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APPLICATION PROOF OF

Values Cultural Investment Limited

(Incorporated in the Cayman Islands with limited liability)

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Values Cultural Investment Limited (Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Total Number of [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to [REDACTED] and the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to [REDACTED])
[REDACTED] : Not more than [REDACTED] per [REDACTED] and expected to be not less than [REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : US\$[0.000005] per Share
[REDACTED] : [•]

Sole Sponsor



[REDACTED] International Capital Limited

[REDACTED] and [REDACTED]

[LOGO]

[LOGO]

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The [REDACTED] is expected to be determined by the [REDACTED] between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on or before [Thursday], [24 October 2019] or such later time as may be agreed between the parties, but in any event, no later than [Friday], [25 October 2019]. The [REDACTED] will be not more than [REDACTED] per [REDACTED] and is currently expected to be not less than [REDACTED] per [REDACTED], unless otherwise announced. Investors applying for the [REDACTED] must pay, on application, the maximum [REDACTED] of [REDACTED] for each [REDACTED] together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the [REDACTED] is lower than [REDACTED] per [REDACTED].

The [REDACTED], on behalf of the [REDACTED], may, with the consent of our Company, reduce the indicative [REDACTED] range stated in this document and/or the number of [REDACTED] being [REDACTED] at any time prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, notices of such reduction will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.yuanshimedia.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the [REDACTED].

If, for any reason, the [REDACTED] is not agreed between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on or before [Friday], [25 October 2019], the [REDACTED] will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed “Risk Factors” in this document.

Prospective investors of the [REDACTED] should note that the obligations of the [REDACTED] under the [REDACTED] to subscribe, and to procure subscribers to subscribe for, the [REDACTED], are subject to termination by the [REDACTED] (for themselves and on behalf of the [REDACTED]) if certain events shall occur prior to 8:00 a.m. (Hong Kong time) on the [REDACTED]. Further details of the terms of such provisions are set out in the section headed “[REDACTED]” in this document.

[REDACTED]

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EXPECTED TIMETABLE^(Note 1)

[REDACTED]

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EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

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EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

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IMPORTANT NOTICE TO INVESTORS

This document is issued by our Company solely in connection with the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this document pursuant to the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] or the distribution of this document in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this document and the [REDACTED] to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorised by us, the Sole Sponsor, the [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors, officers, representatives or advisors or any other person involved in the [REDACTED]. Information contained on our website, located at www.yuanshimedia.com, does not form part of this document.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. 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 [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

Our Group was established in 2013 and is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. Our customers include TV stations (including their operating entities), companies which are engaged in the business of distribution of TV series, executive producers and copyright owners of the TV series. Since our incorporation and as at the Latest Practicable Date, we had produced and licensed more than 15 TV series covering a wide spectrum of genres. Our TV series are broadcast on well-known TV stations such as CCTV, Tianjin Radio & Television Station* (天津廣播電視台), Shandong Radio and Television (山東廣播電視台) and Anhui Broadcasting Corporation (安徽廣播電視台) and online video platforms such as iqiyi.com (愛奇藝), v.qq.com (騰訊視頻), fun.tv (風行網) and pptv.com (PP視頻).

Licensing of broadcasting rights of TV series

Our business of licensing of broadcasting rights of TV series involves the licensing of broadcasting rights of TV series produced by us as executive producer or TV series that we have purchased the copyrights (or broadcasting rights).

Licensing of broadcasting rights of self-produced TV series

We produce TV series either solely by ourselves or jointly with an investor under a co-financing arrangement. Under the co-financing arrangement, if we act as the executive producer, we contribute the majority of the investment amount and take a leading role in the production and distribution of such TV series. We are responsible for overseeing the whole production and distribution process while the other minority investor takes a passive role and mainly makes equity investment with limited involvement in the production process and/or distribution process such as casting and reviewing of production budgets.

Licensing of broadcasting rights of purchased TV series

Our Group purchases copyrights (or broadcasting rights) associated with the TV series from copyright owners of the TV series and in turn license the broadcasting rights to our customers.

Investment in TV series as non-executive producer

We reach co-financing arrangement with the executive producer of the TV series through which we act as non-executive producer and minority investor of the TV series. As a non-executive producer, not only we make equity investment in the TV series, but also, as the case may be, participate in the production and/or distribution process. By leveraging on our industry insights and extensive experience of TV series production and distribution, we provide advice to executive producers based on the market trends regarding the production process in relation to quality control, casting, shooting and post-production and may determine certain matters jointly with the executive producers.

SUMMARY

Acting as the distribution agent of TV series

We act as distribution agent for copyright owners of TV series who approach us from time to time given our well established relationship with our customers and our reputation in the industry. We may also act as distribution agent for the executive producers (who are also copyright owners) of the TV series that we act as non-executive producer. We promote the relevant TV series to the TV stations (including their operating entities) and negotiate the terms and conditions relating to the licensing of the broadcasting rights of the TV series with them on behalf of the copyright owners of the TV series.

During the Track Record Period, all of our revenue were generated from customers located in the PRC, and were denominated in RMB. The following table sets forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue from contracts with customers						
Licensing of broadcasting rights of TV series . . .	101,503	99.5	92,350	93.0	138,618	90.0
Distribution service of TV series	472	0.5	—	—	12,939	8.4
Revenue from other source						
Income under co-financing arrangements	—	—	6,916	7.0	2,528	1.6
	<u>101,975</u>	<u>100.0</u>	<u>99,266</u>	<u>100.0</u>	<u>154,085</u>	<u>100.0</u>

Income under co-financing arrangements refers to income generated from our investment in TV series as non-executive producer.

Our revenue remained stable at approximately RMB99.3 million for FY2017 as compared to approximately RMB102.0 million for FY2016. Our revenue increased by approximately RMB54.8 million or approximately 55.2% from approximately RMB99.3 million for FY2017 to approximately RMB154.1 million for FY2018, primarily due to the (i) the growth in the number of the broadcasting rights of TV series we succeeded in licensing in FY2018; and (ii) the increase in revenue from the provision of distribution services.

For each of FY2016, FY2017 and FY2018, the total licence fee we earned from licensing of broadcasting rights of TV series were approximately RMB101.5 million, RMB92.4 million and RMB138.6 million, respectively, representing approximately 99.5%, 93.0% and 90.0% of the total revenue, respectively.

The following table sets forth a breakdown of our revenue from licensing the broadcasting rights of TV series by customers in absolute amounts and as percentages during the Track Record Period:

	FY2016			FY2017			FY2018		
	Number of TV series licensed*	Revenue		Number of TV series licensed*	Revenue		Number of TV series licensed*	Revenue	
		RMB '000	%		RMB '000	%		RMB '000	%
<i>TV stations</i>									
— Satellite channel									
— First-run	1	74,771	73.7%	1	46,676	50.5%	2	83,036	59.9%
— Reruns	1	11,321	11.2%	3	31,016	33.6%	2	41,359	29.8%
— Terrestrial television stations.	2	9,486	9.3%	3	9,790	10.6%	5	8,185	5.9%
Subtotal	2	95,578	94.2%	4	87,482	94.7%	4	132,580	95.6%
<i>Other customers</i>	1	5,925	5.8%	1	4,868	5.3%	1	6,038	4.4%
Total	2	101,503	100.0%	4	92,350	100.0%	10	138,618	100.0%

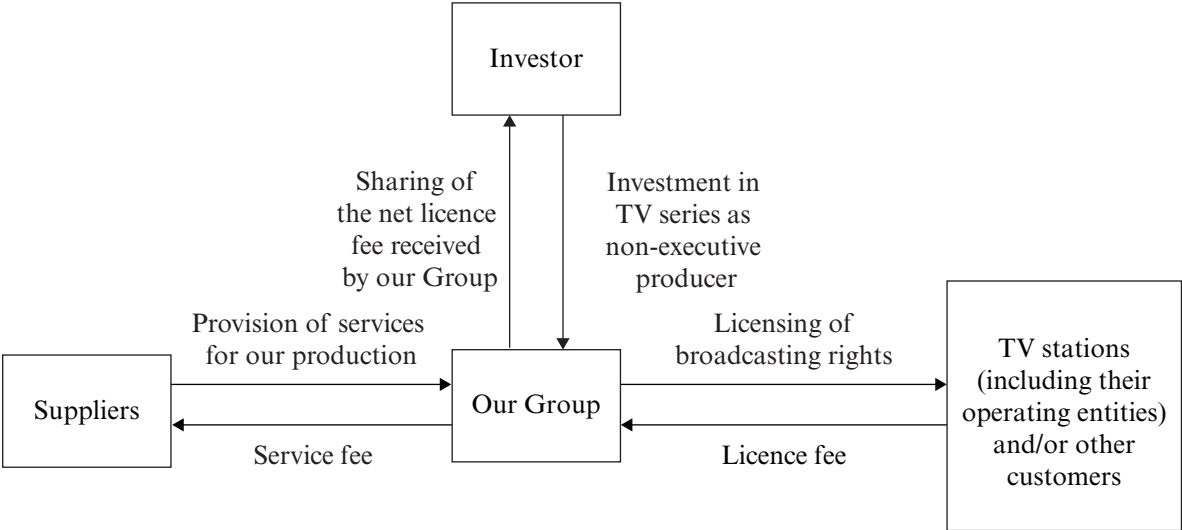
SUMMARY

* Taking into account that some TV series were licensed to both TV stations and other customers in the same financial year, the total number of TV series licensed shown may or may not be equal to the sum of numbers of TV series licensed to different customers.

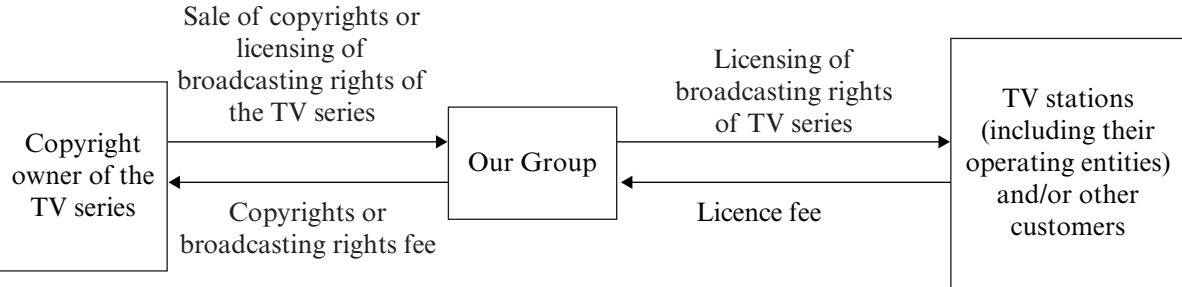
Please refer to the paragraph headed “Financial Information — Description of principal components of our results of operations — Revenue” for further details”.

