the above, any reasonably possible change in the other key assumptions on which the recoverable amounts are based would not cause any of the cash-generating units' carrying amounts to exceed their recoverable amounts as at 31 December 2019 and 30 June 2020.

16. OTHER INTANGIBLE ASSETS

	<u>Software</u>	<u>Trademarks</u>	<u>Backlog</u>	<u>Patents</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2017					
At 1 January 2017:					
Cost	3	30	–	–	33
Accumulated amortisation	–	–	–	–	–
Net carrying amount	<u>3</u>	<u>30</u>	<u>–</u>	<u>–</u>	<u>33</u>
Cost at 1 January 2017, net of accumulated amortisation	3	30	–	–	33
Amortisation provided during the year	(1)	(4)	–	–	(5)
At 31 December 2017	<u>2</u>	<u>26</u>	<u>–</u>	<u>–</u>	<u>28</u>
At 31 December 2017:					
Cost	3	30	–	–	33
Accumulated amortisation	(1)	(4)	–	–	(5)
Net carrying amount	<u>2</u>	<u>26</u>	<u>–</u>	<u>–</u>	<u>28</u>
31 December 2018					
At 1 January 2018:					
Cost	3	30	–	–	33
Accumulated amortisation	(1)	(4)	–	–	(5)
Net carrying amount	<u>2</u>	<u>26</u>	<u>–</u>	<u>–</u>	<u>28</u>
Cost at 1 January 2018, net of accumulated amortisation	2	26	–	–	28
Amortisation provided during the year	(1)	(3)	–	–	(4)
At 31 December 2018	<u>1</u>	<u>23</u>	<u>–</u>	<u>–</u>	<u>24</u>
At 31 December 2018:					
Cost	3	30	–	–	33
Accumulated amortisation	(2)	(7)	–	–	(9)
Net carrying amount	<u>1</u>	<u>23</u>	<u>–</u>	<u>–</u>	<u>24</u>

	Software	Trademarks	Backlog	Patents	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019					
At 1 January 2019:					
Cost	3	30	–	–	33
Accumulated amortisation	(2)	(7)	–	–	(9)
Net carrying amount	<u>1</u>	<u>23</u>	<u>–</u>	<u>–</u>	<u>24</u>
Cost at 1 January 2019, net of accumulated amortisation	1	23	–	–	24
Acquisition of a subsidiary (note 33(a))	–	–	42,900	–	42,900
Amortisation provided during the year	(1)	(3)	–	–	(4)
At 31 December 2019	<u>–</u>	<u>20</u>	<u>42,900</u>	<u>–</u>	<u>42,920</u>
At 31 December 2019:					
Cost	3	30	42,900	–	42,933
Accumulated amortisation	(3)	(10)	–	–	(13)
Net carrying amount	<u>–</u>	<u>20</u>	<u>42,900</u>	<u>–</u>	<u>42,920</u>
30 June 2020					
At 1 January 2020:					
Cost	3	30	42,900	–	42,933
Accumulated amortisation	(3)	(10)	–	–	(13)
Net carrying amount	<u>–</u>	<u>20</u>	<u>42,900</u>	<u>–</u>	<u>42,920</u>
Cost at 1 January 2020, net of accumulated amortisation	–	20	42,900	–	42,920
Acquisition of a subsidiary (note 33(b))	382	–	–	12,300	12,682
Amortisation provided during the period	–	(2)	(28,400)	–	(28,402)
At 30 June 2020	<u>382</u>	<u>18</u>	<u>14,500</u>	<u>12,300</u>	<u>27,200</u>
At 30 June 2020:					
Cost	587	30	42,900	12,300	55,817
Accumulated amortisation	(205)	(12)	(28,400)	–	(28,617)
Net carrying amount	<u>382</u>	<u>18</u>	<u>14,500</u>	<u>12,300</u>	<u>27,200</u>

At 30 June 2020, the Group's patents with a net carrying amount of approximately RMB12,300,000 was pledged to secure bank loan facilities granted to the Group (note 28).

17. INVESTMENT IN A JOINT VENTURE

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Share of net assets	–	–	14,000	14,000

The Group's balances and transactions with the joint venture are disclosed in note 37 to the Historical Financial Information.

Particulars of the joint venture are as follows:

Name	Place and date of incorporation and business	Nominal value of issued/registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Nanjing Huawen Strawbear Culture Partnership (Limited Partnership) ("Nanjing Huawen")	PRC/Mainland China 29 November 2019	RMB71,000,000	19.72%	Production of drama series

Nanjing Huawen is accounted for as a joint venture considering that the decisions about the key operating activities of Nanjing Huawen require the unanimous consent of all of its investors.

18. INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Share of net assets	–	300	300	–

The Group's balances of prepayments, other receivables and other assets and transactions with the associate are disclosed in notes 21 and 37 to the Historical Financial Information, respectively.

The associate was disposed of by the Group to a third party at a cash consideration of RMB356,000 in May 2020, resulting in a net gain on disposal of RMB56,000.

Particulars of the associate are as follows:

Name	Place and date of incorporation and place of business	Nominal value of issued/registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Wuxi Youkong Yinghua Culture Media Co., Ltd. ("Wuxi Youkong")	PRC/ Mainland China 1 November 2017	RMB1,500,000	20%	Screenplay development and assessment

19. INVENTORIES

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Raw materials	19,916	25,882	60,873	69,523
Work in progress	102,750	308,351	462,944	494,138
Finished goods	191,843	202,431	395,302	117,460
	<u>314,509</u>	<u>536,664</u>	<u>919,119</u>	<u>681,121</u>

20. TRADE AND NOTES RECEIVABLES

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Trade receivables	293,481	178,301	491,881	769,006
Notes receivable	1,000	7,000	–	20,000
	<u>294,481</u>	<u>185,301</u>	<u>491,881</u>	<u>789,006</u>
Impairment	(4,630)	(4,957)	(6,485)	(12,372)
	<u>289,851</u>	<u>180,344</u>	<u>485,396</u>	<u>776,634</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally 15 to 365 days, depending on the specific payment terms in each contract. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the transaction dates and net of loss allowance, is as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Within 3 months	141,952	76,738	340,901	373,644
3 to 6 months	49,740	–	817	2,820
6 to 12 months	51,793	920	125,626	297,513
1 to 2 years	45,366	66,919	12,882	82,420
2 to 3 years	–	28,767	5,170	237
	<u>288,851</u>	<u>173,344</u>	<u>485,396</u>	<u>756,634</u>

An impairment analysis is performed at the end of each of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates are based on ageing and past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the Relevant Periods about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2017

	Trade receivables ageing					Total
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	More than 3 years and past due	
Expected credit loss rate	<i>Note (a)</i>	1.00%	6.70%	–	–	1.58%
Gross carrying amount RMB'000	107,843	137,012	48,626	–	–	293,481
Expected credit losses RMB'000	–	1,370	3,260	–	–	4,630

As at 31 December 2018

	Trade receivables ageing					Total
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	More than 3 years and past due	
Expected credit loss rate	<i>Note (a)</i>	<i>Note (a)</i>	1.65%	11.76%	–	2.78%
Gross carrying amount RMB'000	25,663	51,995	68,043	32,600	–	178,301
Expected credit losses RMB'000	–	–	1,124	3,833	–	4,957

As at 31 December 2019

	Trade receivables ageing					Total
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	More than 3 years and past due	
Expected credit loss rate	<i>Note (a)</i>	<i>Note (a)</i>	2.07%	12.43%	100.00%	1.32%
Gross carrying amount RMB'000	114,892	358,674	6,801	5,904	5,610	491,881
Expected credit losses RMB'000	–	–	141	734	5,610	6,485

As at 30 June 2020

	Trade receivables ageing					Total
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	More than 3 years and past due	
Expected credit loss rate	<i>Note (a)</i>	<i>Note (a)</i>	2.23%	81.43%	100.00%	1.61%
Gross carrying amount RMB'000	349,115	331,084	77,934	1,276	9,597	769,006
Expected credit losses RMB'000	–	–	1,736	1,039	9,597	12,372

Note:

- (a) The Group estimated the expected credit loss rate to be minimal on the current trade receivables and trade receivables aged less than 1 year and past due.

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	804	4,630	4,957	6,485
Impairment losses recognised (<i>note 6</i>)	3,826	1,909	1,528	5,887
Amount written off as uncollectible	–	(1,582)	–	–
At end of year/period	<u>4,630</u>	<u>4,957</u>	<u>6,485</u>	<u>12,372</u>

Included in the Group's trade receivables were amounts due from the Group's related parties of RMB37,960,000, nil, RMB270,522,000 and RMB360,772,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which were repayable on credit terms similar to those offered to the major customers of the Group.

The Group's notes receivable were all aged within one year and were neither past due nor impaired.

As at 31 December 2019 and 30 June 2020, the Group's trade receivables with an aggregate net carrying value of approximately RMB120,000,000 and RMB120,000,000, respectively, were pledged to secure the bank loans granted to the Group (note 28).

As at 31 December 2017, 2018 and 2019 and 30 June 2020, notes receivable of RMB1,000,000, RMB7,000,000, nil and RMB20,000,000, respectively, whose fair values approximate to their carrying values were classified as financial assets through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant during the Relevant Periods.

At 31 December 2017, 2018 and 2019 and 30 June 2020, certain notes receivable accepted by banks in Mainland China (the "Discounted Notes") were discounted to the banks in Mainland China with a carrying amount in aggregate of nil, RMB5,000,000, nil and nil, respectively. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has not transferred substantially all risks and rewards relating to the Discounted Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Discounted Notes and the undiscounted cash flows to repurchase these Discounted Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Discounted Notes are not significant. During the Relevant Periods, the Group recognised the interest expense on the discounted notes receivable amounting to nil, RMB466,000, RMB124,000 and nil, respectively.

The Group recognised the proceeds received from the discount of the remaining Discounted Notes with amounts of nil, RMB5,000,000, nil and nil as short-term loans as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively (note 28), because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Discounted Notes.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Prepayments under the co-investment arrangements	19,670	4,331	45,448	74,397
Prepayments (note a)	44,229	114,477	113,041	99,728
Deductible input value-added tax	12,965	23,782	13,244	2,791
Deposits and other receivables	7,117	6,648	8,493	4,082
Prepaid listing expenses	–	–	–	3,687
Loans receivable (note b)	–	95,260	160,680	69,327
	<u>83,981</u>	<u>244,498</u>	<u>340,906</u>	<u>254,012</u>

Notes:

- (a) Included in the prepayments, other receivables and other assets are prepayments to the Group's related parties of RMB724,000, RMB3,490,000, RMB3,310,000 and RMB3,310,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.
- (b) Loans receivable represent the financial investments in certain drama series and loans provided to third parties. Included in the loans receivable, nil, RMB79,766,000, RMB116,126,000 and RMB35,862,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, were the financial investments in certain drama series provided to third parties. The Group made an investment in certain drama series under arrangements, under which the Group is entitled to a fixed investment return based on the principal investment amount, agreed rate of return and investment period rather than exposure to the risk of variable returns of the invested drama series. The remaining balances represent loans provided to third parties.

As at 31 December 2018

	Effective interest rate	Maturity	RMB'000
Denominated in RMB	13%	On demand	29,766
Denominated in RMB	10%	On demand	50,000

As at 31 December 2019

	Effective interest rate	Maturity	RMB'000
Denominated in RMB	13%	On demand	29,766
Denominated in RMB	12%	31 December 2020	15,600
Denominated in RMB	12%	On demand	70,760

As at 30 June 2020

	Effective interest rate	Maturity	RMB'000
Denominated in RMB	12%	31 December 2020	15,600
Denominated in RMB	12%	On demand	20,262

An impairment analysis was performed at the end of each of the Relevant Periods. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group estimated that the expected loss rate for loans receivable, deposits and other receivables was minimal under the 12-month expected credit loss method.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at fair value	20,000	–	–	–

The above unlisted investments were wealth management products issued by licensed financial institutions in Mainland China with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

23. RESTRICTED CASH

At 31 December 2017, 2018 and 2019 and 30 June 2020, restricted bank balances of nil, nil, RMB54,312,000 and RMB18,000, respectively, represent the cash in a bank account received from the joint venture for the production of drama series, which shall only be used with the consent from the joint venture and the Group.

24. CASH AND CASH EQUIVALENTS

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	131,758	97,255	52,349	83,295
Time deposits	21,500	–	–	–
Cash and cash equivalents	153,258	97,255	52,349	83,295

The Company

	As at 31 December		As at
	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2020
			<i>RMB'000</i>
Cash and bank balances	3	5	7
Cash and cash equivalents	<u>3</u>	<u>5</u>	<u>7</u>

At 31 December 2017, 2018 and 2019 and 30 June 2020, all of the cash and cash equivalents of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

25. INVESTMENT IN A SUBSIDIARY**The Company**

	As at 31 December		As at
	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2020
			<i>RMB'000</i>
Unlisted shares, at cost	41,951	41,951	44,097
	<u>41,951</u>	<u>41,951</u>	<u>44,097</u>

Particulars of the subsidiary are set out in note 1.

26. TRADE PAYABLES

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Trade payables	189,570	236,863	449,190	425,521
	<u>189,570</u>	<u>236,863</u>	<u>449,190</u>	<u>425,521</u>

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	186,293	123,388	284,097	67,657
3 to 6 months	989	–	34,075	23,723
6 to 12 months	–	32,957	106,040	305,276
1 to 2 years	2,288	78,230	14,770	17,052
2 to 3 years	–	2,288	7,920	11,798
Over 3 years	–	–	2,288	15
	<u>189,570</u>	<u>236,863</u>	<u>449,190</u>	<u>425,521</u>

Included in the trade payables were trade payables of RMB2,288,000, RMB55,960,000, RMB64,626,000 and RMB37,367,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, due to the Group's related parties which were repayable within 120 days, which represented credit terms similar to those offered by the related parties to their major customers.

The trade payables are non-interest-bearing and are normally settled on 90 to 365 days' terms.

27. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Amount received under the co-investment arrangements				
– with share of copyrights	52,678	–	–	–
Amount received under the co-investment arrangements				
– without share of copyrights	19,012	58,000	1,272	1,229
Advances from a customer	–	–	–	301
Other payables (note a)	4,840	11,775	84,264	78,385
Other tax payables	1,324	20,795	21,747	22,924
Interest payable	1,835	1,036	1,370	349
Payroll and welfare payable	11	375	347	319
Accrued liabilities	18,228	43,693	89,773	93,887
Contract liabilities (note b)	79,966	41,823	535,762	405,414
	<u>177,894</u>	<u>177,497</u>	<u>734,535</u>	<u>602,808</u>

Notes:

- (a) Other payables are non-interest-bearing and repayable on demand.
- (b) Details of contract liabilities are as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<i>Short-term advances received from customers</i>				
Licensing of the broadcasting rights of self-produced drama series	51,840	–	142,642	50
Licensing of the broadcasting rights of outright-purchased drama series	24,057	39,153	–	–
Made-to-order drama series production	–	–	393,120	403,053
Others	4,069	2,670	–	2,311
	<u>79,966</u>	<u>41,823</u>	<u>535,762</u>	<u>405,414</u>
Total contract liabilities	<u>79,966</u>	<u>41,823</u>	<u>535,762</u>	<u>405,414</u>

Contract liabilities include short-term advances received from the licensing of broadcasting rights of self-produced drama series, licensing of the broadcasting rights of outright-purchased drama series, made-to-order drama series production and others.

Included in contract liabilities are advances received from the Group's related parties of RMB58,632,000, RMB6,792,000, RMB535,762,000 and RMB363,430,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	31 December 2017
			RMB'000
Current			
Bank loans – secured (<i>note a</i>)	4.35	2018	30,000
Other borrowings – unsecured (<i>note e, f</i>)	20.00	On demand	5,000
Other borrowings – unsecured (<i>note e, f</i>)	15.00	2018	8,000
			<u>43,000</u>
Non-current			
Other borrowings – unsecured (<i>note g</i>)	12.00	2022	246,578
			<u>289,578</u>

	Effective interest rate (%)	Maturity	31 December 2018
			<i>RMB'000</i>
Current			
Bank loans – secured (<i>note b</i>)	4.35	2019	30,000
Bank loans – secured (<i>note b</i>)	3.75	2019	5,000
Other borrowings – unsecured (<i>note e, f</i>)	10.00	2019	10,000
Other borrowings – unsecured (<i>note e, f</i>)	10.72	2019	21,000
			<u>66,000</u>

	Effective interest rate (%)	Maturity	31 December 2019
			<i>RMB'000</i>
Current			
Bank loans – secured (<i>note c</i>)	5.66	2020	110,000
Other borrowings – unsecured (<i>note e, f</i>)	10.00	2020	5,000
Other borrowings – unsecured (<i>note e, f</i>)	12.00	2020	10,000
			<u>125,000</u>

	Effective interest rate (%)	Maturity	30 June 2020
			<i>RMB'000</i>
Current			
Bank loans – secured (<i>note c</i>)	5.66	2020	110,000
Bank loans – secured (<i>note d</i>)	4.79	2020	10,500
Bank loans – secured (<i>note d</i>)	5.00	2020	5,000
Bank loans – secured (<i>note d</i>)	5.22	2021	10,000
Other borrowings – unsecured (<i>note e, f</i>)	10.00	2020	5,000
			<u>140,500</u>

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	30,000	35,000	110,000	135,500
Other borrowings repayable:				
Within one year or on demand	13,000	31,000	15,000	5,000
In the sixth year	246,578	–	–	–
	259,578	31,000	15,000	5,000
	289,578	66,000	125,000	140,500

Notes:

(a) As at 31 December 2017, the shareholder, namely Mr. Liu Xiaofeng, had guaranteed certain of the Group's bank loans up to RMB30,000,000.

(b) As at 31 December 2018, the Group's notes receivable, which had an aggregate net carrying value of approximately RMB5,000,000 were pledged to secure the bank loans granted to the Group (note 20).

In addition, the shareholder, namely Mr. Liu Xiaofeng, had guaranteed certain of the Group's bank loans up to RMB30,000,000 as at 31 December 2018.

(c) As at 31 December 2019 and 30 June 2020, the Group's trade receivables, which had an aggregate net carrying value of approximately RMB120,000,000 and RMB120,000,000, respectively, were pledged to secure the Group's bank loans up to RMB80,000,000 (note 20).

In addition, the shareholder, namely Mr. Liu Xiaofeng, had guaranteed certain of the Group's bank loans up to RMB110,000,000 and RMB110,000,000 as at 31 December 2019 and 30 June 2020, respectively.

The Group's bank loans up to RMB80,000,000 were guaranteed by subsidiaries as at 31 December 2019 and 30 June 2020.

(d) As at 30 June 2020, the former shareholders and their close family of Nova Film had guaranteed certain of the Group's bank loans up to RMB25,500,000, RMB25,500,000, RMB15,500,000, RMB11,000,000 and RMB10,500,000, respectively.

In addition, the amounts of RMB6,000,000 of bank loans were secured by a mortgage over the real estate owned by the former shareholder and his close family of Nova Film as at 30 June 2020.

The amounts of RMB6,000,000 of bank loans were secured by a mortgage over the Group's patents which had an aggregate net carrying value of approximately RMB12,300,000 as at 30 June 2020 (note 16).

(e) The Group's other borrowings as at 31 December 2017, 2018 and 2019 and 30 June 2020 were unsecured and repayable within one year.

(f) Included in the Group's other borrowings, RMB13,000,000, RMB31,000,000, RMB15,000,000 and RMB5,000,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, were the financial investments in certain drama series received from the third party investors.

(g) As at 31 December 2017, other borrowings of RMB246,578,000 represented financial liabilities derived from the equity investment in Jiangsu Strawbear by Hainan Alibaba Pictures Entertainment Industry Investment Fund (Limited Partnership) with a redemption right under certain circumstances, which is recorded at amortised cost.

- (h) As planned by the Company and its shareholder, namely Mr. Liu Xiaofeng, all guarantees provided by Mr. Liu Xiaofeng for the Group's bank loans have been fully released in August and November 2020.
- (i) All guarantees and mortgages provided by the former shareholders and their close family of Nova Film have been fully released in October, November and December 2020.

29. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Impairment of trade receivables	Accrued expenses	Write-down of inventories	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2017	201	3,274	1,007	4,482
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	<u>957</u>	<u>1,282</u>	<u>(292)</u>	<u>1,947</u>
At 31 December 2017 and 1 January 2018	1,158	4,556	715	6,429
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	<u>81</u>	<u>6,368</u>	<u>3,273</u>	<u>9,722</u>
At 31 December 2018 and 1 January 2019	1,239	10,924	3,988	16,151
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	<u>382</u>	<u>11,520</u>	<u>–</u>	<u>11,902</u>
At 31 December 2019 and 1 January 2020	1,621	22,444	3,988	28,053
Deferred tax credited/(charged) to profit or loss during the period (<i>note 10</i>)	<u>1,472</u>	<u>1,028</u>	<u>(533)</u>	<u>1,967</u>
At 30 June 2020	<u><u>3,093</u></u>	<u><u>23,472</u></u>	<u><u>3,455</u></u>	<u><u>30,020</u></u>

Deferred tax liabilities

	As at 31 December			As at 30 June 2020
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	–	–	–	14,012
Fair value adjustments arising from acquisition of a subsidiary (<i>note 33</i>)	–	–	14,012	1,764
Deferred tax credited to profit or loss during the year/period (<i>note 10</i>)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,100)</u>
At end of year/period	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>14,012</u></u>	<u><u>8,676</u></u>

The Group has tax losses arising in Mainland China of nil, RMB13,140,000, RMB13,608,000 and RMB15,836,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At the end of each of the Relevant Periods, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB172,691,000, RMB84,186,000, RMB148,466,000 and RMB200,062,000 at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

30. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On 29 November 2018, the Company issued Series Seed redeemable preferred shares ("Series A") to a third party investor, Taurus Holding Ltd., ("Taurus Holding"), at a consideration of US\$40,000,000 (equivalent to RMB275,461,000). On 21 May 2020, the Company issued and allotted 26,720,000 Series A of a par value of US\$0.000025 each to Taurus Holding at a consideration of US\$15,139,000 (equivalent to RMB108,250,000).

The key terms of the preferred shares are summarised as follows:

(1) Pre-emptive right to purchase

Each holder of Series A Shares shall have the pre-emptive right to purchase such Pre-emptive Rights Holder's Pro Rata Share of all (or any part) of any New Securities that the Company may from time to time issue after the date of the Shareholders Agreement.

(2) Conversion

Unless converted earlier pursuant to (a) below, each holder of Series A Shares shall have the right, at such holder's sole discretion, to convert all or any portion of the holder's Series A Shares into Ordinary Shares at any time. The conversion rate for the Series A Shares shall be determined by dividing the Series A Issue Price for each of the Series A Shares by its conversion price. The conversion price for each of the Series A Shares, subject to adjustments from time to time in accordance with the provisions hereof, is referred to hereinafter as the "Conversion Price". The initial Conversion Price for each of the Series A Shares shall be its Series A Issue Price of US\$22,662.89 per shares.

- (a) Subject to and in compliance with the provisions of the conversion, any Series A Share may, at the option of its holder, be converted at any time into fully-paid and non-assessable Ordinary Shares based on the then-effective Conversion Price.
- (b) Without any action being required by the holder of such Series A Share and whether or not the certificates representing such Series A Share are surrendered to the Company or its transfer agent, each of the Series A Shares shall automatically be converted into Ordinary Shares, at the then Conversion Price, upon the earlier of: (i) the date specified by written consent or agreement of the holders of at least a majority of the Series A Shares then outstanding, and (ii) the closing of a Qualified Public Offering. In the event of the automatic conversion of the Series A Shares upon a Qualified Public Offering as aforesaid, the Person(s) entitled to receive the Ordinary Shares issuable upon such conversion of Series A Shares shall not be deemed to have converted such Series A Shares until immediately prior to the closing of such Qualified Public Offering.

(3) Redemption

Notwithstanding anything to the contrary herein, at any time upon or following the occurrence of any of the following events: (i) a Qualified Public Offering shall not have been closed prior to the fifth (5th) anniversary of the Series A Closing; (ii) prior to the consummation of a Qualified Public Offering, the Founder ceases to be employed by any Group Company or to devote his full time, attention and efforts to the business of the Group Companies for any reason and within 30 days upon occurrence of any such event, the Founder and Taurus Holding have not reached a written agreement regarding solution with respect to such event; (iii) prior to the consummation of a Qualified Public Offering, seventy-five percent (75%) of the Key Persons (other than the Founder) terminates his/her employment with any Group Company, or any Group Company terminates the seventy-five percent (75%) of the Key Persons' (other than the Founder) employment for cause; (iv) any Group Company, the Founder or any of the Key Persons breaches any obligation about non-competition and full time commitment; or (v) any Group Company or the Founder directly or indirectly issues or transfers any Shares to any Taurus Holding Competitor or any of its Affiliates or direct or indirect shareholders.

The price at which each Series A Share shall be redeemed or acquired shall be equal to the greater of: the fair market value of such Series A Shares on a per Share basis as of the date of the Redemption Request; or Series A Issue Price*(1+10%*N), plus all declared but unpaid dividends per share thereon up to the date of redemption, proportionally adjusted for share subdivisions, share dividends, reorganisations, reclassifications, consolidations or mergers; N = a fraction the numerator of which is the number of calendar days between the Series A Original Issue Date and the relevant redemption date on which such Series A Share is redeemed and the denominator of which is 365.

(4) Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the assets of the Company available for distribution shall be distributed to the shareholders of the Company as follows:

- (a) The holders of the Series A Shares shall be entitled to receive, prior to any distribution to the holders of any other class or series of Shares, an amount per Series A Share equal to 110% of the Series A Issue Price plus any declared but unpaid dividends (the "Series A Preference Amount"). In the event that the Company has insufficient assets to permit payment of the Series A Preference Amount in full to all holders of Series A Shares, then the assets of the Company shall be distributed ratably to the holders of the Series A Shares in proportion to the Series A Preference Amount each such holder of Series A Shares would otherwise be entitled to receive.
- (b) Subject to the payment of all amounts due to the holders of the Series A Shares in accordance with (a) above, the balance of the assets of the Company available for distribution shall be distributed ratably to the holders of Shares (on an as-converted basis).

	Total
	<i>RMB'000</i>
As at 3 January 2018 (date of incorporation)	–
Issue of preferred shares	275,461
Changes in fair value	(936)
	<hr/>
As at 31 December 2018 and 1 January 2019	274,525
Changes in fair value	14,996
	<hr/>
As at 31 December 2019 and 1 January 2020	289,521
Issue of preferred shares	108,250
Changes in fair value	3,720
	<hr/>
As at 30 June 2020	401,491

The Company has used the Market Approach or Backsolve Method when applicable to determine the underlying share value of the Company and adopted the equity allocation model to determine the fair value of the preferred shares as of the dates of issuance and as at 31 December 2018 and 2019 and 30 June 2020.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2019 and 30 June 2020.

Significant unobservable inputs

	As at 31 December		As at
	2018	2019	30 June 2020
Time to IPO	2023/11/29	2023/11/29	2020/12/31
Time to liquidation/redemption	2023/11/29	2023/11/29	2023/11/29
Risk-free rate	3.32%	2.63%	1.53%
Equity volatility – IPO	54%	41%	50%
Equity volatility – liquidation/redemption	54%	41%	41%
DLOM – Series A	16%	11%	7%

Quantitative sensitivity analysis

	As at 31 December		As at
	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000
1 year increase in time to exit event	(7,503)	(2,150)	(657)
1% increase in risk-free rate	(5,911)	(5,435)	(6,246)
1% decrease in risk-free rate	6,880	6,226	6,229
10% increase in equity volatility	(14,726)	(6,794)	(7,405)
10% decrease in equity volatility	13,968	4,266	3,747
5% increase in DLOM	(16,095)	(16,014)	(21,639)
5% decrease in DLOM	16,095	16,014	21,639

31. SHARE CAPITAL

	As at 31 December		As at
	2018	2019	30 June 2020
	US\$'000	US\$'000	US\$'000
Authorised:			
50,000 ordinary shares of US\$1 each	50	50	–
2,000,000,000 ordinary shares of US\$0.000025 each	–	–	50
	<u>50</u>	<u>50</u>	<u>50</u>
Issued but credit fully paid:			
10,000 ordinary shares of US\$1 each	10	10	–
400,000,000 ordinary shares of US\$0.000025 each	–	–	10
	<u>10</u>	<u>10</u>	<u>10</u>

The movement in the Company's share capital during the Relevant Periods is as follows:

	<u>Number of shares in issue</u>	<u>Share capital</u> <i>RMB'000</i>
At 3 January 2018 (date of incorporation) <i>(note a)</i>	1,000	–
New shares issued on 5 March 2018 <i>(note b)</i>	<u>9,000</u>	<u>–</u>
At 31 December 2018, 1 January 2019 and 31 December 2019	10,000	–
Share sub-division on 11 May 2020 <i>(note c)</i>	<u>390,000</u>	<u>–</u>
At 30 June 2020	<u><u>400,000</u></u>	<u><u>–</u></u>

Notes:

- (a) On 3 January 2018, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. Immediately thereafter, (i) one share was allotted and issued at par value to the initial subscriber, and was subsequently transferred to Master Sagittarius Holding Limited (“Master Sagittarius”); and (ii) 789 shares, 200 shares and 10 shares were allotted and issued at par value to Master Sagittarius, Gold Pisces Holding Limited and Ice Princess Holding Limited, respectively.
- (b) On 5 March 2018, the Company allotted and issued an aggregate of 9,000 shares at par value to the then existing shareholders of the Company.
- (c) On 11 May 2020, the Company's issued and unissued 50,000 shares of a par value of US\$1.00 each were subdivided into 2,000,000,000 shares with a par value of US\$0.000025 each. As a result, (i) the authorised share capital of the Company shall be US\$50,000 divided into 2,000,000,000 shares of US\$0.000025 par value each, and (ii) the issued share capital of the Company shall be 400,000,000 shares and 70,600,000 Series A Preferred Shares of US\$0.000025 par value each.
- (d) On 21 May 2020, the Company issued and allotted 26,720,000 Series A Preferred Shares of a par value of US\$0.000025 each to Taurus Holding at a consideration of US\$15,138,810 (equivalent to RMB108,250,000) which was fully received in May 2020.
- (e) There was no authorised and issued share capital presented as at 31 December 2017 since the Company had not yet been incorporated at that time.

32. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group, details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their statutory surplus reserve until the reserve reaches 50% of their registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

The Company

	Share award reserve	Retained profits/ (accumulated losses)	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 3 January 2018 (date of incorporation)	–	–	–
Equity-settled share award expense	41,951	–	41,951
Profit for the year	–	939	939
	<hr/>	<hr/>	<hr/>
At 31 December 2018 and 1 January 2019	41,951	939	42,890
Loss for the year	–	(14,994)	(14,994)
	<hr/>	<hr/>	<hr/>
At 31 December 2019 and 1 January 2020	41,951	(14,055)	27,896
Equity-settled share award expense	2,146	–	2,146
Loss for the period	–	(3,718)	(3,718)
	<hr/>	<hr/>	<hr/>
At 30 June 2020	<u>44,097</u>	<u>(17,773)</u>	<u>26,324</u>

33. BUSINESS COMBINATIONS

- (a) On 31 January 2019, the Group acquired a 100% interest in Hangzhou Yide from independent third parties. Hangzhou Yide is engaged in business of literature copyright agency and development. The acquisition was made as part of the Group's strategy to expand its market share of drama series licensing. The purchase consideration for the acquisition was in the form of cash, with RMB100,000,000 paid before the acquisition date, RMB13,400,000 paid in 2019, RMB31,990,000 paid in 2020 and the remaining RMB34,610,000 has not been paid yet.

The fair values of the identifiable assets and liabilities of Hangzhou Yide as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition
		<i>RMB'000</i>
Property, plant and equipment	13	793
Inventories		118,997
Prepayments, other receivables and other assets		67,638
Other intangible assets	16	42,900
Cash and cash equivalents		18,720
Trade payables		(5,888)
Other payables and accruals		(137,489)
Deferred tax liabilities	29	(14,012)
Due to a related party		<u>(20,000)</u>
		<hr/>
Total identifiable net assets at fair value		71,659
Goodwill on acquisition	15	<u>108,341</u>
		<hr/>
Cash consideration		<u>180,000</u>

The goodwill of RMB108,341,000 recognised above comprises the value of expected synergies arising from this acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	180,000
Cash and cash equivalents acquired	(18,720)
Net outflow of cash and cash equivalents included in cash flows from investing activities for the year ended 31 December 2018	(15,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities for the year ended 31 December 2019	(79,680)
Net outflow of cash and cash equivalents included in cash flows from investing activities for the six months ended 30 June 2020	(31,990)
	<hr/>
Cash consideration unpaid at 30 June 2020	34,610
	<hr/> <hr/>

Since the acquisition, Hangzhou Yide contributed nil to the Group's revenue and RMB1,182,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year of 2019, the revenue of the Group and profit of the Group for the year ended 31 December 2019 would have been RMB765,097,000 and RMB46,230,000, respectively.

- (b) On 23 June 2020, the Group acquired a 89.0% interest in Nova Film from independent third parties. Nova Film is engaged in the business of special effects editing and other post-production work for films and drama series. The acquisition was made as part of the Group's strategy to enhance its comprehensive drama series production capabilities. The purchase consideration for the acquisition was the amount due from Nova Film of RMB12,500,000.

The fair values of the identifiable assets and liabilities of Nova Film as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition
		<i>RMB'000</i>
Property, plant and equipment	13	6,752
Prepayments, other receivables and other assets		20,333
Other intangible assets	16	12,682
Right-of-use assets	14(a)	91
Trade receivables		11,902
Cash and cash equivalents		2,677
Interest-bearing bank borrowings		(25,500)
Trade payables		(10,268)
Other payables and accruals		(7,985)
Deferred tax liabilities	29	(1,764)
Lease liabilities	14(b)	(91)
		<hr/>
Total identifiable net assets at fair value		8,829
Non-controlling interests		(971)
		<hr/>
Goodwill on acquisition	15	4,642
		<hr/>
Purchase consideration		12,500
		<hr/> <hr/>

The goodwill of RMB4,642,000 recognised above comprises the value of expected synergies arising from this acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	–
Cash and cash equivalents acquired	(2,677)
Net inflow of cash and cash equivalents included in cash flows from investing activities for the six months ended 30 June 2020	<u>2,677</u>
Cash consideration unpaid at 30 June 2020	<u>–</u>

Since the acquisition, Nova Film contributed nil to the Group's revenue and nil to the consolidated profit for the six months ended 30 June 2020.

Had the combination taken place at the beginning of the year of 2020, the revenue of the Group and profit of the Group for the six months ended 30 June 2020 would have been RMB601,126,000 and RMB53,490,000, respectively.

34. SHARE AWARDS

- (a) Pursuant to the share transfer agreements dated 5 March 2018 and 1 November 2018, the shareholders of the Company agreed to transfer certain of their equity interests in the Company at nil consideration to Gold Fish Management Holding Limited (“Gold Fish”), which is controlled by a key employee of the Group. Upon completion of the shares transfer, Gold Fish holds a total of 8% equity interests in the Company.

The fair value of the 8% equity interests in the Company amounted to RMB41,951,000, which was by reference to the valuation result appraised by an independent valuer as at the base date of the valuation. As the shares transfer came into effect immediately in March 2018 and November 2018 and did not have any vesting or service conditions, or restriction for future transfer, the amount of RMB41,951,000 was considered as a compensation for Ms. Zhai Fang's services for and contributions to the Group, and was therefore accounted for as a share-based compensation expense in the Group's profit or loss for the year ended 31 December 2018.

- (b) On 11 May 2020, the Company adopted the Pre-IPO Share Option Scheme. Following the adoption of the Pre-IPO Share Option Scheme, 37,648,000 Pre-IPO Share Options, representing approximately 8% equity interests in the Company, were granted to Mr. Liu Xiaofeng, an executive director and the chief executive officer of the Company, to recognise his significant contribution to the Group. The Pre-IPO Share Options required no performance target except that Mr. Liu Xiaofeng remains as an employee of the Group during the vesting period.

The exercise price of the Pre-IPO Share Options is no less than its par value, which will determined by the Board of Directors. 5% of the Pre-IPO Share Options is exercisable after 24 months from the date of the option scheme agreement; 10% of the Pre-IPO Share Options are exercisable after 36 months from the date of the share option scheme agreement; 15% of the Pre-IPO Share Options are exercisable after 48 months from the date of the option scheme agreement; 30% of the Pre-IPO Share Options are exercisable after 60 months from the date of the option scheme agreement and 40% of the Pre-IPO Share Options are exercisable after 72 months from the date of the option scheme agreement.

The following share options were outstanding under the Pre-IPO Share Option Scheme in 2020:

	Weighted average exercise price	Number of options
	<i>US\$ per share</i>	<i>'000</i>
At 1 January 2020	–	–
Granted during the period	0.000025	37,648
At 30 June 2020	<u>0.000025</u>	<u>37,648</u>

The fair value of the Pre-IPO Share Options granted in 2020 was approximately RMB77,152,000, of which the Group recognised a share-based compensation expense of RMB2,146,000 for the six months ended 30 June 2020.

The fair value of equity-settled share options granted in 2020 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	<u>2020</u>
Expected volatility (%)	53.00
Risk-free interest rate (%)	2.02
Expected life of options (years)	10
Weighted average share price (US\$)	0.29
Forfeiture rate (%)	–

No other feature of the options granted was incorporated into the measurement of fair value.

35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the Group had non-cash settlements of loans receivable from a third party of nil, nil, RMB54,066,000 and RMB35,570,000, respectively, by offsetting against the amount due to a third party.

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB2,252,000, nil, RMB109,000 and RMB3,638,000, respectively, in respect of lease arrangements for office premises.

During the six months ended 30 June 2020, the Group had non-cash settlements of purchase consideration for the acquisition of Nova Film of RMB12,500,000 by offsetting against the prepayments, other receivables and other assets.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Amount due to a related party	Amount due to a joint venture	Interest payable	Lease liabilities	Financial liabilities at fair value through profit or loss
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	202,874	-	-	1,781	1,419	-
Additions	-	-	-	-	2,252	-
Changes from financing cash flows	65,126	-	-	-	(799)	-
Interest accrued	21,578	-	-	1,900	50	-
Interest paid	-	-	-	(1,846)	(50)	-
At 31 December 2017 and 1 January 2018	289,578	-	-	1,835	2,872	-
Changes from financing cash flows	(247,000)	80,000	-	-	(1,493)	275,461
Changes in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	-	(936)
Interest accrued	23,422	6,474	-	2,980	79	-
Interest paid	-	(5,461)	-	(3,779)	(79)	-
At 31 December 2018 and 1 January 2019	66,000	81,013	-	1,036	1,379	274,525
Additions	-	-	-	-	109	-
Changes from financing cash flows	59,000	-	51,000	-	(979)	-
Changes in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	-	14,996
Acquisition of a subsidiary	-	20,000	-	-	-	-
Interest accrued	-	4,913	-	6,345	76	-
Interest paid	-	-	-	(6,011)	(76)	-
At 31 December 2019 and 1 January 2020	125,000	105,926	51,000	1,370	509	289,521
Additions	-	-	-	-	3,638	-
Changes from financing cash flows	(10,000)	(100,000)	20,000	-	(468)	108,250
Changes in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	-	3,720
Acquisition of a subsidiary	25,500	-	-	-	91	-
Interest accrued	-	1,246	1,633	4,009	32	-
Interest paid	-	(7,172)	(1,373)	(5,030)	(32)	-
At 30 June 2020	140,500	-	71,260	349	3,770	401,491

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Within operating activities	317	240	1,088	602	425
Within investing activities	456	–	–	–	–
Within financing activities	799	1,493	979	472	468
	<u>1,572</u>	<u>1,733</u>	<u>2,067</u>	<u>1,074</u>	<u>893</u>

36. COMMITMENTS

The Group had the following commitments at the end of each of the Relevant Periods:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Contracted, but not provided for:				
The co-investment arrangements	181,300	106,754	109,700	67,968
Made-to-order drama series	100,003	106,609	31,872	102,322
	<u>281,303</u>	<u>213,363</u>	<u>141,572</u>	<u>170,290</u>

37. RELATED PARTY TRANSACTIONS

Details of the Company's related parties are as follows:

Company	Relationship with the Company
Liu Xiaofeng	The ultimate controlling shareholder
Zhao Min	Close family member of a shareholder
Beijing Qishibang Technology Co., Ltd ("Beijing Qishibang")	An entity controlled by shareholders
Wuxi Youkong	An associate of the Group
Nanjing Huawen	A joint venture of the Group
Beijing iQIYI Technology Co., Ltd. ("Beijing iQIYI")	An entity controlled by a shareholder
Beijing Qiyi Century Technology Co., Ltd ("Qiyi Century")	An entity controlled by a shareholder
Beijing iQIYI Internet Technology Co., Ltd ("iQIYI Internet")	An entity controlled by a shareholder
Shanghai Shaoyin Music Entertainment Co., Ltd. ("Shanghai Shaoyin")	An entity controlled by shareholders

- (a) The Group had the following transactions with related parties during the Relevant Periods and the six months ended 30 June 2019:

	Notes	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Sales of goods to:						
Beijing Qishibang	(i)	2,830	–	–	–	–
Qiyi Century	(i)	116,226	244,703	92,528	92,528	2,288
iQIYI Internet	(i)	–	–	112,719	–	74,367
Beijing iQIYI	(i)	–	–	3,237	334	324,623
Purchases of goods from:						
Wuxi Youkong	(ii)	481	7,438	1,563	1,205	158
Beijing iQIYI	(ii)	5,677	112,358	148,933	148,933	–
Rental fee to:						
Liu Xiaofeng	(iii)	282	48	–	–	–
Borrowings from:						
Liu Xiaofeng	(iv)	–	350,000	–	–	–
Nanjing Huawen	(v)	–	–	51,000	–	20,000
Repayments to:						
Beijing iQIYI	(iv)	–	270,000	–	–	100,000
Interest expenses to:						
Beijing iQIYI	(iv)	–	6,108	4,913	2,395	1,246
Nanjing Huawen	(v)	–	–	–	–	1,633
Loans to:						
Zhao Min	(vi)	–	–	3,000	3,000	–
Shanghai Shaoyin	(vi)	–	–	–	–	3,000
Repayments received:						
Zhao Min	(vi)	–	–	–	–	3,000
Shanghai Shaoyin	(vi)	–	–	–	–	3,000

Notes:

- (i) The sales to related parties were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The purchases from related parties were made according to the published prices and conditions offered by the related parties to their major customers.
- (iii) The rental fee was paid for the lease of an office from the shareholder, Liu Xiaofeng. The rental fee was charged pursuant to the terms of the agreements signed between the Group and the related party.
- (iv) The Group obtained a loan from Liu Xiaofeng. Liu Xiaofeng transferred all rights and interest of the loan to Beijing iQIYI on 29 November 2018. The loan bore interest at 5% per annum, was guaranteed by Liu Xiaofeng and has been fully repaid by 30 June 2020.