Our business and revenue model

Our business of licensing of broadcasting rights of TV series produced by us as executive producer and its revenue model are summarised in the chart below:



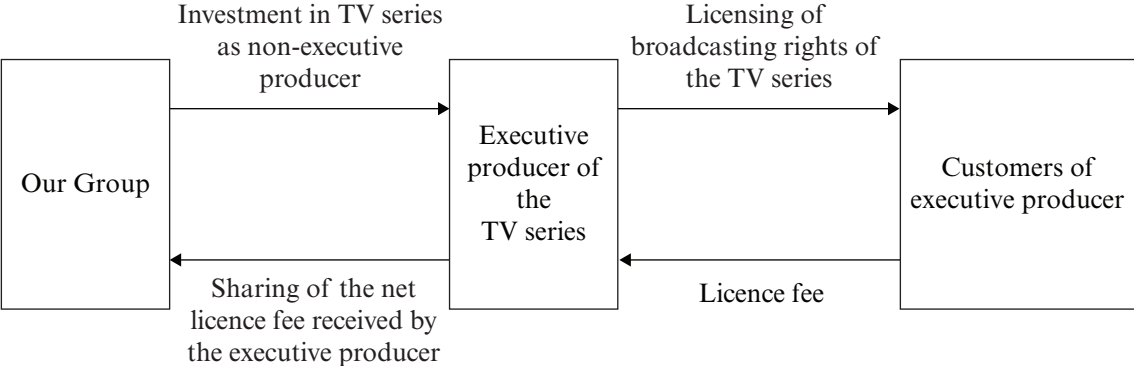
Our business of licensing of broadcasting rights of purchased TV series and its revenue model are summarised in the chart below:



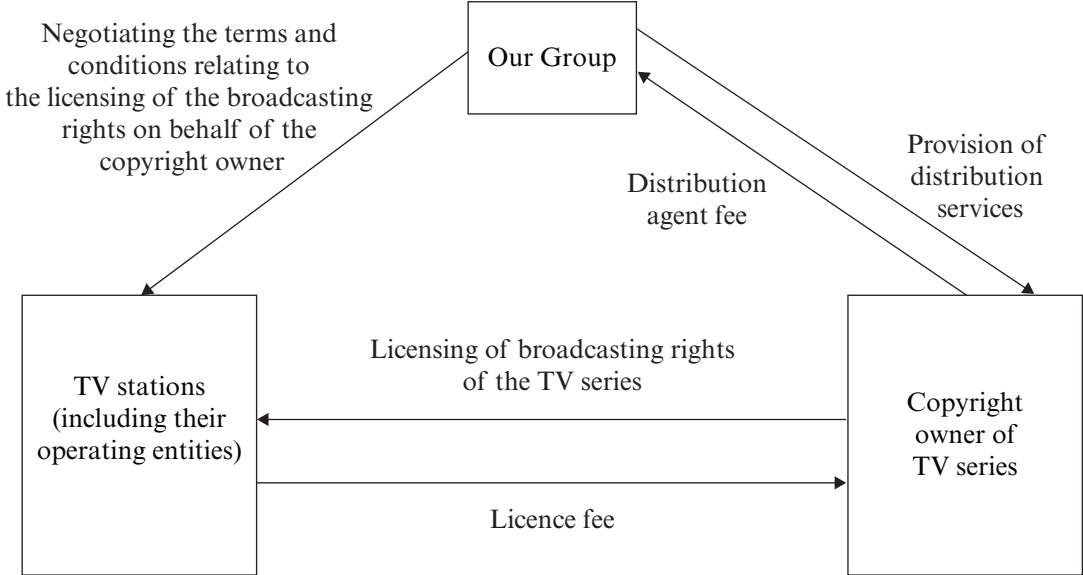
Our business of investment in TV series as non-executive producer and its revenue

SUMMARY

model are summarised in the chart below:



Our business of acting as distribution agent of TV series and its revenue model are summarised in the chart below:



Please refer to the paragraph headed “Business — Our business and revenue model” for further details”.

OUR MAJOR CUSTOMERS AND SUPPLIERS

Customers

During the Track Record Period, for our business of licensing of broadcasting rights of TV series, our customers were TV stations (including their operating entities) and companies which were engaged in the business of distribution of TV series; for our business of investment in TV series as non-executive producer, our customers were executive producers of the relevant TV series; and for our business of acting as the distribution agent of TV series, our customers were the copyright owners of the relevant TV series. During the Track Record Period, our five largest customers in aggregate accounted for approximately 91.9%, 82.9% and 84.2% of our total revenue respectively, and our largest customers accounted for approximately 37.8%, 24.5% and 39.5% of our total revenue respectively.

Please refer to the paragraph headed “Business — Customers” for further details”.

SUMMARY

Suppliers

Our suppliers mainly include copyright owners of the TV series who sell the copyright or license the broadcasting rights of the TV series to us and service providers in TV series production industry such as artists, scriptwriters, directors, cinematographers and art designers. During the Track Record Period, our five largest suppliers in aggregate accounted for approximately 46.3%, 60.6% and 56.8% of our total purchases respectively, and our largest suppliers accounted for approximately 14.5%, 17.7% and 19.5% of our total purchases respectively.

Please refer to the paragraph headed “Business — Suppliers” for further details”.

MARKET AND COMPETITION

According to the F&S Report, the drama series market is highly fragmented in China. In 2018, the top five drama series groups accounted for a total market share of 14.4% in terms of revenue generated from investment, production, and distribution of TV series and web series and we account for approximately 0.2% of the market share. According to the F&S Report, the entry barriers of the drama series market in China are relatively high in view of strict supervision by relevant administrations, large capital requirement, demand for experienced professional and reputable brand name.

Please refer to the paragraph headed “Business — Market and competition” for further details”.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths of our Group have contributed to our success: (i) well established track record of successful TV series with experienced and professional management team; (ii) well-developed and diversified network of customers; (iii) established and stable relationships with a variety of reliable suppliers; and (iv) well-positioned to combine and leverage on operations of our difference business segments.

Please refer to the paragraph headed “Business — Competitive strengths” for further details”.

OUR BUSINESS STRATEGIES

We intend to strengthen our position and expand revenue sources by implementing the following business strategies: (i) continue to strengthen and expand our business of licensing of broadcasting rights of TV series; (ii) expanding our business by tapping into the web series market; and (iii) further expand our in-house team and capacity to cope with future business opportunities.

Please refer to the paragraph headed “Business — Business strategies” for further details”.

FUTURE PLANS AND [REDACTED]

Assuming the [REDACTED] is not exercised and an [REDACTED] of [REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED] range of [REDACTED] to [REDACTED] per [REDACTED], the [REDACTED] to our Company from the issue of the [REDACTED], after deducting [REDACTED] fees and other professional expenses in the aggregate amount of approximately [REDACTED] paid and payable by our Company, in connection thereto, are estimated to be approximately [REDACTED]. We intend to apply such [REDACTED] from the [REDACTED] as follows:

- approximately [REDACTED] (equivalent to approximately [REDACTED]) or [REDACTED] of the [REDACTED] will be applied for production of the following TV series:

SUMMARY

<u>Genre of the TV series</u>	<u>Estimated total investment amount</u>	<u>Estimated investment amount from the [REDACTED] from the [REDACTED]</u>	<u>Estimated production commencement time</u>
1. Revolution	[REDACTED] (equivalent to approximately [REDACTED])	[REDACTED] (equivalent to approximately [REDACTED])	December 2019
2. Family drama	[REDACTED] (equivalent to approximately [REDACTED])	[REDACTED] (equivalent to approximately [REDACTED])	March 2020
3. Revolution	[REDACTED] (equivalent to approximately [REDACTED])	[REDACTED] (equivalent to approximately [REDACTED])	September 2020
4. Legend	[REDACTED] (equivalent to approximately [REDACTED])	[REDACTED] (equivalent to approximately [REDACTED])	December 2020

As at the Latest Practicable Date, we have arranged for record-filing and announcing of the production of three of the above TV series through the website of NRTA.

- approximately [REDACTED] (equivalent to approximately [REDACTED]) or [REDACTED] of the [REDACTED] will be applied for purchasing of copyrights (or broadcasting rights) associated with the TV series;
- the balance of approximately [REDACTED] (equivalent to approximately [REDACTED]) or [REDACTED] of the [REDACTED] will be applied as general working capital of our Group.

Please refer to the paragraph headed “Future Plans and [REDACTED] — [REDACTED]” for further details”.

SHAREHOLDER INFORMATION

Immediately following completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme, our Company will be owned as to (i) approximately [REDACTED] by BLW Investment, which is in turned owned as to approximately 43.44%, 23.17%, 15.44%, 8.30% and 9.65% by each of Mr. Bai, Ms. Liu, Mr. Wu, Ms. Wei and Mr. Liu respectively; and (ii) approximately [REDACTED] by Suiyong Int’l, which is wholly owned by~Suiyong Holdings. On 18 April 2016, the Core Shareholders entered into the acting in concert agreement, pursuant to which each of the Core Shareholders confirmed, among others, the existence of their acting in concert arrangements regarding their control over Values Culture since its establishment and further undertook that they will maintain the acting-in-concert relationship for five years from the date of this agreement. As each of BLW Investment Limited, the Core Shareholders, Suiyong Int’l and Suiyong Holdings is directly or indirectly entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of our Company immediately upon completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme), each of them will be regarded as our substantial shareholders under the Listing Rules.

Please refer to the section headed “Relationship with our Substantial Shareholders — Our Substantial Shareholders” for further details.

SUMMARY

PRINCIPAL RISK FACTORS

There are risks associated with any investment. Set out below are some of the major risks that may materially and adversely affect us:

- We have to keep up with the preferences and expectations of our customers and produce high-quality TV series, or we may lose support from our customers which could materially and adversely affect our business and financial condition.
- We have limited experience in producing web series and we may not be able to successfully implement our business strategies of tapping into web series market.
- Our business, financial condition and results of operations are heavily dependent on the market recognition of our reputation.
- We depend on the continuing efforts of our senior management members and key personnel and our ability to recruit and retain competent and dedicated personnel.
- Our business operation and financial performance are heavily subject to extensive government approvals and compliance requirements.
- We are exposed to credit risks in relation to our trade and notes receivables.
- Our financial condition may fluctuate due to a number of factors which are beyond our control.

The risks mentioned above are not the only significant risks that may affect our business and results of operations. As different investors may have different interpretations and standards for determining materiality of a risk, you are cautioned that you should carefully read the entire section headed “Risk Factors” in this document before you decide to invest in the Shares.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our combined statements of profit or loss and other comprehensive income for FY2016, FY2017 and FY2018, which is extracted from and should be read in conjunction with the accountant’s report set out in Appendix I to this document.

Highlights of combined statements of profit or loss and other comprehensive income

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	101,975	99,266	154,085
Cost of Sales	<u>(42,495)</u>	<u>(81,575)</u>	<u>(73,979)</u>
Gross profit	59,480	17,691	80,106
Other income and gains	<u>3,619</u>	<u>8,868</u>	<u>7,047</u>
Selling and distribution expense	(5,271)	2,246	(3,219)
Administrative expense	(7,569)	(9,292)	(6,886)
Impairment losses on financial assets	(3,987)	(4,732)	(6,843)
Other expenses	—	(8)	(32)
Finance costs	<u>(1,195)</u>	<u>(1,711)</u>	<u>(2,324)</u>
PROFIT BEFORE TAX	45,077	8,570	67,849
Income tax expense	<u>(12,274)</u>	<u>(1,879)</u>	<u>(3,366)</u>
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>
Attributable to:			
Owners of the parent	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>

SUMMARY

For FY2016, FY2017 and FY2018, our net profit was approximately RMB32.8 million, RMB6.7 million and RMB64.5 million, respectively. During the same period, our net profit margin was approximately 32.2%, 6.7% and 41.8%, respectively.

Our revenue remained stable at approximately RMB99.3 million for FY2017 as compared to approximately RMB102.0 million for FY2016. Our cost of sales increased by approximately RMB39.1 million or approximately 92.0% from approximately RMB42.5 million for FY2016 to approximately RMB81.6 million for FY2017. The increase was primarily attributable to the recognition of the majority of the total costs incurred for Jade* (女管家) as a result of our management’s downward revision of the total estimated revenue from the TV series taking into consideration of the actual distribution performance.

Our revenue increased by approximately RMB54.8 million or 55.2% from approximately RMB99.3 million for FY2017 to approximately RMB154.1 million for FY2018, primarily due to the (i) the growth in the number of the broadcasting rights of TV series we succeeded in licensing in FY2018; and (ii) the increase in revenue from the provision of distribution services. Our cost of sales decreased by approximately RMB7.6 million or approximately 9.3% from approximately RMB81.6 million in FY2017 to approximately RMB74.0 million in FY2018. Such decrease was not in line with the fluctuation in revenue for the same years, which increased by approximately 55.2% from RMB99.3 million in FY2017 to RMB154.1 million in FY2018. The comparatively high cost of sales in FY2017 was mainly attributable to the recognition of the majority of the total costs of our TV series Jade* (女管家) in FY2017, as its actual distribution performance in successive broadcasting runs underperformed our management’s original estimation. The cost of sales of Jade* (女管家) in FY2017 amounted to approximately RMB57.2 million, representing approximately 70.2% of our total cost of sales in FY2017.