- (v) The Group obtained an unsecured loan from Nanjing Huawei to invest in drama series, while the amount of RMB30,000,000 bears interest at 10% per annum, the amount of RMB21,000,000 is interest-free, and the amount of RMB20,000,000 bears interest at 10% per annum.
- (vi) The Group provided loans to Zhao Min and Shanghai Shaoyin, and the loans were unsecured and interest-free.

(b) Commitments with a related party

On 1 October 2016, a subsidiary of the Group entered into an agreement with Liu Xiaofeng, for the lease of an office. The amount of the total rental fee to Liu Xiaofeng for the Relevant Periods is included in note 37(a) above. This lease agreement was renewed on an annual basis and ended on 30 June 2018.

(c) Outstanding balances with related parties:

The Group

(i) Trade receivables

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Qiyi Century	36,960	–	–	–
Beijing Qishibang	1,000	–	–	–
iQIYI Internet	–	–	270,522	360,772
	<u>37,960</u>	<u>–</u>	<u>270,522</u>	<u>360,772</u>

(ii) Prepayments, other receivables and other assets

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Liu Xiaofeng	214	–	–	–
Wuxi Youkong	510	3,490	3,310	3,310
	<u>724</u>	<u>3,490</u>	<u>3,310</u>	<u>3,310</u>

(iii) Trade payables

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Qiyi Century	2,288	2,288	2,288	–
Beijing iQIYI	–	53,672	62,338	37,367
	<u>2,288</u>	<u>55,960</u>	<u>64,626</u>	<u>37,367</u>

(iv) *Other payables and accruals*

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Beijing iQIYI	6,792	6,792	535,762	363,430
Qiyi Century	51,840	–	–	–
	<u>58,632</u>	<u>6,792</u>	<u>535,762</u>	<u>363,430</u>

(v) *Due from a related party*

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Zhao Min	–	–	3,000	–
	<u>–</u>	<u>–</u>	<u>3,000</u>	<u>–</u>

(vi) *Due to a joint venture*

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Nanjing Huawen	–	–	51,000	71,260
	<u>–</u>	<u>–</u>	<u>51,000</u>	<u>71,260</u>

(vii) *Due to a related party*

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Beijing iQIYI	–	81,013	105,926	–
	<u>–</u>	<u>81,013</u>	<u>105,926</u>	<u>–</u>

(viii) *Due from a subsidiary*

The Company

	As at 31 December		As at
	2018	2019	30 June
	RMB'000	RMB'000	2020
Shanghai Strawbear	275,461	275,461	383,711
	<u>275,461</u>	<u>275,461</u>	<u>383,711</u>

Except for the amount due to Beijing iQIYI and Nanjing Huawen as stated in note 37(a)(iv) and (v) above and transactions detailed elsewhere in notes 20, 21, 26 and 27, the balances with related parties are unsecured, interest-free and repayable on demand.

Except for the amounts stated in 37(c)(v), (vi), (vii) and (viii) above, the balances with related parties are trade in nature. The outstanding balance due to a joint venture is expected to be settled by or on the maturity date on 31 December 2020.

(d) **Compensation of key management personnel of the Group:**

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, allowances and benefits in kind	847	1,291	1,541	673	741
Equity-settled share award expense	–	41,951	–	–	2,146
Pension scheme contributions	73	160	203	75	25
Total compensation paid to key management personnel	920	43,402	1,744	748	2,912

Further details of directors' emoluments are included in note 8 to the Historical Financial Information.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

The Group

Financial assets at amortised cost

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Trade receivables	288,851	173,344	485,396	756,634
Financial assets included in prepayments, other receivables and other assets	7,117	101,908	169,173	73,409
Due from a related party	–	–	3,000	–
Restricted cash	–	–	54,312	18
Cash and cash equivalents	153,258	97,255	52,349	83,295
	449,226	372,507	764,230	913,356

Financial assets at fair value through profit or loss (Mandatorily designated as such)

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Financial assets at fair value through profit or loss	20,000	–	–	–

Financial assets at fair value through comprehensive income (Debt investments)

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Financial assets at fair value through other comprehensive income	1,000	7,000	–	20,000

The Company**Financial assets at amortised cost**

	As at 31 December		As at
	2018	2019	30 June
	RMB'000	RMB'000	2020
Due from a subsidiary	275,461	275,461	383,711
Cash and cash equivalents	3	5	7
	275,464	275,466	383,718

The Group**Financial liabilities at amortised cost**

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Trade payables	189,570	236,863	449,190	425,521
Lease liabilities	2,872	1,379	509	3,770
Interest-bearing bank and other borrowings	289,578	66,000	125,000	140,500
Financial liabilities included in other payables and accruals	43,915	114,504	176,679	173,850
Due to a joint venture	–	–	51,000	71,260
Due to a related party	–	81,013	105,926	–
Dividend payable	–	80,000	81,507	80,000
	525,935	579,759	989,811	894,901

The Group and the Company**Financial liabilities at fair value through profit or loss**

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities at fair value through profit or loss	–	274,525	289,521	401,491

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade and notes receivables, trade payables, financial assets included in prepayments, other receivables and other assets, amounts due from a related party, financial liabilities included in other payables and accruals, dividend payable and interest-bearing bank and other borrowings, lease liabilities, amounts due to a joint venture and amounts due to a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of the non-current portion of lease liabilities and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities and interest-bearing bank and other borrowings as at the end of each of the Relevant Periods were assessed to be insignificant. The fair value of the financial liabilities at fair value through profit or loss is estimated by the market approach and equity allocation model.

The Group has unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 as at the end of each of the Relevant Periods have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, and thus their fair values approximate to their carrying values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivable	–	1,000	–	1,000
Financial assets at fair value through profit or loss	–	20,000	–	20,000
	–	21,000	–	21,000

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivable	–	7,000	–	7,000

As at 30 June 2020

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivable	–	20,000	–	20,000

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities at fair value through profit or loss	–	–	274,525	274,525

As at 31 December 2019

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities at fair value through profit or loss	–	–	289,521	289,521

As at 30 June 2020

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities at fair value through profit or loss	–	–	401,491	401,491

The changes in Level 3 instruments of financial liabilities at fair value through profit or loss and a summary of significant unobservable inputs to the valuation of these financial instruments together with a quantitative sensitivity analysis for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are presented in note 30.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets included in prepayments, other receivables and other assets, interest-bearing bank and other borrowings, financial liabilities included in other payables and accruals and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables, and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year/period-end staging as at 31 December 2017, 2018 and 2019 and 30 June 2020

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

The Group

As at 31 December 2017	12-month		Lifetime ECLs		Total
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	293,481	293,481
Notes receivable**	1,000	–	–	–	1,000
Financial assets included in prepayments, other receivables and other assets					
– Normal**	7,117	–	–	–	7,117
Cash and cash equivalents					
– Not yet past due	153,258	–	–	–	153,258
	<u>161,375</u>	<u>–</u>	<u>–</u>	<u>293,481</u>	<u>454,856</u>

As at 31 December 2018	12-month ECLs		Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables*	–	–	–	178,301	178,301	
Notes receivable**	7,000	–	–	–	7,000	
Financial assets included in prepayments, other receivables and other assets						
– Normal**	101,908	–	–	–	101,908	
Cash and cash equivalents						
– Not yet past due	97,255	–	–	–	97,255	
	<u>206,163</u>	<u>–</u>	<u>–</u>	<u>178,301</u>	<u>384,464</u>	
As at 31 December 2019	12-month ECLs		Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables*	–	–	–	491,881	491,881	
Financial assets included in prepayments, other receivables and other assets						
– Normal**	169,173	–	–	–	169,173	
Due from a related party						
– Normal**	3,000	–	–	–	3,000	
Restricted cash						
– Not yet past due	54,312	–	–	–	54,312	
Cash and cash equivalents						
– Not yet past due	52,349	–	–	–	52,349	
	<u>278,834</u>	<u>–</u>	<u>–</u>	<u>491,881</u>	<u>770,715</u>	
As at 30 June 2020	12-month ECLs		Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables*	–	–	–	769,006	769,006	
Notes receivable**	20,000	–	–	–	20,000	
Financial assets included in prepayments, other receivables and other assets						
– Normal**	73,409	–	–	–	73,409	
Restricted cash						
– Not yet past due	18	–	–	–	18	
Cash and cash equivalents						
– Not yet past due	83,295	–	–	–	83,295	
	<u>176,722</u>	<u>–</u>	<u>–</u>	<u>769,006</u>	<u>945,728</u>	

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the Historical Financial Information.

** The credit quality of notes receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the Historical Financial Information.

The Company

As at 31 December 2018	12-month	Lifetime ECLs			Total
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Due from a subsidiary					
– Normal*	275,461	–	–	–	275,461
Cash and cash equivalents					
– Not yet past due	3	–	–	–	3
	<u>275,464</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>275,464</u>
As at 31 December 2019	12-month	Lifetime ECLs			
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from a subsidiary					
– Normal*	275,461	–	–	–	275,461
Cash and cash equivalents					
– Not yet past due	5	–	–	–	5
	<u>275,466</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>275,466</u>
As at 30 June 2020	12-month	Lifetime ECLs			
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from a subsidiary					
– Normal*	383,711	–	–	–	383,711
Cash and cash equivalents					
– Not yet past due	7	–	–	–	7
	<u>383,718</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>383,718</u>

- * The credit quality of amounts due from a subsidiary are considered to be “normal” when it is not past due and there is no information indicating that the financial asset had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial asset is considered to be “doubtful”.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, lease liabilities and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2017						
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	6,000	3,085	36,607	–	387,000	432,692
Trade payables	189,570	–	–	–	–	189,570
Lease liabilities	–	461	1,240	1,972	–	3,673
Financial liabilities included in other payables and accruals	24,903	21,294	–	–	–	46,197
	220,473	24,840	37,847	1,972	387,000	672,132
31 December 2018						
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	–	3,326	67,276	–	–	70,602
Trade payables	236,863	–	–	–	–	236,863
Lease liabilities	–	251	756	921	–	1,928
Financial liabilities at fair value through profit or loss	–	–	–	–	479,413	479,413
Financial liabilities included in other payables and accruals	56,504	35,401	15,466	–	–	107,371
Due to a related party	81,013	–	–	–	–	81,013
Dividend payable	80,000	–	–	–	–	80,000
	454,380	38,978	83,498	921	479,413	1,057,190

31 December 2019						
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	–	1,555	129,048	–	–	130,603
Trade payables	449,190	–	–	–	–	449,190
Lease liabilities	–	283	751	–	–	1,034
Financial liabilities at fair value through profit or loss	–	–	–	–	490,137	490,137
Financial liabilities included in other payables and accruals	175,407	–	1,272	–	–	176,679
Due to a joint venture	51,000	–	–	–	–	51,000
Due to a related party	105,926	–	–	–	–	105,926
Dividend payable	81,507	–	–	–	–	81,507
	863,030	1,838	131,071	–	490,137	1,486,076

30 June 2020						
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	–	96,821	45,688	–	–	142,509
Trade payables	425,521	–	–	–	–	425,521
Lease liabilities	–	278	738	3,433	–	4,449
Financial liabilities at fair value through profit or loss	–	–	–	–	401,491	401,491
Financial liabilities included in other payables and accruals	172,621	–	1,229	–	–	173,850
Due to a joint venture	71,260	–	–	–	–	71,260
Dividend payable	80,000	–	–	–	–	80,000
	749,402	97,099	47,655	3,433	401,491	1,299,080

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a debt to equity ratio, which is net debt divided by total equity multiplied by 100% as at the date indicated. Net debt includes lease liabilities, interest-bearing bank and other borrowings, amounts due to a joint venture and amounts due to a related party less cash and cash equivalents. Capital represents total equity of the Group. The debt to equity ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	289,578	66,000	125,000	140,500
Lease liabilities	2,872	1,379	509	3,770
Due to a joint venture	–	–	51,000	71,260
Due to a related party	–	81,013	105,926	–
Less: Cash and cash equivalents	(153,258)	(97,255)	(52,349)	(83,295)
Net debt	139,192	51,137	230,086	132,235
Total equity	193,498	145,962	194,451	251,696
Debt to equity ratio	72%	35%	118%	53%

41. EVENTS AFTER THE RELEVANT PERIODS

No other significant events that require additional disclosure or adjustments occurred after the Relevant Periods.

42. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2020.

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the parent as at 30 June 2020 as if the Global Offering had taken place on 30 June 2020.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the parent has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June 2020 or any future date.

	Consolidated net tangible assets attributable to owners of the parent as at 30 June 2020		Estimated impact related to the change of terms of Preferred Shares upon Listing	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent as at 30 June 2020	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as at 30 June 2020	
	RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)			RMB'000 (Note 3)	RMB'000
Based on Offer price of HK\$5.10 per Share	110,639	676,919	401,491	1,189,049	1.79	2.12
Based on Offer price of HK\$6.16 per Share	110,639	822,423	401,491	1,334,553	2.01	2.38

Notes:

- (1) The consolidated net tangible assets attributable to owners of the parent as at 30 June 2020 is arrived at after deducting other intangible assets of RMB27,200,000 and goodwill of RMB112,983,000 from the consolidated net assets attributable to owners of the parent of RMB250,822,000 as at 30 June 2020, as shown in the Accountants' Report set out in Appendix I to this prospectus.

- (2) The estimated net proceeds from the Global Offering are calculated based on the offer price of HK\$5.10 per Share or HK\$6.16 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and related expenses payable by the Company (excluding listing expenses of RMB12,087,000 which have been charged to profit or loss during the Track Record Period) and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) Upon the Listing and the completion of the Global Offering, all the Preferred Shares will be converted into Ordinary Shares. The Preferred Shares will be re-classified from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the owners of the parent will be increased by RMB401,491,000, being the carrying amount of the Preferred Shares as at 30 June 2020.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are calculated based on 663,100,000 Shares in issue (including the completion of the conversion of Preferred Shares into Ordinary Shares) assuming that the Global Offering has been completed on 30 June 2020 without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Pre-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix IV - Statutory and General Information” to this prospectus.
- (5) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are converted into Hong Kong dollars at an exchange rate of RMB0.84498 to HK\$1.00.
- (6) No adjustment has been made to reflect any trading results or other transactions entered into by the Group subsequent to 30 June 2020.

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the pro forma financial information of the Group.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Strawbear Entertainment Group

We have completed our assurance engagement to report on the compilation of pro forma financial information of Strawbear Entertainment Group (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2020, and related notes as set out on pages II-1 to II-2 of the prospectus dated 31 December 2020 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II(A).