Net current assets

The following table sets forth details of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT ASSETS				
Inventories	74,230	130,367	203,918	169,492
Trade and notes receivables	68,058	68,253	99,291	119,302
Prepayments, other receivables and other assets	43,850	62,527	88,619	103,203
Cash and cash equivalents	115,537	30,055	11,665	6,682
Total current assets	<u>301,675</u>	<u>291,202</u>	<u>403,493</u>	<u>398,679</u>
CURRENT LIABILITIES				
Trade payables	—	28,514	34,865	23,685
Other payables and accruals	1,637	7,039	5,846	5,679
Interest-bearing bank loans and other borrowings	35,000	—	43,000	37,000
Tax payable	14,392	—	—	4,417
Total current liabilities	<u>51,029</u>	<u>35,553</u>	<u>83,711</u>	<u>70,781</u>
NET CURRENT ASSETS	<u><u>250,646</u></u>	<u><u>255,649</u></u>	<u><u>319,782</u></u>	<u><u>327,898</u></u>

SUMMARY

Cash flow

As at 31 December 2016, 2017 and 2018, we had cash and cash equivalents of approximately RMB115.5 million, RMB30.1 million and RMB11.7 million, respectively. The following table sets forth a summary of our combined statements of cash flows during the Track Record Period:

	<u>FY2016</u> <i>RMB'000</i>	<u>FY2017</u> <i>RMB'000</i>	<u>FY2018</u> <i>RMB'000</i>
Net cash flows used in operating activities. . . .	(30,617)	(29,276)	(86,065)
Net cash flows (used in)/from investment activities	(7,163)	(19,490)	27,927
Net cash flows from/(used in) financing activities	<u>144,986</u>	<u>(36,716)</u>	<u>39,748</u>
Net increase/(decrease) in cash and cash equivalents.	107,206	(85,482)	(18,390)
Cast and cash equivalents at beginning of year	<u>8,331</u>	<u>115,537</u>	<u>30,055</u>
Cash and cash equivalents at end of year	<u><u>115,537</u></u>	<u><u>30,055</u></u>	<u><u>11,665</u></u>

Key financial ratios

The following table sets forth certain major financial ratios of our Group as at the date indicated:

	As at/for the year ended		
	31 December		
	2016	2017	2018
Return on total assets ^(Note 1)	10.8%	2.3%	15.8%
Return on equity ^(Note 2)	13.1%	2.6%	20.0%
Current ratio ^(Note 3)	5.9	8.2	4.8
Quick ratio ^(Note 4)	4.5	4.5	2.4
Gearing ratio ^(Note 5)	13.9%	N/A	13.3%
Debt to equity ratio ^(Note 6)	-32.1%	-11.7%	9.7%
Interest coverage ^(Note 7)	38.7	6.0	30.2
Net profit margin ^(Note 8)	32.2%	6.7%	41.8%

Notes:

- Return on total assets is calculated as profit/(loss) for the year/period divided by total assets multiplied by 100% as at the date indicated.
- Return on equity is calculated as profit/(loss) for the year/period divided by total equity multiplied by 100% as at the date indicated.
- Current ratio is calculated as total current assets divided by total current liabilities as at the date indicated.
- Quick ratio is calculated as current assets (net of inventories) divided by total current liabilities as at the date indicated.
- Gearing ratio is calculated as total debt (of which debt is defined to include interest-bearing payables) divided by total equity multiplied by 100% as at the date indicated.
- Debt to equity ratio is calculated as total debt net of cash and cash equivalents divided by total equity multiplied by 100% as at the date indicated.
- Interest coverage is calculated as profit before income tax and finance costs divided by finance costs.

SUMMARY

8. Net profit margin is calculated by the profit for the year divided by the revenue for the respective year multiplied by 100.0% as at the date indicated.

Our net profit margin was approximately 32.2%, 6.7% and 41.8% for FY2016, FY2017 and FY 2018, respectively. Our relatively lower net profit margin for FY2017 was due to the decrease in gross profit margin which was mainly due to the decrease in revenue and increase in cost of sales for FY2017. Our relatively higher net profit margin for FY2018 was due to the increase in gross profit margin which was mainly due to the increase in revenue and decrease in cost of sales for FY2018. Please refer to the paragraphs headed “Financial Information — Year to year comparison of results of operations” and “Financial Information — Analysis of other key financial ratios” for details.

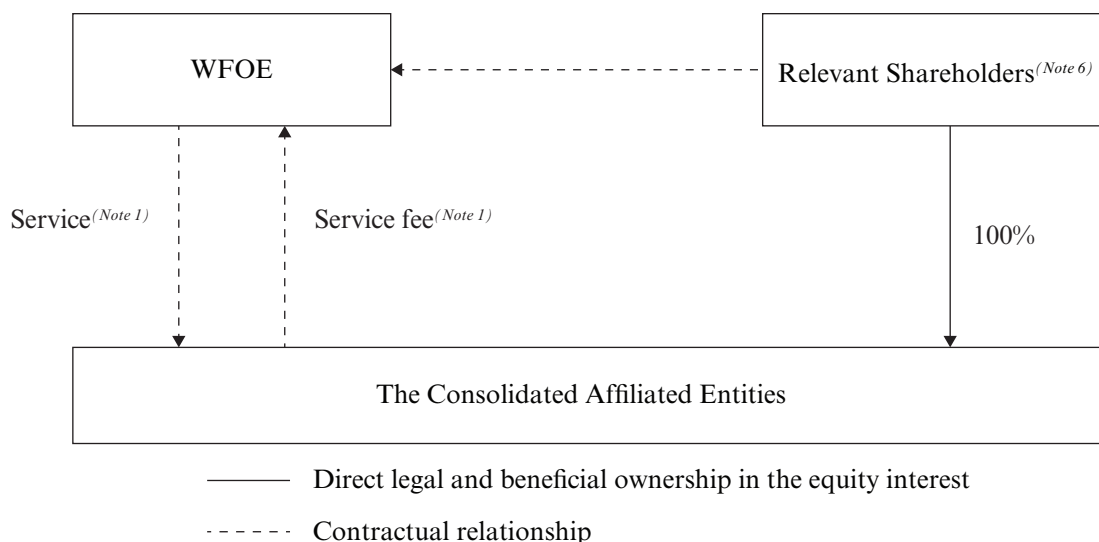
CONTRACTUAL ARRANGEMENTS

We are engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. We also make Fixed Return Investment in TV series and engage in the business of investment in and production of films. We conduct our business and investment through our Consolidated Affiliated Entities, which hold the requisite permit and approval required for our business, including the Licence to Produce and Distribute Radio or Television Programmes. Under the applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in any enterprise conducting the production and operation of TV series or any enterprise conducting the film production business. As a result, we are not able to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations. In order to achieve our Group’s business purposes and be in line with common practice in industries in the PRC subject to foreign investment restrictions, we have adopted the Contractual Arrangements to exercise and maintain control over the operations of the Consolidated Affiliated Entities, obtain their entire economic benefits and prevent leakage of the assets and values of the Consolidated Affiliated Entities to their shareholders in the PRC. Accordingly, the Contractual Arrangements allow the Consolidated Affiliated Entities’ financials and results of operations to be combined into our financial statements as if they are wholly-owned subsidiaries of our Group.

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

- (1) Exclusive Business Co-operation Agreement^(Note 1)
- (2) Exclusive Option Agreement^(Note 2)
- (3) Equity Pledge Agreement^(Note 3)
- (4) Shareholders’ Rights Proxy Agreement^(Note 4)
- (5) Spouse Undertakings^(Note 5)

SUMMARY



Notes:

1. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this document for details.
2. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Option Agreement” in this document for details.
3. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Equity Pledge Agreement” in this document for details.
4. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement” in this document for details.
5. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Spouse Undertakings” in this document for details.
6. The Relevant Shareholders are Mr. Bai, Suiyong Holding, Mr. Xu, Hangzhou Baihuiquan, Ms. Liu, Ms. Jin Ping, Mr. Wu, Mr. Sun Xianliang, Mr. Liu, Ms. Yang Yanli, Ms. Wei, Mr. Liu Wenqing, Ms. Xie Ting, Mr. Yu Fenghui, Ms. Lin Xin, Mr. Hu Wangdong, Mr. Wang Jianlin, Mr. Zhang Dongyin, Mr. Tan Xu, Mr. Li Yan, Mr. Sun Fuqiu, Mr. Liu Jinglei, Mr. Li Zhongyin, Ms. Zhu Hui, Ms. Lu Ying, Ms. Zhang Hui and Ms. Wang Haiting.

For details, please refer to the section headed “Contractual Arrangements” in this document.

CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements which would constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Listing Rules upon [REDACTED]. For details, please see the sections headed “Continuing Connected Transactions” and “Waivers from Strict Compliance with the Listing Rules” in this document.

RECENT DEVELOPMENT SUBSEQUENT TO TRACK RECORD PERIOD

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 businesses of licensing of broadcasting rights of TV series in the PRC.

SUMMARY

In order to strengthen our relationship with the existing customer, we have entered into a strategic co-operation agreement with Customer I for a term of five years effective from March 2019 pursuant to which Customer I agrees to give priority to us for purchasing TV series produced or distributed by us and arrange such TV series to be broadcast on satellite channel of a TV station. For details of such strategic co-operation agreement, please refer to the paragraph headed “Business — Principal terms of agreements — (iv) Strategic co-operation agreement” in this document. After entering into the strategic co-operation agreement with Customer I, we have licensed broadcasting rights of seven TV series which were purchased by us to Customer I.

Moreover, our self-produced TV series, namely, Yan Yang Chun* (燕陽春) was arranged for first-run broadcast on satellite channel of Shandong Radio and Television* (山東廣播電視台) and Tianjin Radio & Television Station* (天津廣播電視台) in April 2019 and National Spirit* (共和國血脈) was arranged for first-run broadcast on the comprehensive channel of CCTV (CCTV-1) in June 2019. Further, the web series which we made investment in as non-executive producer, namely Evil Nights (罪夜無間), was first broadcast on online video platform in April 2019.

Our Directors confirm that, up to the date of this document and save as disclosed above and in the paragraph headed “Financial Information — [REDACTED]” in this document, there has been no material adverse change in our finance and trading position or prospects since 31 December 2018, and there is no event since 31 December 2018 which would materially affect the information shown in the accountants’ report, the text of which is set out in Appendix I to this document.

DIVIDEND

During the Track Record Period and up to the Latest Practicable Date, we did not declare nor pay any dividends to shareholders of our Company. Any amount of dividend we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. We do not currently have a dividend policy or intention to declare or pay dividends in the near future.

[REDACTED] STATISTICS

	Based on the indicative [REDACTED] Price of [REDACTED]	Based on the indicative [REDACTED] Price of [REDACTED]
Number of [REDACTED]	[REDACTED]	[REDACTED]
Number of [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	1,000	1,000
Market capitalisation ^(Note 1)	582,000,000	728,000,000
[REDACTED] adjusted combined [REDACTED] attributable to owners of the parent [REDACTED] as at 31 December 2018 ^(Note 2) . .	HK\$2.39 (equivalent to approximately RMB2.12)	HK\$2.57 (equivalent to approximately RMB2.27)

Notes:

- (1) The calculation of market capitalisation at the [REDACTED] is based on 200,000,000 Shares expected to be in issue immediately upon completion of the [REDACTED] and the [REDACTED].

SUMMARY

- (2) The [REDACTED] adjusted combined [REDACTED] attributable to owners of the parent [REDACTED] are calculated based on 200,000,000 Shares in issue immediately following the completion of the [REDACTED] without taking into account any Shares which may be issued upon exercise of the [REDACTED] 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 “Appendix IV — Statutory and General Information”.

[REDACTED]

Our [REDACTED] consist of fees paid or to be paid to various professionals for audit, financial advisory, legal and other professional services in relation to the preparation of the [REDACTED]. We did not incur any [REDACTED] during the Track Record Period. We expect to incur a total of [REDACTED] in [REDACTED] (based on the mid-point of the indicative price range for the [REDACTED]) in connection with the [REDACTED] and the [REDACTED] after the Track Record Period, of which [REDACTED] is expected to be charged to profit or loss of our Group for the year ending 31 December 2019 and approximately HK\$11.6 million is expected to be accounted for as a deduction from equity. Our Directors would like to emphasise that such cost is a current estimate for reference only, and the final amount to be recognised to the profit or loss of our Group or to be capitalised is subject to adjustment based on audit and the subsequent changes in variables and assumptions. Our Directors expect that our financial performance for the financial year ending 31 December 2019 will be adversely affected by the [REDACTED] to be charged to our statements of profit or loss and other comprehensive income. For the associated risk, see “Risk Factors — Risks relating to the Shares and the [REDACTED] — There may be a negative impact on the financial results of our Group for the year ending 31 December 2019 due to the non-recurring [REDACTED] ” in this document.