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 30 June 2020 as if the transaction had taken place at 30 June 2020. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the period ended 30 June 2020, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

31 December 2020

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Companies Act.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 3, 2018 under the Cayman Companies Act. The Company's constitutional documents consist of its Memorandum and Articles of Association.

(1) MEMORANDUM OF ASSOCIATION

(1.1) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(1.2) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

(2) ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on December 18, 2020. A summary of certain provisions of the Articles is set out below.

(2.1) Shares

(a) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(b) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

(d) Transfer of shares

Subject to the Cayman Companies Act and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognize any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as of the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

(2.2) Directors

(a) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Act, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Act, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Act to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Act, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(h) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub- underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(2.3) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(2.4) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(2.5) Meetings of members**(a) *Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) *Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) *Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(d) *Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Act and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall 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 a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) Members' requisition for meetings

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as of the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(2.6) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Act (which include all sales and purchases of goods by the Company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Act or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(2.7) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(2.8) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(2.9) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarized in paragraph 3.6 of this Appendix.

(2.10) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

(2.11) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

(3) CAYMAN COMPANIES ACT

The Company was incorporated in the Cayman Islands as an exempted company on January 3, 2018 subject to the Cayman Companies Act. Certain provisions of the Cayman Companies Act are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Act and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(3.1) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(3.2) Share capital

Under the Cayman Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Cayman Companies Act;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

(3.3) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(3.4) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(3.5) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(3.6) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(3.7) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(3.8) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(3.9) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(3.10) Taxation

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- (b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (2018 Revision).

The undertaking for the Company is for a period of 20 years from January 16, 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(3.11) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(3.12) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(3.13) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(3.14) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2017 Revision) of the Cayman Islands.

(3.15) Register of directors and officers

Pursuant to the Cayman Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(3.16) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(3.17) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated, the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(3.18) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(3.19) Indemnification

The Cayman Islands laws do not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

(3.20) Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act, 2018, which became effective on 1 January 2019, together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from July 1, 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

(4) GENERAL

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Companies Act. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of the Cayman Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**(1) Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on January 3, 2018. Our Company has established a principal place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 22, 2020. Mr. WONG Keith Shing Cheung of 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notice in Hong Kong.

As our Company was incorporated in the Cayman Islands, our Company's corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles is set out in "Appendix III — Summary of the Constitution of Our Company and the Cayman Companies Act."

(2) Changes in the Share Capital of Our Company

For the details of changes in the share capital of our Company, see section headed "History, Reorganization and Corporate Development."

Immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), the issued share capital of the Company will be US\$16,577.5 divided into 663,100,000 Shares, all fully paid or credited as fully paid.

Save as disclosed herein and in the sub-section headed "— A. Further Information about Our Company and Our Subsidiaries — (3) Resolutions of Our Shareholders Passed on December 18, 2020," there has been no alteration in the share capital of our Company since its incorporation.

(3) Resolutions of Our Shareholders Passed on December 18, 2020

Written resolutions of our Shareholders were passed on December 18, 2020, pursuant to which, among others:

- (a) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon the listing of our Shares on the Stock Exchange;

- (b) conditional on (i) the Stock Exchange granting the approval for the listing of, and permission to deal in, the Shares in issue and Shares to be issued, (ii) the Offer Price being determined, and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:
- (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to effect the same and to allot and issue the Offer Shares pursuant to the Global Offering and the Over-allotment Option;
 - (ii) the grant of the Over-allotment Option by the Company to the International Underwriters, exercisable by the Joint Representatives, pursuant to which the Joint Representatives (on behalf of the International Underwriters) may require the Company to allot and issue up to an aggregate of additional 24,867,000 Shares to cover, among others, the over-allocation in the International Offering was approved; and
 - (iii) the proposed Listing was approved and our Directors were authorized to implement the Listing.
- (c) a general unconditional mandate was granted to our Directors to, *inter alia*, allot, issue and deal with Shares, securities convertible into Shares (the “**Convertible Securities**”) or options, warrants or similar rights to subscribe for any Shares or such convertible securities (the “**Options and Warrants**”) and to make or grant offers, agreements or options which might require such Shares, the Convertible Securities or the Options and Warrants to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares or the underlying Shares relating to the Convertible Securities or the Options and Warrants so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

This mandate does not cover Shares to be allotted, issued or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders. Such mandate will remain in effect until:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association; or

(iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest;

- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will remain in effect until:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest; and

- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options)).

(4) Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the Listing. See “History, Reorganization and Corporate Development — Reorganization” for further details.

(5) Changes in the Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in the Accountants’ Report in Appendix I to this prospectus.

Save as disclosed in “History, Reorganization and Corporate Development” and below, there has been no alteration in the share capital or the registered capital of any of our Subsidiaries within the two years immediately preceding the date of this prospectus:

Beijing Strawbear

On September 2, 2019, Beijing Strawbear was established in the PRC with a registered capital of RMB3,000,000.

Blue Boiling Point

On December 20, 2019, we deregistered Blue Boiling Point, which was a limited liability company established in the PRC on June 2, 2015 with a registered capital of RMB10,000,000.

Wuxi Strawbear

On June 4, 2020, Wuxi Strawbear was established in the PRC with a registered capital of RMB1,000,000.

Nova Film

On May 8, 2020, the registered capital of Nova Film was decreased from RMB10,000,000 to RMB9,000,000.

On June 23, 2020, Nova Film was changed from a joint stock company to a limited liability company and its registered capital was increased from RMB9,000,000 to RMB10,000,000.

Beijing Honeybear

On September 10, 2020, Beijing Honeybear was established in the PRC with a registered capital of RMB3,000,000.

Xingyu Yinyue

On November 19, 2020, Xingyu Yinyue was established in the PRC with a registered capital of RMB5,000,000.

(6) Repurchase of Shares by Our Company**(a) Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listings are on the Main Board of the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of securities on the Hong Kong Stock Exchange by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions in writing of all our Shareholders passed on December 18, 2020, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorizing the repurchase by our Company on the Hong Kong Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following the completion of the Global Offering, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum and Articles of Association to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange as amended from time to time.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Hong Kong Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate nominal value of the company's shares in issue on the date the repurchase mandate is granted. A listed company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Hong Kong Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Hong Kong Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange.

The Listing Rules also prohibit a listed company from repurchasing its securities on the Hong Kong Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange.

A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Hong Kong Stock Exchange such information with respect to the repurchase made on behalf of the listed company as the Hong Kong Stock Exchange may require.

(iv) Status of repurchased securities

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for a listed company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its securities on the Hong Kong Stock Exchange other than in exceptional circumstances.

(v) Reporting requirements

Certain information relating to repurchases of securities on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year reviewed, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vi) Core connected persons

A listed company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective close associates and a core connected person is prohibited from knowingly selling his securities to the company, on the Hong Kong Stock Exchange.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to receive the general authority from our Shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will be in the interest of our Company and our Shareholders. Such repurchases may, depending on market conditions, funding arrangements and other circumstances at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws of the Cayman Islands.

Any payment for the repurchase of Shares will be drawn from the profits or share premium of our Company or from the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorized by the Memorandum and Articles of Association and subject to the Companies Act of the Cayman Islands, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Memorandum and Articles of Association and subject to the Companies Act of the Cayman Islands, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, under the circumstances, have a material adverse effect in the opinion of our Directors on the working capital requirements of our Company or its gearing levels. However, there might be a material adverse impact on the working capital or gearing position of our Company as compared with the position disclosed in this prospectus in the event that the Repurchase Mandate is exercised in full.

(d) *Share capital*

Exercise in full of the Repurchase Mandate, on the basis of 663,100,000 Shares in issue immediately after the listing of the Shares, could accordingly result in up to 66,310,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum and Articles of Association to be held;
or
- (iii) the date on which the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

(e) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of the increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Code if the Repurchase Mandate is exercised. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances. No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

(1) Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us within the two years preceding the date of this prospectus and are or may be material:

- (1) a series A preferred share purchase agreement dated May 18, 2020 entered into by and among our Company, Strawbear Pictures Limited, Strawbear Film Limited, Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), Shanghai Strawbear Business Consulting Co., Ltd. (上海稻草熊商務諮詢有限公司), Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), Beijing Strawbear Film Co., Ltd. (北京稻草熊影業有限公司), Horgos Strawbear Film Co., Ltd. (霍爾果斯稻草熊影業有限公司), Hangzhou Yide Cultural Creativity Co., Ltd. (杭州懿德文化創意有限公司), LIU Xiaofeng (劉小楓), Master Sagittarius Holding Limited and Taurus Holding Ltd., pursuant to which Taurus Holding Ltd. agreed to purchase from the Company 26,720,000 Series A Preferred Shares at a total consideration of US\$15,138,810.52;
- (2) an amended and restated shareholders agreement dated May 18, 2020 (the "**Shareholders Agreement**") entered into by and among our Company, Strawbear Pictures Limited, Strawbear Film Limited, Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), Shanghai Strawbear Business Consulting Co., Ltd. (上海稻草熊商務諮詢有限公司), Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), Beijing Strawbear Film Co., Ltd. (北京稻草熊影業有限公司), Horgos Strawbear Film Co., Ltd. (霍爾果斯稻草熊影業有限公司), Hangzhou Yide Cultural Creativity Co., Ltd. (杭州懿德文化創意有限公司), LIU Xiaofeng (劉小楓), Master Sagittarius Holding Limited, Ice Princess Holding Limited, Gold Pisces Holding Limited, Gold Fish Management Holding Limited and Taurus Holding Ltd., pursuant to which Shareholder rights were agreed among the parties;




- (3) an amendment no.1 to amended and restated shareholders agreement mentioned in (2) above dated July 7, 2020 entered into by and among our Company, Strawbear Pictures Limited, Strawbear Film Limited, Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), Shanghai Strawbear Business Consulting Co., Ltd. (上海稻草熊商務諮詢有限公司), Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), Beijing Strawbear Film Co., Ltd. (北京稻草熊影業有限公司), Horgos Strawbear Film Co., Ltd. (霍爾果斯稻草熊影業有限公司), Hangzhou Yide Cultural Creativity Co., Ltd. (杭州懿德文化創意有限公司), LIU Xiaofeng (劉小楓), Master Sagittarius Holding Limited, Ice Princess Holding Limited, Gold Pisces Holding Limited, Gold Fish Management Holding Limited, Leading Glory Investments Limited, Glesason Global Limited, Golden Basin Global Limited and Taurus Holding Ltd., pursuant to which certain terms under the Shareholders Agreement were amended and supplemented;
- (4) an amended and restated exclusive business cooperation agreement dated February 20, 2019 entered into between Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司) and Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), as further described in the section headed “Contractual Arrangements”;
- (5) an amended and restated exclusive option agreement dated February 20, 2019 entered into by and among Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), LIU Xiaofeng (劉小楓), LIU Shishi (劉詩施), ZHAO Liying (趙麗穎), ZHANG Qiuchen (張秋晨), ZHAI Fang (翟芳) and Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), as further described in the section headed “Contractual Arrangements”;
- (6) an amended and restated equity pledge agreement dated February 20, 2019 entered into by and among Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), LIU Xiaofeng (劉小楓), LIU Shishi (劉詩施), ZHAO Liying (趙麗穎), ZHANG Qiuchen (張秋晨), ZHAI Fang (翟芳) and Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), as further described in the section headed “Contractual Arrangements”;
- (7) an amended and restated shareholder voting rights proxy agreement dated February 20, 2019 entered into by and among Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), LIU Xiaofeng (劉小楓), LIU Shishi (劉詩施), ZHAO Liying (趙麗穎), ZHANG Qiuchen (張秋晨), ZHAI Fang (翟芳) and Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), as further described in the section headed “Contractual Arrangements”;
- (8) the powers of attorney dated February 20, 2019 executed by each of LIU Xiaofeng (劉小楓), LIU Shishi (劉詩施), ZHAO Liying (趙麗穎), ZHANG Qiuchen (張秋晨) and ZHAI Fang (翟芳) in favor of Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司) and its designees, as further described in the section headed “Contractual Arrangements”;





- (9) a cornerstone investment agreement dated December 22, 2020 entered into among our Company, SNOW LAKE CHINA MASTER FUND, LTD., SNOW LAKE CHINA MASTER LONG FUND, LTD., SNOW LAKE ASIA MASTER FUND LIMITED, COMPASS OFFSHORE SAV II PCC LIMITED, China Merchants Securities (HK) Co., Limited and China Securities (International) Corporate Finance Company Limited, details of which are included in the section headed “Cornerstone Investors”;
- (10) a cornerstone investment agreement dated December 22, 2020 entered into among our Company, Vipshop International Holdings Limited, China Merchants Securities (HK) Co., Limited and China Securities (International) Corporate Finance Company Limited, details of which are included in the section headed “Cornerstone Investors”;
- (11) a cornerstone investment agreement dated December 22, 2020 entered into among our Company, Origin Flair Limited, China Merchants Securities (HK) Co., Limited and China Securities (International) Corporate Finance Company Limited, details of which are included in the section headed “Cornerstone Investors”;
- (12) the Deed of Non-competition; and
- (13) the Hong Kong Underwriting Agreement.