DEFINITIONS

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

[REDACTED]	[REDACTED]
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on [•] 2019 to take effect upon [REDACTED] and as amended from time to time, a summary of which is set out in Appendix III to this document
“associate(s)”	has the same meaning as defined under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Beijing Values”	Beijing Values Culture Media Co., Ltd.* (北京原石文化傳媒有限公司), a company established in the PRC with limited liability on 3 April 2014 and wholly-owned by Values Culture
“BLW Investment”	BLW Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 43.44% by Mr. Bai, 23.17% by Ms. Liu, 15.44% by Mr. Wu, 9.65% by Mr. Liu and 8.30% by Ms. Wei
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“[REDACTED]”	[REDACTED]
“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 general clearing participant

DEFINITIONS

“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 Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CCTV”	China Central Television (中國中央電視台)
“China” or “PRC”	the People’s Republic of China which shall, for the purpose of this document, exclude Hong Kong, Macau and Taiwan
“Companies Law” or “Cayman Company Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies Registry”	the Companies Registry of Hong Kong
“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”	Values Cultural Investment Limited, a company incorporated in the Cayman Islands on 11 March 2019 as an exempted company with limited liability and registered in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Values Culture and its subsidiaries, namely Beijing Values, Khorgas Values and Xinjiang Values

DEFINITIONS

“Contractual Arrangements”	a series of contractual arrangements entered into between Values Culture, WFOE and the Relevant Shareholders, details of which are described in the section headed “Contractual Arrangements” in this document
“Core Shareholders”	Mr. Bai, Mr. Liu, Ms. Liu, Ms. Wei and Mr. Wu
“Director(s)”	the director(s) of our Company
“EIT”	Enterprise Income Tax
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Fanta Culture”	Fanta Culture Co., Limited (泛泰文化有限公司), a company incorporated in Hong Kong with limited liability on 17 April 2019 and wholly-owned by YS Cultural Investment
“Foreign Investment Catalogue”	the Guidance Catalogue of Industries for Foreign Investment (2017 version) (外商投資產業指導目錄(2017年修訂))
“Foreign Investment Law”	the PRC Foreign Investment Law (中華人民共和國外商投資法)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
“F&S Report”	a market research report in respect of China’s media industry and drama series market issued by Frost & Sullivan and commissioned by our Group
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
[REDACTED]	[REDACTED]

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company, our subsidiaries and the Consolidated Affiliated Entities (the financial results of which have been combined and accounted for as the subsidiaries of our Company by virtue of the Contractual Arrangements, or any of them at the relevant point of time (including where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company))
“Haining Values Television”	Haining Values Television Culture Co., Ltd.* (海寧原石影視文化有限公司), a company established in the PRC with limited liability on 29 December 2017 and wholly-owned by Values Culture
“Hangzhou Baihuiquan”	Hangzhou Baihuiquan Equity Investment Fund Partnership (Limited Partnership)* (杭州百會全股權投資基金合夥企業(有限合夥)), a limited equity investment fund partnership established in the PRC, one of the Relevant Shareholders
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“HK\$”, “HK dollars”, “HKD” and “cents”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
“HKFRS(s)”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HKSAR”	the Hong Kong Special Administrative Region of the PRC
[REDACTED]	[REDACTED]
“Independent Third Party(ies)”	person(s) or company(ies) which, to our Directors’ best knowledge, information and belief, having made all reasonable enquiries, is/are not a connected person(s) (as defined in the Listing Rules) of our Company

DEFINITIONS

“Jinping Holding”	Jinping Holding Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 and wholly owned by Ms. Jin Ping
“JMJ Group”	JMJ Group Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 97.84% by Mr. Xu Jun and 2.16% by Ms. Zhang Hui
[REDACTED]	[REDACTED]
“Khorgas Values”	Khorgas Values Culture Media Co., Ltd.* (霍爾果斯原石文化傳媒有限公司), a company established in the PRC with limited liability on 29 December 2016 and wholly-owned by Values Culture
“Latest Practicable Date”	[18 June] 2019, being the latest practicable date for ascertaining certain information prior to the printing of this document
“LHW Investment”	LHW Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 33.33% by Ms. Lin Xin, 33.33% by Mr. Hu Wangdong and 33.34% by Mr. Wang Jianlin
“Licence for Distribution of TV Series”	the Licence for Distribution of TV Series (電視劇發行許可證) issued by the provincial counterpart of NRTA
“Licence to Produce and Distribute Radio or Television Programmes”	the Licence to Produce and Distribute Radio or Television Programmes (廣播電視節目製作經營許可證) issued by the provincial counterpart of NRTA
“Licence to Produce TV Series”	the Licence to Produce TV Series (電視劇製作許可證) issued by the provincial counterpart of NRTA
[REDACTED]	[REDACTED]
[REDACTED]	the [REDACTED] of the Stock Exchange
[REDACTED]	[REDACTED]

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“LWQ Investment”	LWQ Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 and wholly owned by Mr. Liu Wenqing
“M&A Rules”	Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定), as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company, conditionally adopted on [•] 2019, to take effect upon [REDACTED] and as amended from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部)
“Mr. Bai”	Mr. Bai Yang (白陽), one of the Core Shareholders
“Mr. Liu”	Mr. Liu Naiyue (劉乃岳), chairman of the Board, an executive Director and one of the Core Shareholders. Mr. Liu is the spouse of Ms. Wei and the father of Ms. Liu
“Mr. Wu”	Mr. Wu Tao (吳濤), the chief executive officer of our Group and one of the Core Shareholders
“Ms. Liu”	Ms. Liu Peiyao (劉佩瑤), an executive Director and one of the Core Shareholders. Ms. Liu is the daughter of Mr. Liu and Ms. Wei
“Ms. Wei”	Ms. Wei Xian (魏賢), an executive Director and one of the Core Shareholders. Mr. Wei is the spouse of Mr. Liu and the mother of Ms. Liu
“NDRC”	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“NEEQ”	the National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“Negative List”	the Special Administrative Measures for Access of Foreign Investment (Negative List) (2018) (外商投資准入特別管理措施 (負面清單) (2018年版))

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DEFINITIONS

“Nomination Committee”	the nomination committee of the Board
“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NRTA”	the National Radio and Television Administration of the PRC (中國國家廣播電視總局)
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“PRC Legal Advisers”	Jingtian & Gongcheng Attorneys at Law, the legal advisers to our Company as to PRC law
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Qingdao Fuhe”	Qingdao Fuhe Investment Company Limited* (青島富和投資有限公司), a company incorporated in the PRC and owned as to 39.1% by Ms. Wei and 21.7% by Mr. Liu

DEFINITIONS

“Relevant Shareholder(s)”	the registered shareholders of Values Culture consisting of Mr. Bai, Suiyong Holdings, Mr. Xu Jun, Hangzhou Baihuiquan, Ms. Liu, Ms. Jin Ping, Mr. Wu, Mr. Sun Xianliang, Mr. Liu, Ms. Yang Yanli, Ms. Wei, Mr. Liu Wenqing, Ms. Xie Ting, Ms. Yu Fenghui, Ms. Lin Xin, Mr. Hu Wangdong, Mr. Wang Jianlin, Ms. Zhang Dongyin, Mr. Tan Xu, Mr. Li Yan, Mr. Sun Fuqiu, Ms. Liu Jinglei, Mr. Li Zhongyin, Ms. Zhu Hui, Ms. Lu Ying, Ms. Zhang Hui and Ms. Wang Haiting
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation undertaken by our Group in preparation for the [REDACTED], particulars of which are set out in the section headed “History, Reorganisation and Group Structure” in this document
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中國國家工商行政管理總局)
“SARFT”	the State Administration of Press, Publication, Radio, Film and Television of the PRC (中國國家新聞出版廣電總局), which is the predecessor of NRTA
“SAT”	the State Administration of Taxation of the PRC (中國國家稅務總局)
“SDJZ Investment”	SDJZ Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 91.00% by Mr. Shao Hui, 2.02% by Mr. Dai Honggang, 3.88% by Mr. Jin Huiguan and 3.10% by Ms. Zhao Lijuan
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of US\$0.000005 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

[REDACTED]	[REDACTED]
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on [•] 2019, the principal terms of which are summarised in the section headed “Statutory and General Information — 4. Share Option Scheme” in Appendix IV to this document
“SLZW Investment”	SLZW Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 45.00% by Mr. Sun Fuqiu, 25.00% by Mr. Li Zhongyin, 25.00% by Ms. Zhu Hui and 5.00% by Ms. Wang Haiting
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning as defined in the Listing Rules
“Suiyong Holdings”	Suiyong Holdings Company Limited* (穗甬控股有限公司), a company incorporated in the PRC with limited liability on 20 May 2016, one of the Relevant Shareholders
“Suiyong Int’l”	Suiyong Int’l Co., Limited, a company incorporated in Hong Kong with limited liability on 25 August 2016, a direct wholly-owned subsidiary of Suiyong Holdings and a substantial shareholder of the Company
“SYTY Investment”	SYTY Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 40.62% by Mr. Sun Xianliang, 31.25% by Ms. Yang Yanli, 18.75% by Ms. Yu Fenghui and 9.38% by Mr. Tan Xu
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Track Record Period”	the periods comprising FY2016, FY2017 and FY2018
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

DEFINITIONS

“USD” or “US\$”	United States dollar(s), the lawful currency of the United States
“Values Culture”	Values Culture Media Co., Ltd.* (海寧原石文化傳媒股份有限公司), a company established in the PRC with limited liability on 14 November 2013 and owned by the Relevant Shareholders
“WFOE”	Haining Fanning Television Planning Company Limited (海寧泛寧影視策劃有限公司), a company established in the PRC with limited liability on 27 May 2019 and an indirect wholly-owned subsidiary of the Company
[REDACTED]	[REDACTED]
“Xieting Holding”	Xieting Holding Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 and wholly owned by Ms. Xie Ting
“Xinjiang Values”	Xinjiang Values Culture Media Co., Ltd.* (新疆原石文化傳媒有限公司), a company established in the PRC with limited liability on 22 June 2018 and wholly-owned by Values Culture
[REDACTED]	[REDACTED]
“YS Cultural Investment”	YS Cultural Investment Limited, a company incorporated in the BVI as a BVI business company on 20 March 2019 and a wholly owned subsidiary of the Company
“Zhongtai International Capital” or “Sole Sponsor”	Zhongtai International Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“[REDACTED]”	[REDACTED], a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“ZLLL Investment”	ZLLL Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to 42.86% by Ms. Zhang Dongyin, 28.57% by Mr. Li Yan, 14.29% by Ms. Liu Jinglei and 14.29% by Ms. Lu Ying
“%”	per cent

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

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DEFINITIONS

In this document, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars and vice versa at an exchange rate of RMB1.00 = HK\$1.13, respectively, for illustration purposes only. Such conversions shall not be construed as representations that amounts in Renminbi were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.

Certain amounts and percentage figures included in this document 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.

Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons, other entities or product names included in this document and for which no official English translation exists are unofficial translations for your reference only. All dates and times refer to Hong Kong dates and time.

The English translation of terms or names in Chinese which are marked with “” is for identification purposes only. In the event of any inconsistency, the Chinese terms or names shall prevail.*

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GLOSSARY OF TECHNICAL TERMS

This glossary of industry terms contains explanation of certain terms used in this document as they relate to the industry in which our Group operates its business. These terms and their given meaning may not correspond to standard industry meaning or usage.

“first-run broadcast”	the first broadcast of a TV series on the satellite channel of a TV station
“Fixed Return Investment”	the investment made by a passive investor in TV series which allows the investor (who may or may not participate in the production and/or distribution of such TV series) to receive the fixed contractual cash flows regardless of the sales performance of such TV series
“Internet”	a global network of interconnected, separately administered public and private computer networks that uses the Transmission Control Protocol/Internet Protocol for communications
“IT”	information technology
“rerun”	a TV series that has previously been broadcast on the satellite channel of a TV station
“TV”	television
“web series”	scripted shows that are generally in episodic form initially released over new media including the Internet and web television mediums

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management, as such they are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the nature of, and potential for, future development of our business;
- various business opportunities that we may pursue;
- changes in competitive conditions and our ability to compete under these conditions;
- changes to regulatory environment and general outlook in the industry and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory qualifications required to operate our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- our future debt levels and capital needs;
- our financial conditions and performance; and
- our future dividend.

The words “aim”, “anticipate”, “believe”, “can”, “could”, “expect”, “going forward”, “intend”, “may”, “might”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative forms of these words with similar expressions, as they relate to us, are intended to identify a number of these forward looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in the section headed “Risk Factors” in this document. One or more of these risks or uncertainties may materialise.