(2) Intellectual Property Rights of Our Group

(a) Trademarks

As of the Latest Practicable Date, we were the registered owner of and had the right to use the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Registration	Registration No.	Registered Owner	Class ⁽¹⁾	Registration Date	Expiry Date
(1)		PRC	26674940	Jiangsu Strawbear	18	March 7, 2020	March 6, 2030
(2)		PRC	5802455	Jiangsu Strawbear	41	March 28, 2010	March 27, 2030
(3)		PRC	5802456	Jiangsu Strawbear	25	January 14, 2010	January 13, 2030
(4)	踏火行歌	PRC	21813069	Jiangsu Strawbear	41	December 21, 2017	December 20, 2027
(5)	踏火行歌	PRC	21813050	Jiangsu Strawbear	28	December 21, 2017	December 20, 2027
(6)	踏火行歌	PRC	21812718	Jiangsu Strawbear	25	December 21, 2017	December 20, 2027
(7)	踏火行歌	PRC	21812579	Jiangsu Strawbear	21	December 21, 2017	December 20, 2027
(8)	踏火行歌	PRC	21812201	Jiangsu Strawbear	18	December 21, 2017	December 20, 2027
(9)	踏火行歌	PRC	21812055	Jiangsu Strawbear	16	December 21, 2017	December 20, 2027
(10)	踏火行歌	PRC	21812054	Jiangsu Strawbear	14	December 21, 2017	December 20, 2027
(11)	踏火行歌	PRC	21811950	Jiangsu Strawbear	9	December 21, 2017	December 20, 2027
(12)	踏火行歌	PRC	21811799	Jiangsu Strawbear	3	December 21, 2017	December 20, 2027
(13)	蜀山战纪之剑侠传奇	PRC	18934100	Jiangsu Strawbear	9	February 28, 2017	February 27, 2027
(14)	蜀山战纪之剑侠传奇	PRC	18934099	Jiangsu Strawbear	16	February 28, 2017	February 27, 2027

No.	Trademark	Place of Registration	Registration No.	Registered Owner	Class ⁽¹⁾	Registration Date	Expiry Date
(15)	蜀山战纪之剑侠传奇	PRC	18934098	Jiangsu Strawbear	41	February 28, 2017	February 27, 2027
(16)	蜀山战纪之剑侠传奇	PRC	18934097	Jiangsu Strawbear	9	February 28, 2017	February 27, 2027
(17)	蜀山战纪之剑侠传奇	PRC	18934096	Jiangsu Strawbear	16	February 28, 2017	February 27, 2027
(18)	蜀山战纪之剑侠传奇	PRC	18934095	Jiangsu Strawbear	41	February 28, 2017	February 27, 2027
(19)	蜀山战纪	PRC	18934101	Jiangsu Strawbear	41	June 14, 2017	June 13, 2027
(20)	蜀山战纪	PRC	18324270	Jiangsu Strawbear	9	December 21, 2016	December 20, 2026
(21)	蜀山战纪	PRC	18324269	Jiangsu Strawbear	14	December 21, 2016	December 20, 2026
(22)	蜀山战纪	PRC	18324268	Jiangsu Strawbear	18	December 21, 2016	December 20, 2026
(23)	蜀山战纪	PRC	18324267	Jiangsu Strawbear	21	December 21, 2016	December 20, 2026
(24)	蜀山战纪	PRC	18324266	Jiangsu Strawbear	24	December 21, 2016	December 20, 2026
(25)	蜀山战纪	PRC	18324265	Jiangsu Strawbear	25	December 21, 2016	December 20, 2026
(26)	蜀山战纪	PRC	18324264	Jiangsu Strawbear	28	December 21, 2016	December 20, 2026
(27)	蜀山战纪	PRC	15315878	Jiangsu Strawbear	9, 16, 41	October 21, 2015	October 20, 2025
(28)	蜀山战纪	PRC	15119909	Jiangsu Strawbear	9, 16, 41	September 28, 2015	September 27, 2025
(29)	拥抱未来的你	PRC	27320882	Hangzhou Yide	16	January 28, 2019	January 27, 2029
(30)		PRC	21423761	Hangzhou Yide	9	November 21, 2017	November 20, 2027
(31)		PRC	21423760	Hangzhou Yide	16	November 21, 2017	November 20, 2027
(32)		PRC	21423759	Hangzhou Yide	25	November 21, 2017	November 20, 2027
(33)		PRC	21423758	Hangzhou Yide	28	November 21, 2017	November 20, 2027

No.	Trademark	Place of Registration	Registration No.	Registered Owner	Class ⁽¹⁾	Registration Date	Expiry Date
(34)		PRC	21423757	Hangzhou Yide	35	November 21, 2017	November 20, 2027
(35)		PRC	21423756	Hangzhou Yide	36	November 21, 2017	November 20, 2027
(36)		PRC	21423755	Hangzhou Yide	41	November 21, 2017	November 20, 2027
(37)		PRC	21423754	Hangzhou Yide	42	November 21, 2017	November 20, 2027
(38)		PRC	43108652	Nova Film	41	October 21, 2020	October 20, 2030
(39)		HK	304383513	Jiangsu Strawbear	41	December 28, 2017	December 27, 2027

(b) Patents

As at the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to our business:

No.	Patent	Patentee	Place of Registration	Patent Number	Application Date	Registration Date
1.	Light Color Mixture Device of Wide Color Gamut (一種寬色域的燈光混色裝置)	Nova Film	PRC	CN201820989082.0	June 26, 2018	January 1, 2019
2.	A Panoramic Scanning Device for Movie and Television Play (用於影視劇的全景掃描裝置)	Nova Film	PRC	CN201721757017.7	December 15, 2017	February 1, 2019
3.	Virtual Actor Collection System (虛擬演員採集系統)	Nova Film	PRC	CN201510583124.1	September 14, 2015	December 4, 2018
4.	Virtual Actor Collection System (虛擬演員採集系統)	Nova Film	PRC	CN201520710785.1	September 14, 2015	March 16, 2016

(c) Copyrights

As of the Latest Practicable Date, we were the owner of and had the right to use the following copyrights which we consider to be or may be material to our business:

(i) Registered copyright

<u>No.</u>	<u>Name of Copyright</u>	<u>Owner</u>	<u>Registration Date</u>
(1)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌)	Jiangsu Strawbear	2017.06.29
(2)	Handsome Boy (英俊的少年)	Jiangsu Strawbear	2020.06.11
(3)	Treasure Adventure (國寶奇旅)	Jiangsu Strawbear, Omnijoi Media Corporation Co. Ltd. (幸福藍海影視文化集團股份 有限公司) and Horgos Jiecheng Huashi Wangju Cultural Media Co., Ltd. (霍爾果斯捷成華視網聚 文化傳媒有限公司)	2019.07.05
(4)	Breath Of Destiny (一起深呼吸)	Jiangsu Strawbear	2020.06.29

(ii) Copyrights in relation to the TV/web dramas and web films

<u>No.</u>	<u>Name of Copyright</u>	<u>Ownership</u>	<u>Owner</u>
(1)	Two Capitals (兩京)	Proportionally owned copyright	Jiangsu Strawbear
(2)	Dear Physicist (親愛的物理學家)	Proportionally owned copyright	Jiangsu Strawbear
(3)	Love And Hate (沉魚記)	Proportionally owned copyright	Jiangsu Strawbear
(4)	Tower Of Self-Redemption (浮圖塔)	Wholly-owned copyright	Jiangsu Strawbear
(5)	Bargain Queen (砍價女王)	Proportionally owned copyright	Jiangsu Strawbear
(6)	Love For Joy (墨如歡喜)	Proportionally owned copyright with wholly-owned distribution right	Jiangsu Strawbear
(7)	Inside Man (局中人)	Proportionally owned copyright	Jiangsu Strawbear
(8)	One Seventh Little Sweetheart (七分之一小情人)	Wholly-owned copyright	Jiangsu Strawbear
(9)	Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇)	Shared copyright	Jiangsu Strawbear
(10)	The Impossible Mission (不可能完成的任務)	Shared copyright	Jiangsu Strawbear

No.	Name of Copyright	Ownership	Owner
(11)	Do Not Say I Cannot Do Better Than You (別說我不如你)	Exclusive TV series filming right, and wholly-owned copy right of the completed TV series and all materials and all rights derived therein	Jiangsu Strawbear
(12)	Wave Chasing Plan (逐浪計劃)	Wholly-owned copyright	Jiangsu Strawbear
(13)	A Chinese Ghost Story (倩女幽魂)	Proportionally owned copyright	Jiangsu Strawbear
(14)	Treasure Adventure (國寶奇旅)	Wholly-owned copyright	Jiangsu Strawbear
(15)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌)	Wholly-owned copyright	Jiangsu Strawbear
(16)	Mr. Nanny (月嫂先生)	Proportionally owned copyright	Jiangsu Strawbear
(17)	Starry April (繁星四月)	Proportionally owned copyright	Jiangsu Strawbear
(18)	A Sword Across The Sky (一劍橫空)	Shared copyright	Jiangsu Strawbear
(19)	Crazy Troupe (瘋狂劇團)	Shared copyright	Jiangsu Strawbear
(20)	Love Journey (一場遇見愛情的旅行)	Proportionally owned copyright	Jiangsu Strawbear
(21)	Heartbeat Memory (心跳回憶)	Shared script copyright, film copyright and other rights	Jiangsu Strawbear
(22)	On The Stream Of Silence And Loneliness (在寂與寞的川流上)	Proportionally owned copyright	Jiangsu Strawbear
(23)	Hello Baby (你好寶貝)	Wholly-owned copyright	Jiangsu Strawbear
(24)	Please Like Me As Soon As Possible (勸你趁早喜歡我)	Wholly-owned right and right of final decision of establishment, filming, production, distribution, promotion	Jiangsu Strawbear
(25)	The Wind Catcher (捕風者)	Wholly-owned copyright	Jiangsu Strawbear
(26)	Handsome Yong Master (公子傾城)	Wholly-owned copyright	Jiangsu Strawbear
(27)	Legend Of Yong Ye (永夜)	Proportionally owned copyright	Jiangsu Strawbear
(28)	Oh My Sister (姐姐在上)	Wholly-owned copyright	Jiangsu Strawbear
(29)	Unbending Will (石頭開花)	Proportionally owned copyright	Jiangsu Strawbear
(30)	My Mr. Cat (我的貓先生)	Wholly-owned copyright	Jiangsu Strawbear
(31)	Party Group (黨小組)	Wholly-owned copyright	Jiangsu Strawbear

(iii) Copyrights in relation to scripts

No.	Name of Copyright	Ownership	Owner
(1)	Young Master Imprisoned In The Lake (湖中公子)	Wholly-owned copyright of script	Jiangsu Strawbear
(2)	Edge Of Abyss (臨淵)	Wholly-owned copyright of script	Jiangsu Strawbear
(3)	My August (我的八月)	Wholly-owned copyright of script	Jiangsu Strawbear
(4)	The Man Who Will Die Unless Kissing Me (不吻我就會死的男人)	Wholly-owned copyright of script	Jiangsu Strawbear
(5)	Live Up To Your Time (不負韶華)	Wholly-owned copyright of script	Jiangsu Strawbear
(6)	The Wind Catcher (捕風者)	Right of publication, filming, broadcasting, translation, and other copyrights	Jiangsu Strawbear
(7)	A Biography Of Two Dragons In The Song Dynasty (大宋雙龍傳)	All copyrights except the right of authorship of the script	Jiangsu Strawbear
(8)	Oh My Sister (姐姐在上)	Wholly-owned copyright of script	Jiangsu Strawbear

(iv) Licensed rights of literary works

No.	Name of Copyright	Licensor	Licensee	Rights	Period
(1)	Daydream Of Me (白日夢我)	All Gods Union Film (Tianjin) Co., Ltd. (諸神聯盟影業(天津)有限公司)	Jiangsu Strawbear	Adaptation right (movies and TV series)	September 12, 2019 to December 4, 2023
(2)	Love And Hate (沉魚記)	Horgos Zhonghe Rui Entertainment Media Co., Ltd. (霍爾果斯中和瑞娛傳媒有限公司)	Jiangsu Strawbear	Adaptation right (movies and TV series)	June 1, 2019 to May 1, 2025
(3)	Young Master Imprisoned In The Lake (湖中公子)	Zhang Xiuxian (張秀嫻)	Jiangsu Strawbear	Adaptation right (movies and TV series)	June 21, 2019 to June 20, 2024
(4)	Love For Joy (墨如歡喜)	Liu Yantong (劉艷彤)	Jiangsu Strawbear	Right of globally revision, leasing, exhibition, adaptation, distribution, reproduction, filming, performance, screening, and broadcast	November 7, 2019 to November 7, 2025

No.	Name of Copyright	Licensor	Licensee	Rights	Period
(5)	Fly To The Moon (奔月)	Xu Pan (徐攀)	Hangzhou Yide	Right of adaptation, filming, production, distribution, performance, screening, translation, compilation, exhibition, communication of information via network of TV series, games, stage plays, and cartoons (excluding electronic version or wireless electronic version of novels)	April 1, 2016 to March 31, 2021
(6)	The Love Lasts Two Minds (兩世歡)	Huzhou Jiyue Jiaojiao Movie and Television Studio (湖州寂月皎皎影 視工作室)	Hangzhou Yide	Right of adaptation, filming, production, distribution, reproduction, performance, renewal, screening, translation, compilation, exhibition, communication of information via network of TV series, games, stage plays, and cartoons	October 31, 2016 to October 30, 2026
(7)	Hug You From The Future (擁抱未來的你)	Dazhou (Gui'an New Area) Interactive Entertainment Culture and Media Co., Ltd. (大周(貴安新區) 互動娛樂文化傳媒 有限公司)	Hangzhou Yide	Right of adaptation, filming, production, distribution, reproduction, performance, renewal, screening, translation, compilation, exhibition, communication of information via network of TV series, games, stage plays, cartoons, comics, games, and audio books	April 10, 2017 to April 9, 2023
(8)	Steal His Heart (偷走他的心)	Wang Siqi (王斯琪)	Hangzhou Yide	Right of adaptation, filming, and distribution of movies and TV series	December 1, 2017 to November 30, 2022
(9)	Sha Po Lang (殺破狼)	Liu Yao (劉垚)	Hangzhou Yide	Right of adaptation, filming, production, distribution, reproduction, performance, renewal, screening, translation, compilation, exhibition, communication of information via network of TV series and games	January 1, 2016 to December 31, 2020
(10)	On The Stream Of Silence And Loneliness (在寂與 寞的川流上)	Covetous (Shanghai) Culture and Art Studio (寐語者(上海)文化藝術 工作室)	Jiangsu Strawbear	Adaptation right of TV/web dramas	August 15, 2016 to August 15, 2021

No.	Name of Copyright	Licensor	Licensee	Rights	Period
(11)	Where Are You From (客從何處來)	Shanghai Xingliu Movie and Television Culture Studio (上海星流影視文化工作室)	Jiangsu Strawbear	Adaptation right of movies and TV series	January 15, 2017 to January 14, 2022
(12)	Wave Chasing Plan (逐浪計劃)	Shanghai Linxiaoran Movie and Television Culture Studio (上海林小染影視文化工作室)	Jiangsu Strawbear	Property rights of copyright (including but not limited to right of reproduction, adaptation and communication of information via network)	5 years from August 1, 2017
(13)	Edge Of Abyss (臨淵)	Xu Lingling (許玲玲)	Jiangsu Strawbear	Adaptation right of movies, TV series, web dramas, and games	April 15, 2016 to April 14, 2022
(14)	Tower Of Self-Redemption (浮圖塔)	Xu Lingling (許玲玲)	Jiangsu Strawbear	Adaptation right of movies, TV series, web dramas, and games	April 15, 2016 to April 14, 2023
(15)	Marry Me (三嫁惹君心)	Deng Yuxi (鄧羽汐)	Jiangsu Strawbear	Right of adaptation, filming, performance and production of movies, TV series, cartoons and games and right of distribution, reproduction, exhibition, screening, broadcasting, and communication of information via network of adapted works	October 2, 2016 to October 1, 2021
(16)	Bearing (承載)	Nanjing Huaner Movie and Television Culture Co., Ltd. (南京歡兒影視文化有限公司)	Jiangsu Strawbear	Adaptation right (TV series)	Until the expiry date of the copyright of the work Bearing (承載)
(17)	Handsome Boy (英俊的少年)	Hangzhou Hailala Cultural Media Co. Ltd. (杭州海啦啦文化傳媒有限公司)	Jiangsu Strawbear	Right of adaptation, production, distribution and using of TV series and audiovisual products	May 10, 2020 to April 30, 2025
(18)	The Wind Catcher (捕風者)	Chen Haifei (陳海飛)	Jiangsu Strawbear	Right of adaptation, production, distribution and using of TV series and audiovisual products	April 1, 2018 to March 31, 2023

(v) Licensed rights of drama series and web films

No.	Name of Copyright	Licensor	Licensee	Permitted Areas	Period
(1)	Dear Myself (親愛的自己)	Sichuan Xingkong Movie and Television Culture and Media Co., Ltd. (四川星空影視文化傳媒有限公司)	Jiangsu Strawbear	PRC	December 16, 2019 to December 15, 2022
(2)	Detective Ke Chen (神探柯晨)	Beijing iQIYI	Jiangsu Strawbear	PRC	June 24, 2019 to June 23, 2024
(3)	The Legends (招搖)	Beijing iQIYI	Jiangsu Strawbear	PRC	January 28, 2019 to January 27, 2024
(4)	The Drug Hunter (獵毒人)	Changzhou Duoduo Sunflower Movie and Television Culture and Media Co., Ltd. (常州朵朵葵花影視文化傳媒有限公司)	Jiangsu Strawbear	Zhejiang	August 14, 2018 to August 14, 2021
(5)	Mask (面具)	Beijing iQIYI	Jiangsu Strawbear	PRC	July 7, 2018 to July 5, 2021
(6)	The Secret Of The Dragon Shrimp (沒譜廚神)	Ergeng Media (Australia) Co., Ltd. 二更傳媒(澳洲)有限公司 Luying Culture Development (Shanghai) Co., Ltd. (鹿影文化發展(上海)有限公司) Nanjing Sunrise Moshang Culture and Media Co., Ltd. (南京日出陌上文化傳媒有限公司)	Jiangsu Strawbear	PRC	March 7, 2019 to March 6, 2024
(7)	My! P.E. Teacher (我的! 體育老師)	Youku Information Technology (Beijing) Co., Ltd. (優酷信息技術(北京)有限公司)	Jiangsu Strawbear	Zhejiang	November 13, 2017 to November 12, 2020
(8)	Untouchable Lovers (鳳囚凰)	Beijing iQIYI	Jiangsu Strawbear	PRC	5 years from first broadcast
(9)	Ding Daming (丁大命)	Nanjing Sanbao Junkun Movie and Television Co., Ltd. (南京三胞君坤影視有限公司)	Jiangsu Strawbear	Global	July 9, 2018 to July 9, 2023
(10)	Lost Love In Times (醉玲瓏)	New iPicture (Shanghai) Culture and Media Co., Ltd. (新派系(上海)文化傳媒有限公司)	Jiangsu Strawbear	PRC	from the date of execution of the agreement to the 7th anniversary of first broadcast
(11)	Winter Begonia (鬢邊不是海棠紅)	Beijing iQIYI	Jiangsu Strawbear	PRC	from the effective date of the agreement to the end of the 60th month since first broadcast
(12)	Get Married Or Not (誰說我結不了婚)	Beijing iQIYI Internet Technology Co., Ltd. (北京愛奇藝互聯科技有限公司)	Jiangsu Strawbear	Mainland China	from the effective date of the agreement to the 3rd anniversary of first broadcast

(vi) *Software copyright*

No.	Copyright	Registration Number	Registration Date
1.	Nova Multi-channel Camera Synchronization Setting Software V1.0 (諾華多路相機同步設置軟件V1.0)	2015SR203528	October 22, 2015
2.	Nova DMX Light Control Software V1.0 (諾華DMX燈光控制軟件V1.0)	2015SR203286	October 22, 2015
3.	Nova Virtual Actor Collection Software V1.0 (諾華虛擬演員採集軟件V1.0)	2015SR203532	October 22, 2015
4.	Nova Production Process Management System V1.0 (諾華生產流程管理系統V1.0)	2016SR062120	March 25, 2016
5.	Nova Expression Capture Control Software for Binocular Camera V1.0 (諾華雙目攝像頭表情捕捉控制軟件V1.0)	2016SR213839	August 11, 2016
6.	Nova Facial Expression Driving Data Computing Software V1.0 (諾華面部表情驅動數據計算軟件 V1.0)	2018SR424562	June 6, 2018
7.	Nova Real-time Image-matting Software V1.0 (諾華實時摺像軟件V1.0)	2018SR421966	June 6, 2018
8.	Nova Wireless Synchronous Capturing Control System for Multi-channel HD Camera V1.0 (諾華無線多路高清攝像頭同步採集控制系統V1.0)	2018SR426055	June 7, 2018
9.	Wide Color Gamut LED Color Mixing System V1.0 (寬色域LED混色系統V1.0)	2018SR470300	June 21, 2018
10.	Dynamic Model Reconstruction Software V1.0 (動態模型重建軟件V1.0)	2020SR1122776	September 18, 2020
11.	High-precision Restoration and Displacement Software for Maps and Normals V1.0 (高精度還原置換貼圖及法綫軟件V1.0)	2020SR1121290	September 18, 2020

Note:

- (1) As advised by our PRC Legal Advisors, complete copyright includes (i) the right of publication; (ii) the right of authorship; (iii) the right of revision; (iv) the right of integrity; (v) the right of re-production; (vi) the right of distribution; (vii) the right of rent; (viii) the right of exhibition; (ix) the right of performance; (x) the right of projection; (xi) the right of broadcasting; (xii) the right of communication of information via network; (xiii) the right of cinematization; (xiv) the right of adaptation; (xv) the right of translation; (xvi) the right of compilation; and (xvii) the other rights to which a copyright owner is entitled.

(d) Domain names

As of the Latest Practicable Date, we have registered the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registrant	Expiry Date
(1)	strawbear.net	Jiangsu Strawbear	April 28, 2021
(2)	strawbearchina.com	Jiangsu Strawbear	April 28, 2021
(3)	strawbearculture.cn	Jiangsu Strawbear	April 28, 2021
(4)	strawbearculture.com	Jiangsu Strawbear	April 28, 2021
(5)	strawbearentertainment.cn	Jiangsu Strawbear	April 28, 2021
(6)	strawbearentertainment.com	Jiangsu Strawbear	April 28, 2021
(7)	strawbearentertainment.xyz	Jiangsu Strawbear	April 29, 2021
(8)	strawbearfilm.cn	Jiangsu Strawbear	April 28, 2021
(9)	strawbearfilm.xyz	Jiangsu Strawbear	April 29, 2021
(10)	strawbeargroup.cn	Jiangsu Strawbear	April 28, 2021
(11)	strawbeargroup.com	Jiangsu Strawbear	April 28, 2021
(12)	strawbeargroup.xyz	Jiangsu Strawbear	April 29, 2021
(13)	strawbearhk.cn	Jiangsu Strawbear	April 28, 2021
(14)	strawbearhk.com	Jiangsu Strawbear	April 28, 2021
(15)	strawbearpicture.cn	Jiangsu Strawbear	April 28, 2021
(16)	strawbearpicture.com	Jiangsu Strawbear	April 28, 2021
(17)	strawbearpicture.xyz	Jiangsu Strawbear	April 29, 2021
(18)	novafilm.cn	Nova Film	July 9, 2023
(19)	novafilm.com.cn	Nova Film	July 9, 2023

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

(1) Disclosure of Interests

(a) *Disclosure of interest – interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following the completion of the Global Offering (without taking into account the Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the Pre-IPO Share Options), the interest or short position of our Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our 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 for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

(i) *Interest in the Shares of our Company*

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of Shares⁽¹⁾</u>	<u>Approximate percentage of shareholding⁽¹⁾</u>
Mr. Liu	Founder of a discretionary trust ⁽²⁾	290,480,000	43.81%
	Interest held through voting powers entrusted by other persons ⁽³⁾	109,520,000	16.52%
Ms. Zhai	Founder of a discretionary trust ⁽⁴⁾	32,000,000	4.83%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue immediately following the completion of the Global Offering (without taking into account the Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the Pre-IPO Share Options).
- (2) Leading Glory is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu. Accordingly, each of Master Sagittarius, Master Genius and Mr. Liu is deemed to be interested in all the Shares held by Leading Glory.
- (3) Pursuant to the Voting Arrangement Agreements, Mr. Liu, Master Sagittarius and Leading Glory are able to exercise voting rights entrusted from the other signing parties and are therefore deemed to be interested in the shareholding interest in our 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."
- (4) Golden Basin is owned as to (i) 99% by Smart Century, the holding vehicle used by Family Trust Singapore, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai as the settlor and protector and Ms. Zhai's wholly-owned holding company Gold Fish as the beneficiary; and (ii) 1% by Gold Fish which is wholly owned by Ms. Zhai. Accordingly, each of Gold Fish, Smart Century and Ms. Zhai is deemed to be interested in all the Shares held by Golden Basin.

(ii) *Interest in underlying Shares of our Company*

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of underlying Shares subject to the Pre-IPO Share Options</u>	<u>Approximate percentage of shareholding⁽¹⁾</u>
Mr. Liu	Interest in a controlled corporation ⁽²⁾	37,648,000	5.68%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue immediately following the completion of the Global Offering (without taking into account the Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the Pre-IPO Share Options).
- (2) Gorgeous Horizon, being the beneficial owner of the Pre-IPO Share Options, is wholly owned by Success Tale which is wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary.

(iii) *Interest in our associated corporation*

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Name of associated corporation⁽¹⁾</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu	Beneficial owner	Jiangsu Strawbear	77.9%
	Interest held through voting powers entrusted by other persons ⁽²⁾	Jiangsu Strawbear	22.1%
Ms. Zhang	Beneficial owner	Jiangsu Strawbear	1.0%
Ms. Zhai	Beneficial owner	Jiangsu Strawbear	0.1%

Notes:

- (1) Jiangsu Strawbear is deemed as a subsidiary of our Company under the Contractual Arrangements, and therefore is an associated corporation of our Company by virtue of the SFO.
- (2) Pursuant to the Voting Arrangement Agreements, Mr. Liu 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."

(b) *Disclosure of interest — interests and short positions disclosable under Divisions 2 and 3 of the Part XV of the SFO*

Save as disclosed in “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have an interest or short position in the Shares or underlying shares which are required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

As of the Latest Practicable Date, so far as is known to our Directors, the following persons were interested in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or had option in respect of such capital.

<u>Name of shareholder</u>	<u>Nature of interest</u>	<u>Name of member of our Group</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu	Beneficial owner	Jiangsu Strawbear	77.9%
	Interest held through voting powers entrusted by other persons ⁽¹⁾	Jiangsu Strawbear	22.1%
Ms. Liu	Beneficial owner	Jiangsu Strawbear	20.0%
Wuxi Youkong	Beneficial owner	Wuxi Strawbear	40.0%
Ms. Liu Tong (劉桐)	Interest in a controlled corporation ⁽²⁾	Wuxi Strawbear	40.0%
Lihe Xinfeng (Beijing) Culture Media Co., Ltd. (勵合新蜂(北京)文化傳播有限公司) (“ Lihe Xinfeng ”)	Beneficial owner	Beijing Honeybear	49%
Ms. Lin Ruiyu (林瑞如)	Interest in a controlled corporation ⁽³⁾	Beijing Honeybear	49%
Xiangshan Xingyu Yaoyun Film Culture Co., Ltd. (象山星宇耀雲影視文化有限公司) (“ Yaoyun Film ”)	Beneficial owner	Xingyu Yinyue	49%
Mr. Wang Chong (王冲)	Interest in a controlled corporation ⁽⁴⁾	Xingyu Yinyue	49%

Note:

- (1) Pursuant to the Voting Arrangement Agreements, Mr. Liu 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.”
- (2) Ms. Liu Tong (劉桐) is interested in 35% of the equity interest in Wuxi Youkong and is therefore deemed to be interested in the shareholding interest in Wuxi Strawbear held by Wuxi Youkong by virtue of the SFO.
- (3) Ms. Lin Ruiyu (林瑞如) is interested in 100% of the equity interest in Lihe Xinfeng and is therefore deemed to be interested in the shareholding interest in Beijing Honeybear held by Lihe Xinfeng by virtue of the SFO.
- (4) Mr. Wang Chong (王冲) is interested in 100% of the equity interest in Yaoyun Film and is therefore deemed to be interested in the shareholding interest in Xingyu Yinyue held by Yaoyun Film by virtue of the SFO.

(2) Particulars of Directors' Service Contracts and Letters of Appointment

Each of Mr. Liu, Ms. Zhang, Mr. Chen Chen and Ms. Zhai, being our executive Directors, has entered into a service contract with our Company, under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date. The service contracts may be renewed in accordance with our Memorandum and Articles of Association and the applicable laws, rules and regulations.

Each of Mr. Wang Xiaohui and Mr. Wang Jun, being our non-executive Directors has entered into a letter of appointment with our Company, under which they agreed to act as non-executive Director for an initial term of three years commencing from the Listing Date. The letters of appointment may be renewed in accordance with our Memorandum and Articles of Association and the applicable laws, rules and regulations.

Each of Mr. Ma Zhongjun, Mr. Zhang Senquan, and Mr. Chung Chong Sun, being our independent non-executive Directors has entered into a letter of appointment with our Company, under which they agreed to act as independent non-executive Director for an initial term of three years from the date of appointment or until the third annual general meeting of the Company since the Listing Date, whichever ends earlier. The letters of appointment may be renewed in accordance with our Memorandum and Articles of Association and applicable laws, rules and regulations.

(3) Directors' Remuneration

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 were RMB0.8 million, RMB43.3 million, RMB1.6 million and RMB2.9 million, respectively. An aggregate of 800 Shares of our Company were transferred from certain of our then existing Shareholders to one of our key management personnel at nil consideration in 2018, which are accounted for as a share-based compensation expense in our Group's profit or loss for the year ended December 31, 2018. See Note 34 to the Accountants' Report in Appendix I to this prospectus for further details. In addition, a share based compensation expense of approximately RMB2.1 million relating to the Pre-IPO Share Options granted to Mr. Liu on May 11, 2020 were recognized in our Group's profit or loss for the six months ended June 30, 2020.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

Save as disclosed above, no other payments have been made or are payable in respect of the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 by any member of our Group to any of our Directors.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any members of our Group.