Subject to the requirements of the Listing Rules, our Company does not have any obligation and does not undertake to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or developments or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way our Company expects, or at all. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such

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FORWARD-LOOKING STATEMENTS

statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements in this document are qualified by reference to the cautionary statement set out in this section.

In this document, statements of or references to the intentions of our Company or those of any of our Directors are made as at the date of this document. Any such intentions may change in light of future developments.

RISK FACTORS

An investment in our Shares involves significant risks. Potential investors should consider carefully all the following information about risks and uncertainties, together with the other information contained in this document, before you make an investment in our Shares. You should pay particular attention to the fact that our Group conducts operations in the PRC, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks described below could have a material adverse effect on our business, results of operations, financial conditions and prospects. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We have to keep up with the preferences and expectations of our customers and produce high-quality TV series, or we may lose support from our customers which could materially and adversely affect our business and financial condition

The production and distribution of our TV series require us to continuously identify the industry trends and preferences of our customers and public audiences and produce high-quality TV series which can meet their requirements.

According to the F&S Report, the public expenditure on culture, sports, and entertainment has grown steadily from 2014 to 2018. Watching media programs, such as TV series and web series, has become popular daily entertainment activities. The drama series market is highly fragmented and the rapid development of the drama series market attracts a wide range of industry players to participate in this business. In light of the highly competitive environment, our continuous growth and performance depends on our ability to produce high-quality TV series and adapt to the ever-changing preferences of our customers and public audiences.

While we have strived to meet our customer’s satisfaction, there is no assurance that we will continue to gain market acceptance in producing high-quality TV series that suits the particular requirements of our customers. We may not be able to produce or distribute TV series that are popular to the public audiences at all times. Moreover, when we act as the non-executive producer of our TV series, we may or may not participate in the production and/or distribution of the TV series. Even if we participate in the production and/or distribution, we usually have a limited role. For these TV series, the overall control and management as well as the quality and marketing ability are in the hands of the executive producer as we only act as the non-executive producer. If the executive producer fails to discharge its duties properly, it may adversely affect the quality of the TV series which may in turn affect our investment return and results of operations. In general, in the event that we are unable to produce or distribute high-quality TV series which satisfies our customers’ or public audiences’ changing preference, our market share and financial performance may be materially and adversely affected.

RISK FACTORS

Further, according to the F&S Report, technological innovations are viewed as one of the key success factors and our TV series may need to contain new special effects to enhance visual appreciation and utilise technologies such as big data analytics, augmented reality and virtual reality to improve ultimate audiences’ experience in accordance with their consumption behaviour. If we fail to improve our productions effectively to satisfy the public audiences’ evolving preferences and expectations on a timely and cost-effective basis, we may not be able to compete effectively and our business and results of operations will be materially and adversely affected.

We have limited experience in producing web series and we may not be able to successfully implement our business strategies of tapping into web series market

We intend to continue to expand our business with an aim to increase our market penetration and market diversification through tapping into web series market. For further details of our expansion plans, please refer to the paragraph headed “Business — Business Strategies” in this document.

According to the F&S Report, new media, including mobile media and Internet, has witnessed a rapid growth and constituted a major proportion of the overall media industry. In 2018, these two segments together contributed to over 70.0% of the total revenue of media industry in China. Moreover, the total revenue of web series increased dramatically from RMB6.0 billion in 2014 to RMB40.7 billion in 2018, representing a CAGR of 61.7%. From 2018 to 2023, total revenue of web series market is expected to increase to RMB56.6 billion in 2023, representing a CAGR of 6.8%.

In view of the above market information, it is important for us to tap into the web series market in order to maintain the growth of our business. However, we have limited experience in producing web series. As at the Latest Practicable Date, we have only participated in the production of one web series as non-executive producer. Moreover, our business objectives and strategies are based on prevailing circumstances and the development of web series market currently known to our Directors. There is no assurance that we will successfully tap into the web series market or produce web series that turns out to be popular, or that our strategies will be able to achieve our objectives in the event that there is a change of the current circumstances. Moreover, it will be important for our Group to develop closer working relationship with online video platforms for distributing our future web series, which could be time-consuming and difficult for new entrants like us. Our business, operating results and financial position may be materially and adversely affected if our business strategies are not achieved. To manage and support our further expansion, it is also necessary to recruit and train additional management personnel who possess the necessary skills and knowledge to implement our business strategies and achieve our expansion plan. All of these endeavors require substantial management time as well as significant capital expenditures, which may or may not be recoverable, and may divert our management’s attention from other business concerns. If we fail to effectively and efficiently manage our operational growth, such failure may materially and adversely affect our ability to capitalise on new business opportunities, which in turn may have material adverse effect on our business and financial results.

RISK FACTORS

Our business, financial condition and results of operations are heavily dependent on the market recognition of our reputation

The drama series market in the PRC is becoming increasingly competitive. In order to maintain our reputation along with our growth in size, we have to maintain the quality of the TV series we produced and distributed, which may be potentially adversely affected by a number of factors beyond our control. For example, levels of audiences’ satisfaction with our TV series, accidents on shooting sites, artists scandals, negative press, disruptions to our production or distribution due to the failure to obtain approval from NRTA. In particular, any negative publicity concerning our Group, our Directors or the suppliers (including artists), even if untrue, could adversely affect our brand image, reputation, business, growth prospect and take up excessive time of our management and other resources. If our reputation is damaged, our customer’s interest in our products may decrease and our business could be materially and adversely affected.

The public audiences of our TV series are largely driven by word-of-mouth referrals of our viewers and our marketing efforts. We publish our posters on our website and on social media and also engage in other promotional activities to promote.

However, if we are unable to further enhance our reputation and increase market awareness of our TV series, we may be unable to maintain or increase viewership, or if we are required to incur excessive marketing and promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected.

We depend on the continuing efforts of our senior management members and key personnel and our ability to recruit and retain competent and dedicated personnel

Our future success depends substantially on the continued service of the members of our senior management team and key personnel including our executive Directors for their provision of services to our Group. Therefore, our management staff are the key to maintaining the quality of our products and are valuable assets to our Group in upholding our reputation. If we lose the services of any of our members of the senior management team and key personnel for they are unable or are unwilling to continue their employment with our Group, we may not be able to locate suitable or qualified replacements in a timely manner, or at all, or may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and prospects. In addition, the loss of any of our key personnel may adversely impact the perception of our Group by our customers. Furthermore, if any of our members of the senior management team and key personnel joins a competitor or forms a competing company, our customers may be solicited away, which also could have a material adverse effect on our business and revenues. For further details of our senior management team, please refer to the section headed “Directors and Senior Management” in this document.

Moreover, in order to accommodate the continued growth and expansion of our Group, we endeavor to continue to attract employees who possesses in-depth knowledge and understanding of their respective fields of responsibility in the TV series production and distribution industry. However, due to the increasing competition in our industry, there

RISK FACTORS

is no assurance that we can recruit and retain such personnel in the future to keep pace with our anticipated growth while maintaining consistent quality of our TV series. If we fail to recruit and retain an appropriate number of staff and key personnel, the overall quality of our TV series may decrease, which may negatively impact our reputation, business and results of operations.

Our business operation and financial performance are heavily subject to extensive government approvals and compliance requirements

For the operation of our business in the PRC, we must obtain various permits, licences and other approvals from the relevant administrative authorities at various stages, in particular the production and distribution process, in accordance with the requirements under applicable PRC laws and regulations. For instance, we are required to obtain the Licence to Produce TV Series and the Licence for Distribution of TV Series for production and distribution of TV series respectively. Moreover, during the Track Record Period and as at the Latest Practicable Date, each of Values Culture, Khorgas Values, Beijing Values and Xinjiang Values has obtained a Licence to Produce and Distribute Radio or Television Programmes. If any of our licences are revoked due to our serious violation of the applicable rules in respect of the production and distribution of TV series, or if we fail or unable to renew any of our required licences upon their expiration, we may not be able to continue to produce and/or distribute our TV series. As a result, our business, prospects, financial condition and results of operations will be materially adversely affected. For further details with respect to the licences or permits we have obtained, please refer to the paragraph headed “Business — Regulatory compliance — Licences and permits” in this document.

We are exposed to credit risks in relation to our trade and notes receivables

During the Track Record Period, our trade and notes receivables were approximately RMB68.1 million, RMB68.3 million and RMB99.3 million as at 31 December 2016, 2017 and 2018, respectively. During the Track Record Period, our average trade receivables turnover days were 187.7 days, 243.3 days and 198.4 days, respectively. For details, please see the paragraph headed “Financial Information — Trade and notes receivables” in this document.

Our trade receivables primarily consist of licence fee and distribution service fee due from customers and the investment return due from third party investors under co-financing arrangements (as non-executive producer). There is no assurance that all such amounts due to us will be settled on time. Moreover, our Group’s revenue are mainly generated from licensing our TV series broadcasting rights to TV stations. TV stations are state-owned institution which give them bargaining power over the TV series licensors for a longer credit period. As a result, our Group in general takes a longer time to collect the trade receivables which could negatively affect the cash level of our Group and results in making bad debt provision by our Group. Accordingly, we face credit risk associated with the trade and notes receivables.

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Although we have adopted stringent credit control procedures including actively communicating with or even taking legal actions against our customers, such measures may not be adequate to safeguard against material credit risks nor to guarantee that our customers will settle payment as it falls due, especially when credit has been extended as per the requests of our customers in light of our long term and established relationships. Our financial position may therefore be materially and adversely affected if any customer delay or fail to pay the amount due. In addition, there may be an adverse impact on our operation as it diverts our management resources, time and attention to pursue any unsettled invoices.

Our financial condition may fluctuate due to a number of factors which are beyond our control

During the Track Record Period, we had revenue of approximately RMB102.0 million, RMB99.3 million and RMB154.1 million while our gross profit were approximately RMB59.5 million, RMB17.7 million and RMB80.1 million with gross profit margin of approximately 58.3%, 17.8% and 52.0% for FY2016, FY2017 and FY2018, respectively. For each of FY2016, FY2017 and FY2018, we had net profit of approximately RMB32.8 million, RMB6.7 million and RMB64.5 million with net profit margin of approximately 32.2% and 6.7% and 41.8% respectively.

Our business model is in general project based under which we charge customers licence fee for each TV series that they purchase the broadcasting rights. Accordingly, there is no guarantee that we will be able to continue to secure new customers or that our existing customers will continue to purchase the broadcasting rights of the TV series from us in the future under fierce competition. Moreover, our financial condition may fluctuate due to a number of factors which are beyond our control, including but not limited to deterioration in the market conditions of TV series market in the PRC, more intensified competition with industry players, failure in maintaining business relationships with our existing customers or diversifying customer base, failure in estimating costs or controlling costs as estimated, failure in implementing our future plans as anticipated, material enforcement action taken against us for non-compliance incident, unpredictable liabilities and risks which may exceed our existing insurance coverage, general political or government policies to the industry we operate, and other unforeseeable factors. As a result, there is no assurance that we will be able to achieve the same level of business performance as we did during the Track Record Period or even better business performance in the future. Investors should not rely on our historical financial information as an indication of our future financial or operating performance.

We recorded a negative net operating cash flow for FY2016, FY2017 and FY2018

We recorded negative net cash flows from operating activities of approximately RMB30.6 million, RMB29.3 million and RMB86.1 million for FY2016, FY2017 and FY2018, respectively, which were mainly attributable to the increase in inventories for TV series production and trade and notes receivables. For further details of the changes in cash flows from our operating activities, please refer to the paragraph headed “Financial Information — Liquidity and capital resources — Cash flows used in operating activities” in this document.

RISK FACTORS

While our Directors believe that we have sufficient funds to finance our current working capital requirements, our operating cash flows may continuously be affected by unforeseeable factors and there is no guarantee that we will be able to generate sufficient cash flows throughout the entire financial year from our operations in the future. If we are unable to finance our anticipated cash needs for ongoing working capital requirements and expansion of our business, we will have to fund our operations from alternative financing sources, which may or may not be available or at terms favourable to us. In the event that we are unable to maintain sufficient cash inflows, we may default on our financial obligations, thereby adversely affecting our business operations, liquidity, prospects and financial position.

We maintain limited insurance coverage which do not cover all business risks

We maintain limited insurance covering personal injury and medical insurance for the production crew for the TV series or films for which we act as the executive producer to safeguard against risks and unexpected events in the shooting of TV series or films. However, we may not be able to obtain the same insurance in the future at reasonable prices or at all. In addition, our insurance coverage may not be sufficient in terms of amount, benefit and scope as the insurance products offered by PRC insurance companies are limited. As a result, during the Track Record Period and as at the Latest Practicable Date, we do not maintain business interruption insurances to cover losses caused by natural disasters or catastrophic events which may significantly disrupt our business operations and product liability insurance.

In the event that we were held liable for amounts and claims exceeding the scope or amounts covered by our insurance policies, or suffered losses from incidents for which we do not currently maintain any insurance, we may incur substantial costs and expenses associated with such events without being able to recover all or part of the amounts from insurance companies, which may materially and adversely affect our business, financial condition and results of operations.

We rely on suppliers to provide services required for completing our production process for TV series

As the executive producer of TV series, we rely on our suppliers such as artists, scriptwriters, directors, cinematographers and art designers to provide services required for the completion of our production process undertaken by our Group. While we maintain a close and stable relationship with our suppliers, we may not be able to control the quality and safety standards of the services provided by the suppliers to the same extent as when the services were supplied by our own employees. Any failure by the suppliers to meet our quality and safety standards may result in our liabilities to third parties and have a material adverse effect on our business, reputation, financial conditions and results of operations. Further, as we engaged different suppliers for our business, there is no assurance that there will be a stable supply of suppliers and the services which the suppliers provide to our Group will always be able to meet our expectation or that of our customers especially with

RISK FACTORS

regards to the changing preferences and market trends in the industry. This may lead to our failure to meet our commitments to our customers, which may adversely affect our business reputation and potential business opportunities.

RISKS RELATING TO OUR INDUSTRY

Increasingly competitive PRC drama series market could result in reduced market shares

According to the F&S Report, the drama series market in the PRC is highly fragmented, with top five drama series groups accounted for a total market share of 14.4% in terms of revenue generated from investment, production, and distribution of TV series and web series in 2018. It is increasingly competitive as more players are entering the drama series market. These drama series producers may adopt similar strategies and marketing approaches, with different pricing and packages that may have greater appeal than those we offer. Further, our competitors may devote greater resources, managerial, financial or otherwise than us and respond more quickly than we can to changes in market demands and preferences.

In view of such severe competition, if we are unable to successfully compete against new or existing competitors, maintain or increase our distribution level, enhance the quality of our TV series or control production costs, our business and results of operations may be materially and adversely affected.

We have to comply strictly with the laws, regulations and policies of the PRC which regulates the drama series production industry extensively

The production and distribution of TV series are regulated extensively in the PRC and subject to various PRC laws and regulations. Please refer to the section headed “Regulatory Overview” in this document for details of the relevant laws and regulations. Violation of any of the relevant laws or regulations may result in penalties, including fines, cancellation of the relevant permits, licences and even criminal responsibility against us. The damages, costs, expenses or attorney’s fees arising from any of these claims could have an adverse effect on our business and results of operations to the extent that we are not adequately insured against such risks or indemnified by our customers. In addition, our reputation may be negatively affected by such allegations.

RISK FACTORS

We may lose our competitive advantage and our reputation and operations may be negatively impacted if we fail to protect our intellectual property rights

As we operate in an industry that relies heavily on creativity and artistic talents to stay competitive in the market, many, if not all, of our work products are subject to intellectual property rights. As such, the use or reproduction of any of our intellectual property without due authorisation and the unauthorised broadcast and distribution of our TV series by third parties could diminish the value of our product which in turn affect our reputation, competitive advantages or goodwill and reduce our revenues.

We may, from time to time, rely on a combination of copyright and trademark laws and contractual provisions to protect our intellectual property rights. These afford limited protection as the intellectual property laws in the PRC are still evolving and the preventing of and policing unauthorised use of proprietary information can be difficult and expensive. We may also need to resort to litigation and other legal proceedings to enforce our intellectual property rights. Any such action, litigation or other legal proceedings could result in substantial costs and diversion of our management’s attention and resources and could disrupt our business. We cannot assure that we will be able to enforce our intellectual property rights effectively or otherwise prevent third parties from use of our intellectual property without due authorisation. Failure to detect and adequately protect our intellectual property could materially and adversely affect our reputation, business, financial condition and results of operations.

We may face disputes relating to intellectual property rights

The Standing Committee of the NPC has promulgated in 1990 and amended in 2001 and 2010 the Copyright Law of the People’s Republic of China (中華人民共和國著作權法), pursuant to which the copyrights of films and works created in ways similar to that of film production shall belong to the producers, but the scriptwriters, film directors, artists, cameramen, lyricists and composers shall have the rights of authorship and shall be entitled to receive remunerations in accordance with the contracts signed with the producers; and the authors of the works that can be used separately such as the scripts and music for films and works created in ways similar to that of film production shall be entitled to exercise their copyrights separately. Therefore, the issue of intellectual property rights entitlement may exist especially in TV series produced and/or distributed by our Group, and involve parties who provide source materials to us, including but not limited to scriptwriters, artists, cameramen, and composers engaged in the production of our TV series.

Although we did not encounter any material claims for intellectual property infringement during the Track Record Period and as at the Latest Practicable Date, there is no guarantee that third parties will not claim against us for infringement of their proprietary rights with regards to creative contents such as scripts and music used in our TV series in the future. Even if we defend ourselves vigorously in any such litigation or legal proceedings, there is no assurance that we will prevail in these proceedings. Such legal proceedings may accompany with court orders which prevent us, temporarily or permanently, from using those creative contents which may result in disruption to our business. In addition, disputes over intellectual property rights may involve prolonged

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litigations which require considerable resources and will affect our business operations. We may also be required to pay damages or incur settlement expenses. In case we are required to pay any royalties or enter into any licensing agreements with the owners of intellectual property rights, we may find that the terms are not commercially acceptable and we may lose the ability to use the related contents. Any similar claim against us, even without any merit, could also affect our reputation and image of our brand.

RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

The Contractual Arrangements may not be as effective in providing operational control over our Consolidated Affiliated Entities as direct ownership

We have relied and expect to continue to rely on the Contractual Arrangements with our Consolidated Affiliated Entities to operate our business in the PRC. The Contractual Arrangements may not be as effective in providing us with control over our Consolidated Affiliated Entities as direct ownership. If we had direct ownership of our Consolidated Affiliated Entities, we would be able to exercise our rights as a direct or indirect shareholder to effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as the Contractual Arrangements now stand, if our Consolidated Affiliated Entities and the Relevant Shareholders fail to perform their respective obligations under the Contractual Arrangements, we cannot exercise shareholders’ rights to direct such corporate action as the direct ownership would otherwise entail.

If the parties under such Contractual Arrangements refuse to carry out our directions in relation to everyday business operations and/or fail to perform their respective obligations under the Contractual Arrangements, we will be unable to maintain effective control over the operations of our Consolidated Affiliated Entities. We may have to take legal actions to enforce our rights under the contracts which may incur substantial costs and resources, and to rely on legal remedies under PRC law, including seeking injunctive relief or winding up order, which may not be effective. 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 combine our Consolidated Affiliated Entities in our combined financial statements, which could materially and adversely affect our financial condition and results of operations. Further, given that revenue from our Consolidated Affiliated Entities constituted the total revenue in our combined financial statements for FY2016, FY2017 and FY2018, our financial position would be materially and adversely impacted if we were to lose effective control over our Consolidated Affiliated Entities. In addition, losing effective control over our Consolidated Affiliated Entities may negatively impact our operational efficiency and reputation.

RISK FACTORS

We may be subject to severe consequences, including penalties, nullification of the Contractual Arrangements and the relinquishment of our interests in our Consolidated Affiliated Entities if the PRC government finds that the Contractual Arrangements do not comply with PRC laws and regulations

We are a company incorporated under the laws of the Cayman Islands, and WFOE, our wholly-owned PRC subsidiary, are considered foreign-invested enterprises under PRC laws. To comply with PRC laws and regulations applicable to foreign investments, including those restricting foreign participation in the TV series production and distribution business, we conduct substantially all of our business in the PRC through our Consolidated Affiliated Entities based on the Contractual Arrangements. Through the Contractual Arrangements, we are the primary beneficiary of the Consolidated Affiliated Entities by consolidating their results of operations into ours. These entities hold the licences, approvals and the key assets that are essential for our business operations. Accordingly, we have been and are expected to continue to be dependent on the Contractual Arrangements to operate our business. For further details of our corporate structure, please refer to the section headed “History, Reorganisation and Group Structure” in this document.

The relevant PRC regulatory authorities have broad discretion in determining whether our Contractual Arrangements violate PRC laws and regulations. If our Contractual Arrangements that establish the corporate structure for operating our business in the PRC are found not to have complied with its restrictions on foreign investment in businesses, or if MOFCOM or other competent authorities find that we, WFOE or any of our Consolidated Affiliated Entities are illegal or lack the necessary permits or approvals to operate our business, or if the Contractual Arrangements are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, we may have to modify such structures to comply with the relevant regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Failing to do so may render the relevant regulatory authorities the broad discretion in dealing with such violations, including but not limited to:

- revoking the agreements constituting the Contractual Arrangements;
- revoking the business and operation licences of our PRC subsidiary or Consolidated Affiliated Entities;
- discontinuing or restricting our operations in the PRC;
- levying 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 subsidiary and Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC subsidiary and Consolidated Affiliated Entities to modify our corporate structure or operations;

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- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities; and
- taking other regulatory or enforcement actions that could be harmful to our business.

The occurrence of any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition, results of operations and prospects. 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 any of our Consolidated Affiliated Entities in our consolidated financial statements if our corporate structure and Contractual Arrangements are found to be in violation of PRC law and regulations. If the imposition of any of these penalties or requirement to modify our corporate structure causes us to lose the rights to direct the activities of the Consolidated Affiliated Entities or our right to receive its economic benefits, we may not be able to consolidate its financial results into our financial statements, which currently contribute all of our combined revenues.

Certain terms of the Contractual Arrangements may not be enforceable under PRC laws

The Contractual Arrangements we entered into with the Consolidated Affiliated Entities are governed by PRC laws and provide for dispute resolution by way of arbitration in the PRC in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission. The Contractual Arrangements contain provisions to the effect that the arbitral tribunal may award any temporary or permanent injunctive relief, remedies against the shares or assets of Values Culture, or order the winding up of Values Culture. However, as advised by our PRC Legal Advisers, such provisions contained in the Contractual Arrangements may not be enforceable as an arbitral tribunal normally would not grant such kind of injunctive relief or order the winding up of Values Culture pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC. As a result, in the event that our Consolidated Affiliated Entities or any of the Relevant Shareholders breaches any agreements constituting the Contractual Arrangements, 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 of the enforceability of the Contractual Arrangements, please refer to the paragraph headed “Contractual Arrangements — Dispute Resolution” in this document.

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The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional tax may be imposed which may reduce our combined 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 within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements we entered into with our Consolidated Affiliated Entities do not represent arm’s-length negotiations and consequently adjust any of those entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, increase our tax liabilities. If we fail to rectify such incident within the limited timeframe required by the PRC tax authorities, the PRC tax authorities may impose late payment interest or surcharge and other penalties on us for any unpaid taxes. Our combined net income and business may therefore be materially and adversely affected.

We will be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin

For FY2016, FY2017 and FY2018, our Consolidated Affiliated Entities retained all net profits generated by them. However, under the Contractual Arrangements, all of the net income of our Consolidated Affiliated Entities shall be paid to WFOE in the form of service fees, subject to adjustments made by WFOE at its sole discretion, which are subject to a value-added tax at the tax rate of 6% in the PRC, subject to any changes in the future. The higher income tax rates and the additional taxes incurred as a result of the Contractual Arrangements may increase our tax expenses and decrease our net profit margin.

The Relevant Shareholders and officers of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business

We conduct a substantial portion of our operations, and generate a substantial portion of our revenue, through our Consolidated Affiliated Entities. Our control over these entities and the Relevant Shareholders is based upon the Contractual Arrangements. These shareholders may potentially have conflicts of interest with us, and they may breach and/or may cause the Consolidated Affiliated Entities to breach their contracts or undertakings under the Contractual Arrangements with us if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and the Relevant Shareholders, the Relevant Shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favour.