It is estimated that remuneration equivalent to approximately RMB12.2 million in aggregate will be paid to the Directors (inclusive of benefits in kind but exclusive of any discretionary bonuses) by our Company for the year ending December 31, 2020, based on the arrangements currently in force including certain share based compensation expense relating to the Pre-IPO Share Options granted to Mr. Liu on May 11, 2020, details of which are set out in Note 34 of the Accountants' Report in Appendix I to this prospectus.

(4) Personal Guarantees

Save as disclosed in “Relationship with Our Controlling Shareholders — Independence from Our Controlling Shareholders — Financial Independence” and “Financial Information — Indebtedness — Bank Borrowings,” our Directors have not provided personal guarantees in favor of lenders in connection with banking facilities granted or to be granted to any member of our Group.

(5) Agency Fees or Commissions Received

No commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

(6) Disclaimers

- (a) Save as disclosed in “— C. Further Information About Our Directors and Substantial Shareholders — (1) Disclosure of Interests,” none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed;
- (b) none of our Directors or any of the experts referred to under paragraph headed “D. Other Information — (8) Qualification of Experts” in this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (d) save as disclosed in “— C. Further Information About Our Directors and Substantial Shareholders — (2) Particulars of Directors' Service Contracts and Letters of Appointment,” none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

- (e) save as disclosed in “— C. Further Information About Our Directors and Substantial Shareholders — (1) Disclosure of Interests,” taking no account of any Shares which may be taken up under the Global Offering, so far as is known to our Directors or the chief executive of our Company, no person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (f) so far as is known to our Directors, except iQIYI, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

(1) Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme effective from May 11, 2020. The terms of the Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for Shares after the Listing.

(a) Purpose

The purpose of the Pre-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The Pre-IPO Share Option Scheme provides the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

(b) Who may join

Our Board (which expression shall, for the purpose of this paragraph, include a duly authorized committee thereof) may determine any directors and employees of any member of our Group (including nominees and/or trustees of any employee benefit trusts established for them), who our Board considers, in its sole discretion, have contributed to our Group, to take up options to subscribe for Shares.

(c) Maximum number of Shares

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time shall not exceed 37,648,000 Shares, representing 5.68% of the total issued Shares immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options) (the “Scheme Limit”).

(d) Vesting Period

The underlying Shares in respect of the options may be vested in the Grantees in accordance with the vesting schedule set out below, subject to the satisfaction of performance condition as determined by the Board at its discretion.

<u>Vesting Date</u>	<u>Maximum percentage of underlying Shares in respect of the options may be vested</u>
May 12, 2022	5%
May 12, 2023	10%
May 12, 2024	15%
May 12, 2025	30%
May 12, 2026	40%

Notwithstanding the above, the Board may in its sole discretion amend the vesting schedule and vest any percentage of the underlying Shares in respect of the options.

(e) Subscription price for Shares

The subscription price in relation to each Share issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme shall be determined by the Board at its discretion and set out in the relevant offer, provided that it shall not be less than the nominal value of a Share as at the date of grant.

A nominal consideration of RMB1.00 is payable by a Grantee upon acceptance of the grant of the options.

(f) Time of acceptance and exercise of option

An option may be accepted by a participant within 10 business days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each Grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Pre-IPO Share Option Scheme.

(g) *Cancellation of options granted*

Any options granted but not exercised may be canceled if the relevant Grantee so agrees in writing. Issuance of new options to the same Grantee may only be made if there are unissued options available under the Pre-IPO Share Option Scheme (excluding the canceled options) and in compliance with the terms of the Pre-IPO Share Option Scheme.

(h) *Lapse of an option*

An option shall lapse automatically (to the extent not already exercised and subject always to the terms and conditions upon which such option was granted) on the earliest of the expiry of the period referred to in subparagraph (f) or:

- (i) the expiry of the periods or dates referred to in sub-paragraphs (j), (k), (m) and (n);
- (ii) the date on which the Grantee (being an employee or a director of the Group) ceases to be a participant by reason of the termination of his employment or engagement on the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offense involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily;
- (iii) the date on which the Grantee joins a company which the Board believes in its sole and reasonable opinion to be a competitor of our Company;
- (iv) the date on which the Grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally;
- (v) unless our Board otherwise determines, and other than in the circumstances referred to in subparagraphs (j) or (k), the date the Grantee ceases to be a participant (as determined by a Board resolution) for any other reason;
- (vi) the date on which the Board determines at its sole discretion that allowing the relevant Grantee to exercise the option is not in the best interests of the Company; or
- (vii) the date on which the Board determines at its sole discretion that there is no reasonable prospect of obtaining the listing approval for the Shares to be issued pursuant to the exercise of the options from the Stock Exchange.

(i) *Period of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme will remain in force for the period ending on the latest practicable date for ascertaining certain information contained in this prospectus prior to the printing of this prospectus (inclusive of the date).

(j) *Rights on ceasing employment*

If the Grantee of an option is an eligible employee and ceases to be an eligible employee for any reason other than death, or on other grounds referred to in sub-paragraph (l) below before exercising his or her option in full, the Grantee may exercise the options then vested at any time prior to or the date of cessation unless the Board otherwise determines, in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the Grantee was physically at work with our Group whether salary is paid in lieu of notice or not.

(k) *Rights on death*

If the Grantee of an option ceases to be a participant by reason of his death, before exercising the option in full, the personal representative(s) of the Grantee shall be entitled to exercise the option in whole or in part within a period following the date of death of the Grantee as determined by the Board.

(l) *Rights on dismissal*

If the Grantee of an option ceases to be a participant by reason of the termination of his employment or engagement on the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offense involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily, his option will lapse automatically.

(m) *Rights on a general offer, a compromise or arrangement*

If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) is made to our Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall forthwith give notice thereof to the Grantee and the Grantee shall be entitled to exercise the option to its full extent or, if our Company shall forthwith give the relevant notification, to the extent notified by our Company, at any time within such period as shall be notified by our Company.

If a general offer for Shares by way of scheme of arrangement is made to all our Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company.

In the event of a compromise or arrangement, other than a scheme of arrangement, between our Company and our Shareholders and/or creditors being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which our Company was incorporated, our Company shall give notice thereof to all Grantees on the same day as it first gives notice of the meeting to its members and/or creditors summoning the meeting to consider such a scheme or arrangement and the Grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such option.

(n) Rights on winding up

In the event a notice is given by our Company to our Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to the Grantee and the Grantee (or in the case of the death of the Grantee, his personal representatives(s)) may at any time within such period as shall be notified by our Company, subject to the provisions of all applicable laws, exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed general meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such option.

(o) Adjustments

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares comprised in each option so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the option,

or any combination thereof, as the auditors or a financial adviser engaged by the Company for such purpose shall, at the request of the Company, certify in writing, either generally or as regards any particular Grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each Grantee the same proportion of the equity capital of the Company as that to which that Grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial adviser (as the case may be) in this sub-paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees. The costs of the auditors or financial adviser (as the case may be) shall be borne by the Company.

(p) Others

The exercise of the Pre-IPO Share Options is conditional on the Stock Exchange granting or agreeing to grant approval of (subject to such condition as the Stock Exchange may impose) the listing of and permission to deal in such number of Shares to be issued pursuant to the exercise of any Pre-IPO Share Options and the commencement of dealings in the Shares on the Stock Exchange. Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any Pre-IPO Share Options.

The rights of the Grantee of an option referred to in sub-paragraphs (j) to (n) above are subject to the terms and conditions upon the option was granted.

Any alterations to the terms and conditions of the Pre-IPO Share Option Scheme which are of a material nature or any change to the terms of options granted (except changes made to the terms and conditions of options granted at the request of the Stock Exchange and/or other regulatory authorities) must be approved by our Shareholders in a general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Pre-IPO Share Option Scheme.

Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Pre-IPO Share Option Scheme shall be approved by our Shareholders in a general meeting.

(q) Outstanding options granted

The grant of options under the Pre-IPO Share Option Scheme to the Grantee as set out below was approved by the Board on May 11, 2020. The overall limit on the number of underlying Shares pursuant to the Pre-IPO Share Option Scheme is 37,648,000 Shares. The number of underlying Shares pursuant to the Pre-IPO Share Options amounts to 37,648,000 Shares, representing 5.68% of the total issued Shares immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

The table below sets out the details of options granted to one Grantee, being our executive Director and chief executive officer, under the Pre-IPO Share Option Scheme:

<u>Name of Grantee</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Date of grant</u>	<u>Option period</u>	<u>Approximate percentage of issued Shares immediately after completion of the Global Offering (Note 1)</u>
Mr. Liu ⁽²⁾	Room 901, Unit 3, Building 3, No. 69, Zhanjiang Road, Gulou District, Nanjing, Jiangsu Province, the PRC	37,648,000	May 11, 2020	10 years from the date of the grant	5.68%

Notes:

- (1) The above table assumes that the Over-allotment Option and the Pre-IPO Share Options are not exercised. On every vesting date, the underlying Shares in respect of the Pre-IPO Share Options may be vested in the Grantee in accordance with the vesting schedule as disclosed in sub-paragraph (d) above, subject to the satisfaction of performance condition as determined by the Board at its discretion. Notwithstanding the above, the Board may in its sole discretion amend the vesting schedule and vest any percentage of the underlying Shares in respect of the Pre-IPO Share Options.

- (2) On November 18, 2020, Mr. Liu transferred all of his 37,648,000 Pre-IPO Share Options to Gorgeous Horizon which is indirectly wholly owned by Employee Trust Hong Kong, the trustee of the LXF Option Trust. The LXF Option Trust is a personal discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary.

Save and except as set out above, no other options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme.

As of the Latest Practicable Date, all of the Pre-IPO Share Options were not exercised and remained outstanding. Assuming full vesting and exercise of the outstanding Pre-IPO Share Options, the shareholding percentage of our Shareholders immediately following the Listing would be diluted by approximately 5.37% as calculated based on 700,748,000 Shares then in issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) and the dilution effect on our earnings per Share would be 5.37%.

(r) Ranking of Shares

Shares allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of our Company and subject to all the provisions of the Memorandum and Articles and will rank pari passu with the fully paid Shares in issue on the date the name of the grantee is registered on the register of members of our Company or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company) declared or recommended or resolved to be paid to the Shareholders on the register on a date prior to such registration.

Unless the context otherwise requires, references to "Shares" in this sub-paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(s) Termination

Our Company may by ordinary resolution in a general meeting or the Board may at any time resolve to terminate the operation of the Pre-IPO Share Option Scheme prior to the expiry of the Pre-IPO Share Option Scheme and in such event no further options shall be offered or granted but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

(2) Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

(3) Litigation

During the Track Record Period and up to the Latest Practicable Date, so far as our Directors are aware, no litigation or claim of material importance (to our Group's financial condition or results of operation) is pending or threatened against any member of our Group.

(4) Joint Sponsors and Joint Sponsors' Fees

The Joint Sponsors have made an application on our behalf to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including the additional Shares which may fall to be issued pursuant to exercise of the Over-allotment Option (if any), and the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme).

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The sponsor fee payable to the Joint Sponsors by our Company is US\$800,000.

(5) Preliminary Expenses

The preliminary expenses incurred by us in relation to our incorporation were approximately US\$7,270 and were paid by us.

(6) Promoter

We do not have any promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this prospectus.

(7) Taxation of Holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(c) Consultation with Professional Advisors

Intending holders of the Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercise of any rights attaching to them.

(8) Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
China Merchants Securities (HK) Co., Limited	Licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO
China Securities (International) Corporate Finance Company Limited	Licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Commerce & Finance Law Offices	PRC legal advisors to our Company
Harney Westwood & Riegels	Cayman Islands legal advisors to our Company
Frost & Sullivan	Industry consultant

(9) Consents of Experts

Each of China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited, Ernst & Young, Commerce & Finance Law Offices, Harney Westwood & Riegels and Frost & Sullivan has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its view, report and/or letter and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

(10) Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

(11) Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

(12) Miscellaneous

- (a) Within the two years immediately preceding the date of this prospectus:
 - (i) save as disclosed in “History, Reorganization and Corporate Development,” no share or loan capital of our Company or any of our subsidiaries had been issued or agreed to be issued or proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms had been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (iii) no commission had been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) save as disclosed in this prospectus, no share or loan capital of our Company or any of our subsidiaries had been under option or agreed conditionally or unconditionally to be put under option;
- (c) save as disclosed in this prospectus, there are no founder, management or deferred shares, convertible debt securities nor any debentures in our Company or any of our subsidiaries;
- (d) our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since June 30, 2020 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;

- (f) our principal register of members will be maintained by our principal registrar, Harneys Fiduciary (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by Tricor Investor Services Limited. All transfer and other documents of title of the Shares must be lodged for registration with and registered by our share register in Hong Kong.
- (g) all necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (h) no company within our Group is listed on any stock exchange or traded on any trading system and at present, and our Group is not seeking or proposing to seek any listing of, or permission to deal in, the share or loan capital of our Company on any other stock exchange; and
- (i) there is no arrangement under which future dividends are waived or agreed to be waived.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — (1) Summary of Material Contracts”; and
- (c) the written consents referred to in “Appendix IV — Statutory and General Information — D. Other Information — (9) Consents of Experts”.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of William Ji & Co. LLP (in Association with Tian Yuan Law Firm Hong Kong Office) at Suites 3304-3309, 33/F, Jardine House, One Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the Accountants’ Report for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information prepared by Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of the Group for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020;
- (e) the legal opinion issued by Commerce & Finance Law Offices, our PRC Legal Advisors, dated the date of this prospectus in respect of certain aspects of our Group;
- (f) the letter of advice prepared by Harney Westwood & Riegels, our legal advisor as to the Cayman Islands laws, summarizing certain aspects of the Cayman Islands Company Act referred to in Appendix III to this prospectus;
- (g) the material contracts referred to in the section headed “Appendix IV — Statutory and General Information — B. Further Information about Our Business — (1) Summary of Material Contracts”;

- (h) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — D. Other Information — (9) Consents of Experts” in this prospectus;
- (i) the service contracts and the letters of appointment referred to in the section headed “Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — (2) Particulars of Directors’ Service Contracts and Letters of Appointment”;
- (j) the Cayman Companies Act;
- (k) the Frost & Sullivan Report; and
- (l) the rules of the Pre-IPO Share Option Scheme and a list of grantees thereunder.



STRAWBEAR ENTERTAINMENT GROUP