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Our Directors and the members of our senior management team may also be directors and/or senior management of our Consolidated Affiliated Entities. 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. On the other hand, PRC laws also provide that a director or an executive officer owes loyalty and a fiduciary duty to the company he directs or manages. As a result, conflicts of interest may arise due to their dual roles both as directors and/or senior management of our Consolidated Affiliated Entities and as directors and/or senior management of our Company, which may materially and adversely affect our business.

In the event that such conflicts of interest cannot be resolved in our favour, we would have to rely on legal proceedings which could be expensive, time-consuming and could result in disruption to our business. We are also subject to uncertainty as to the outcome of such legal proceedings.

We rely on funds from our subsidiaries in the PRC to pay dividends and other cash distributions to our Shareholders

We are a holding company and our ability to pay dividends and other cash distributions to our Shareholders, and service any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividend and other distributions from WFOE. The amount of dividends paid to our Company by WFOE depends solely on the service fees paid by our Consolidated Affiliated Entities to WFOE after deduction of costs for business operations, tax payment, government subsidies (if any), the reserved development fund and other expenses as required by the regulations.

Under PRC laws and regulations, WFOE, as a wholly foreign-owned enterprise in China, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. Pursuant to the relevant regulations, WFOE is required to set aside 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At its discretion, it may allocate a portion of its after-tax profits based on PRC accounting standards to the reserved development fund such as staff welfare and bonus. These reserved development fund such as staff welfare and bonus are not distributable as cash dividends. Any limitation on the ability of WFOE to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions decisions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business.

Substantial uncertainties exist with the PRC foreign investment legal regime may have a significant impact on our Group’s corporate structure and business operations

On 15 March 2019, the NPC adopted the Foreign Investment Law, which will come into effect on 1 January 2020. Upon its coming into effect, the Foreign Investment Law will replace the Sino-Foreign Equity Joint Venture Enterprise Law (中外合資經營企業法), the Sino-Foreign Cooperative Joint Venture Enterprise Law (中外合作經營企業法) and the Wholly Foreign-Invested Enterprise Law (外資企業法) to become the legal foundation for

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foreign investment in the PRC. The Foreign Investment Law stipulates three forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. Therefore, 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, and then whether our Contractual Arrangements will be recognised as foreign investment, whether our 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 are uncertain. Therefore, there is no guarantee that our Contractual Arrangements and the business of Consolidated Affiliated Entities will not be materially and adversely affected in the future.

In the extreme case, we may be required to unwind the Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our business, financial conditions and result of operations.

For further details of the Foreign Investment Law and its potential impact on our Group’s operations and the Contractual Arrangements, please refer to the paragraph headed “Contractual Arrangements — Development in legislation on foreign investment in the PRC” in this document.

We may lose the ability to use and enjoy 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

Our Consolidated Affiliated Entities hold substantially all of our assets that are critical to the operation of our business. If any of these Consolidated Affiliated Entities is wound up, and all or part of their assets become subject to liens or rights of third-party creditors or are distributed to other persons of higher priority than us in accordance with the applicable PRC laws and regulations, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations.

The Contractual Arrangements contain terms that specifically obligate the Relevant Shareholders to ensure that Values Culture may not be voluntarily liquidated without the consent of WFOE. In the event that the Relevant Shareholders initiate a voluntary liquidation proceeding without our authorisation, 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.

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Our exercise of the option to acquire equity interest of our Consolidated Affiliated Entities may incur substantial costs

Pursuant to the Contractual Arrangements, WFOE (or its nominee(s)) has the exclusive right to purchase all or any part of the equity interests and/or assets in Values Culture from the Relevant Shareholders for a price equal to the minimum price permitted under the then PRC laws and regulations. In the event that WFOE acquires the equity interest in Values Culture and the relevant PRC authorities determine that the purchase price for acquiring the equity interest and/or assets is below market value, WFOE may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Any adverse changes in the PRC’s, economic, political, social and legal conditions could have a material adverse effect on our business, financial conditions and results of operations

All of our operations and assets are located in the PRC, and all of our revenue is derived from our business in the PRC. Accordingly, our business, financial condition and results of operations are, to a significant degree, subject to the economic, political, social and legal conditions in the PRC. According to the F&S Report, Chinese media industry is enjoying the government’s favourable policies to achieve a fast growth pace and therefore, government support is expected to be a key market driver in Chinese media industry. However, there is no guarantee that such favourable policies will not be changed in the future. During the Track Record Period, certain of our Consolidated Affiliated Entities has enjoyed preferential tax treatment including tax exemptions and tax refund. There is no assurance that we could continue to be granted to such tax exemption and tax refund in the future due to changes in tax policies to be adopted by the government authorities. To the extent that there is any change in, or withdrawal of, any preferential tax treatment applicable to us, or increase in the effective tax rate, our tax expenses would increase accordingly. The occurrence of these changes will adversely affect our business, results of operations and financial condition. Moreover, the PRC economy differs from that of most developed countries in many respects, including the extent of government involvement, level of economic development, investment control, resource allocation, growth rate and control over foreign exchange. We believe the PRC government has indicated its commitment to the continued reform of the economic system as well as the structure of the government. The PRC government’s reform policies have emphasized the independence of enterprises and the use of market mechanisms. Since the introduction of these reforms, significant progress has been achieved in economic development, and enterprises have enjoyed an improved environment for their development. However, any adverse changes in the economic, political, social and legal conditions in the PRC may materially and adversely affect our business, financial condition and results of operations.

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Uncertainties with respect to the PRC legal system may affect the legal protection afforded to our business and our Shareholders

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Only limited volumes of published court decisions may be cited for reference, and such cases may have limited precedential value as they are not binding on subsequent cases. Since the late 1970s, the PRC government has promulgated a comprehensive system of laws and regulations governing economic matters in general such as foreign investment, corporate governance, taxation and trade. The overall effect of such legislations over the past decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in the PRC. However, as these laws are relatively new and the PRC legal system continues to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty which may limit legal protections available to us and our Shareholders.

Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating the drama series market in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to drama series market. Moreover, current trends and preferences in the drama series market may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies which could materially and adversely affect our business and operations.

We may have to resort to administrative and court proceedings from time to time to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult for us to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy in the PRC. These uncertainties over the scope and effect of our contractual, property (including intellectual property) and procedural rights may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers, and thus may materially and adversely affect our business and operations.

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PRC regulations in respect of loans and direct investment made to PRC entities by offshore holding companies may restrict or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries and Consolidated Affiliated Entities

Our Company is an offshore holding company conducting our operations in China through our PRC subsidiary and Consolidated Affiliated Entities. We may make loans to our PRC subsidiary and our Consolidated Affiliated Entities, or we may make additional capital contributions to our PRC subsidiary. However, any funds transferred by us to our PRC subsidiary, either as shareholder loan or as an increase in registered capital, are subject to PRC regulations and approval, registration or filing with the relevant governmental authorities in China. For example, loans by us to WFOE to finance its activities must be registered with the local counterpart of SAFE. We may also make capital contributions to our PRC subsidiaries which are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System and registration with other governmental authorities in China. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiary and Consolidated Affiliated Entities. If we fail to receive such approvals or complete such registrations or filling, our ability to use the [REDACTED] of the [REDACTED] and to capitalise our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On 30 March 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital of Foreign-Invested 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), or SAFE Circular 19, which took effect on 1 June 2015. According to SAFE Circular 19, foreign-invested enterprises are allowed to settle their foreign exchange capital at their discretion, but are prohibited from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. SAFE further promulgated Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (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), or SAFE Circular 16, effective on 9 June 2016, which, among other things, amend certain provisions of SAFE Circular 19. SAFE Circular 19 and SAFE Circular 16 both prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes, and also prohibit foreign-invested enterprises from using such RMB fund to provide loans to non-affiliated enterprises, unless otherwise permitted under its business scopes. As a result, we are required to apply the RMB funds converted from the [REDACTED] of the [REDACTED] within the business scope of WFOE. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer and/or utilise the [REDACTED] of the [REDACTED] and to capitalise or otherwise fund our PRC operations or invest in or acquire any other companies in the PRC.

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We could be subject to PRC income tax and our Shareholders may be subject to PRC withholding tax if we are classified as a PRC “resident enterprise”

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside the PRC with its “*de facto* management body” within the PRC is considered a resident enterprise and will be subject to the unified enterprise income tax at the rate of 25% on its worldwide income. Under the implementation rules of the EIT Law, the “*de facto* management body” is defined as the body that has material and overall management and control over the business, personnel, finance and accounting, and properties of the enterprise.

On 22 April 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) (“**Circular 82**”), as amended on 29 December 2017, which sets out the standards and procedures for determining whether the “*de facto management body*” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China.

Further to Circular 82, the SAT issued Chinese-Controlled Offshore Incorporated Resident Enterprises Income Tax Regulation (境外註冊中資控股居民企業所得稅管理辦法(試行)) (“**Bulletin 45**”), which took effect on 1 September 2011, to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides procedures and administrative details for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside of China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general.

However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “*de facto* management body”. Since all of our management members are currently located in the PRC, and there are no plans to move outside of the PRC in the future, we may be recognised as a PRC resident enterprise for the purpose of the EIT Law. In the event that the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, our worldwide income will be subject to income tax at a uniform rate of 25%. Accordingly, our income tax expense may increase significantly and our net profit and profit margin could be materially and adversely affected.

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Further, withholding tax at 10% will normally apply to dividends payable to investors that are non-PRC resident enterprise by PRC resident enterprise or on gain recognised by the non-PRC investors with respect to the sale of shares of the PRC resident enterprise as such dividend or gain is derived from sources within PRC. PRC withholding tax at a 20% rate may apply to dividends paid to and any gain realised by non-resident individual shareholders. If we are deemed by the PRC tax authorities as a PRC resident enterprise for tax purpose in the future, the dividends to be distributed by the Company and the gain with respect to the sale of shares of the Company may be regarded as income from “sources within China” and be subject to PRC income tax, unless such tax is reduced by an applicable income tax treaty between China and the jurisdiction of the non-PRC investors. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC and if we are required under the EIT Law to withhold PRC income tax on our dividends payable to our Shareholders, or if our Shareholders are required to pay PRC income tax on the transfer of the shares, the returns on our [REDACTED] in our Shares will be reduced.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us

On 3 February 2015, the SAT issued a Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises (國家稅務總局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), or SAT Circular 7. SAT Circular 7 extends its tax jurisdiction to not only indirect transfers but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, SAT Circular 7 provides clear criteria on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Circular 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On 17 October 2017, the SAT issued the Circular on the Source of Deduction of Income Tax for Non-resident Enterprises (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告), or SAT Circular 37, which became effective on 1 December 2017 and

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abolished certain provisions in SAT Circular 7. Pursuant to SAT Circular 37, where the party responsible to deduct such income tax did not or was unable to make such deduction, the non-resident enterprise receiving such income should declare and pay the taxes that should have been deducted to the relevant tax authority. The taxable gains is calculated as the income from such transfer net of the net book value of equity interest.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-resident enterprises, or sale or purchase of shares in other non-resident companies or other taxable assets by us. The non-resident enterprises of our Group may be subject to filing or tax obligations if they are transferors in such transactions, and may be subject to withholding obligations if they are transferees in such transactions, under SAT Circular 7. For the transfer of shares in our company by investors that are non-resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Circular 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that the non-resident enterprises of our Group should not be taxed under these circulars. The PRC tax authorities have the discretion under SAT Circular 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under SAT Circular 7, our income tax costs associated with such transactions will be increased, which may materially and adversely affect our financial condition and results of operations. We may conduct acquisitions in the future. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

We may be subject to liabilities or penalties for breaching regulations of the PRC in respect of establishment of offshore holding companies by PRC residents and our PRC subsidiaries’ ability to distribute profits to us may be adversely affected

SAFE has promulgated several regulations, including the Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment 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 No. 37, on 4 July 2014, where the PRC individual residents or entities are required to register with SAFE or its local branches with respect to their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, any PRC resident that is a shareholder of an offshore special purpose vehicle is required to amend its SAFE registration in a timely manner after any major changes of the offshore special purpose vehicle being made, such as any increase or decrease of capital, stock right assignment or exchange, or merger or division. These regulations apply to our shareholders who are PRC residents by virtue of their establishment or their maintaining of interest in our Company, and may apply to any offshore acquisitions that we make in the future.

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We have requested PRC residents holding direct or indirect interest in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, we may not at all times be fully aware or informed of the identities of all of our beneficial owners who are PRC citizens or residents, and we may not always be able to compel our beneficial owners to comply with SAFE Circular No. 37 or other related regulations; nor can we ensure you that their registrations, if they choose to apply, will be successful. The failure or inability of our PRC resident beneficial owners to make any required registrations or comply with these requirements may subject us to fines and legal sanctions, restrict our investment activities in the PRC or cross-border by limiting our ability to contribute additional capital into or provide loans (including using the [REDACTED] from the [REDACTED]) to our operations in the PRC, limit our PRC subsidiary’s ability to pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect our ownership structure, business and prospects.

It may be difficult to effect service of process on, or to enforce any judgments obtained from non-PRC courts against us, our Directors or our executive officers who reside in the PRC

Our Company is incorporated in the Cayman Islands but we operate our business predominantly in the PRC and nearly all of our operating assets are located in the PRC. Further, most of our officers and Directors are residents in China and are PRC nationals. Currently there are no treaties in the PRC that provide for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan, or most other countries. As such, shareholders who wish to take action against us or our Directors may find it difficult to effect service of process in the PRC. In addition, the legal requirements for bringing an action against a company by a shareholder in the PRC may significantly differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions.

On 14 July 2006, Hong Kong and the Supreme Court of the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Cases by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院互相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 a court of law in Hong Kong or any designated people’s court in the PRC in respect of a judgment sum payable in a civil and commercial action may apply for recognition and enforcement of such judgment in the relevant people’s court in the PRC or Hong Kong court, respectively. On 18 January 2019, Hong Kong and the Supreme Court of 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 Hong Kong (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the “**New Arrangement**”) which will take effect once the governments of the PRC and Hong Kong have enacted legislation and implementing rules for the New Arrangement. Pursuant to the New Arrangement, if the parties have already signed the choice of court agreement in writing under the Arrangement before the New Arrangement enter into force, the Arrangement shall still apply. Although the Arrangement became effective on 1 August

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2008, the outcome and effectiveness of any action brought under the Arrangement may still remain uncertain. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment if they decide that the judgment violates the basic principles of the PRC laws, national sovereignty, security or public interest. Therefore, it may be difficult, if not impossible, for investors to effect service of process upon our subsidiaries or our Directors and officers who reside in the PRC pursuant to the authority of non-PRC courts, and it may be difficult for our shareholders to enforce against us in the PRC any judgments obtained from non-PRC courts.

The PRC government’s control in currency conversion and fluctuation in RMB exchange rates may limit our foreign exchange transactions including dividend payments on our Shares

Our business is predominantly operated in the PRC and all of our income is received in RMB. The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under the relevant foreign exchange restrictions in the PRC, by complying with certain procedural requirements, payments of current account items, such as profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE. However, registration with SAFE or approval from other appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as direct investment and the repayment of loans denominated in foreign currencies. Further, the PRC government may, at its discretion, impose any restriction on access to foreign currencies for current account transactions and may restrict our ability to convert cash derived from our operating activities into foreign currencies to fund expenditures denominated in foreign currencies. If this occurs in the future, we may not be able to pay dividends in foreign currencies to our Shareholders.

Our revenue and expenses have been and are expected to continue to be primarily denominated in RMB while the [REDACTED] to be raised from the [REDACTED] will be denominated in HK dollars. There can be no guarantee that the HK dollars will be able to be converted into RMB at all times in a timely manner, or at all, and any restrictions on such conversion may restrict or even prohibit our use of the [REDACTED] from the [REDACTED] for implementing our future plans as disclosed in this document. Furthermore, we may be exposed to the risks associated with the fluctuation in the currency exchange rate of RMB. As we need to convert the [REDACTED] from the [REDACTED] from HK dollars to RMB to pay our operating expenses, any appreciation of RMB against the HK dollars would result in an adverse impact on the conversion of the [REDACTED] from the [REDACTED] which would be reduced in value. Conversely, if we decide to convert our RMB into HK dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the HK dollars against the RMB would have a negative effect on the HK dollars amount available to us.

RISK FACTORS

RISKS RELATING TO THE SHARES AND THE [REDACTED]

There has been no prior public market for our Shares and there can be no assurance that an active market would develop after the [REDACTED]

Prior to the [REDACTED], there has been no public market for our Shares. The [REDACTED] will be the result of negotiations between the [REDACTED] and us, and the [REDACTED] may differ significantly from the market prices for our Shares following the [REDACTED]. We have applied to the Stock Exchange for the [REDACTED] of, and [REDACTED] in our Shares on the Stock Exchange. However, there is no assurance that the [REDACTED] will result in the development of an active and liquid public trading market for our Shares. 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 liquidity, trading volume and market price of our Shares following the [REDACTED] may be volatile

The liquidity, trading volume and market price of our Shares may be highly volatile. The market price of our Shares after the [REDACTED] will be influenced by the following factors to vary significantly from the [REDACTED]:

- our financial results;
- changes in laws and regulations in China;
- unexpected business interruptions resulting from natural disasters or other events;
- major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approvals for our operations;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in China and worldwide;
- the history of, and the prospects for, us and the industry in which we compete;
- fluctuations in stock market prices and volume;
- changes in analysts’ estimates of our financial performance;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- involvement in material litigation.

RISK FACTORS

In addition, shares of other companies [REDACTED] on the Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past for reasons unrelated to their performance, and there is a possibility that our Shares may be subject to changes in price not corresponding to our Group’s operation results.

There may be a negative impact on the financial results of our Group for the year ending 31 December 2019 due to the non-recurring [REDACTED]

Due to the non-recurring expenses in connection with the [REDACTED], there would be a negative impact on the financial results of our Group for the year ending 31 December 2019. The total estimated expenses for the [REDACTED] is approximately [REDACTED], of which approximately [REDACTED] is expected to be charged to profit or loss for the year ending 31 December 2019. As such, our profit for the year ending 31 December 2019 would be reduced by the [REDACTED] of approximately [REDACTED]. Our Directors would like to emphasise that such [REDACTED] are a current estimate for reference only and the final amount to be recognised to the income statement of our Group for the year ending 31 December 2019 is subject to adjustments based on audit and the then changes in variables and assumptions.

Prior dividend distributions may not be indicative of our future dividend payment

No dividend has been declared or paid by our Company during the Track Record Period and up to the Latest Practicable Date. Any future dividend declaration and distribution and by our Company will be at the discretion of our Directors and will depend on various factors, including our future operations and earnings, capital requirements and surplus, general financial conditions, future prospects and other factors that our Directors deem relevant and important. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the PRC laws, including (where required) the approvals from our shareholders and our Directors. In addition, our future dividend payments will depend upon the availability of dividends and/or funds received from our subsidiaries. As a result of the above, we cannot assure you that we will make any dividend payments in the future with reference to our historical dividends. For further details relating to the dividend of our Company, please refer to the section headed “Financial Information — Dividend” in this document.

Substantial future sales of our Shares in the public market could cause the price of our Shares to decline

While we are not aware of any intentions of our current Shareholder(s) to dispose of substantial amounts of their Shares upon [REDACTED], we are not in a position to give any assurance that such disposal will not occur. Sales of substantial amount of ours Shares in the public market after the completion of the [REDACTED], or the perception or anticipation of such sales, could adversely affect the market price of our Shares.

RISK FACTORS

You may face difficulties in protecting your interests under the laws of the Cayman Islands

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders and so the remedies available differ in some respects from those in Hong Kong and other jurisdictions.

We cannot guarantee the accuracy of the facts, forecasts and other statistics obtained from industry organisation contained in this document

Certain information, forecasts and other statistics in this document relating to the economy and the media industry and drama series market are based on the F&S Report and publicly available sources. Our Directors have relied on these statements with due care and have no reason to believe that the statements are not accurate. We believe that the sources of these information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Although we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading, the information has not been independently verified by us, the Sole Sponsor, the [REDACTED] or any other party involved in the [REDACTED] and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics which may not be consistent with other information compiled by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the F&S Report contained in this document.

Forward-looking statements contained in this document may prove inaccurate

This document contains certain forward-looking statements and information relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be materially different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statements. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong and this normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

The principal business operations of our Group are and will be primarily based in the PRC. Our Group will not have any material operation in Hong Kong. Our executive Directors and members of the senior management team are and will be expected to continue to be based in the PRC. The appointment of additional executive Directors who are ordinarily resident in Hong Kong or relocation of our executive Directors to Hong Kong will not be beneficial to or appropriate for our Group. As such, our Company does not and will not in the foreseeable future have two executive Directors residing in Hong Kong, for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

In view of the above, the Sole Sponsor has, on behalf of our Company, applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (a) our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company’s principal channel of communication with the Stock Exchange. The two authorised representatives to be appointed are Mr. Liu Naiyue, an executive Director and Mr. Au Yeung Ming Yin Gordon, our Company’s company secretary. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone and email. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange and their respective contact details have been provided to the Stock Exchange;
- (b) both authorised representatives have means to contact all members of the board of Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. In the event that a Director expects to travel and be out of office, he/she will provide to the authorised representatives the telephone number of the place of his/her accommodation or other contact details. This would ensure that each of the authorised representatives would have the means to contact all of our Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (c) to further enhance communications between the Stock Exchange and our Directors, each Director has provided to the Stock Exchange his/her mobile telephone number, office telephone number and email address;
- (d) each of the Directors (including the independent non-executive Directors) who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or is eligible to apply for valid travel documents to visit Hong Kong and he/she has never been rejected for application of such travel documents, and he/she will be able to meet with the Stock Exchange within a reasonable period upon the request of the Stock Exchange;
- (e) in compliance with Rule 3A.19 of the Listing Rules, our Company has appointed Zhongtai International Capital Limited as the compliance adviser of our Company for a period (the “CA Period”) commencing from the [REDACTED] and ending on the date on which our Company distributes the annual report for the first full financial year commencing after the [REDACTED] in accordance with Rule 13.46 of the Listing Rules to advise our Company on its obligations to comply with the Listing Rules, and all other applicable laws, rules, codes and guidelines. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong, and where our Company’s authorised representatives are unavailable, act as an additional channel of communication between the Stock Exchange and our Company at least for the CA Period; and
- (f) our Company will retain other professional advisers (including legal advisers and accountants) after [REDACTED] to assist our Company in dealing with any questions which may be raised by the Stock Exchange from time to time.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements which would constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Listing Rules upon [REDACTED]. Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to the non-exempt continuing connected transactions. Details of such non-exempt continuing connected transactions and the waiver are set out in the sections headed “Contractual Arrangements” and “Continuing Connected Transactions”.

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Liu Naiyue (劉乃岳)	36-4201, Haixin Tianxi, No.1 Dong Hai Dong Lu, Laoshan District, Qingdao, Shangdong PRC	Chinese
Ms. Liu Peiyao (劉佩瑤)	36-4201, Haixin Tianxi, No.1 Dong Hai Dong Lu, Laoshan District, Qingdao, Shangdong PRC	Chinese
Mr. Wei Xian (魏賢)	36-4201, Haixin Tianxi, No.1 Dong Hai Dong Lu, Laoshan District, Qingdao, Shangdong PRC	Chinese
Ms. Li Fang (李芳)	Room 301, 38 Jiange Road, Gulou District, Nanjing, PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Shao Hui (邵輝)	Room 202, Building 13, Kaiyuan Mingdu, Beigan Street, Xiaoshan District, PRC	Chinese
Ms. Shen Yi (沈毅)	No. 1805, Building 2, No. 56 Feng Guan Lu, Fengtai District, Beijing, PRC	Chinese

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent non-executive Directors</i>		
Mr. Xian Guoming (洗國明) . . .	302, Unit 2, Building 7, Shiguang Shuiyuan, Intersection of Fukang Road and Water Park West Road, Nankai District, Tianjin, PRC	Chinese
Mr. Xu Zongzheng (徐宗政). . . .	801, Unit 2, Building 4, No. 1 Courtyard, Xinghewan, Four Seasons Xinghe Middle Street, Chaoyang District, Beijing, PRC	Chinese
Mr. Zhong Mingshan (鐘明山) . .	402, Unit 2, Building 1, No. 85, Hong Kong East Road, Qingdao, Shandong, PRC	Chinese
<i>Senior Management</i>		
Mr. Wu Tao (吳濤).	203, Unit 2, Building C, Swan Lake Garden, Overseas Chinese Town, Nanshan District, Shenzhen, PRC	Chinese
Ms. Wang Haiting (王海婷)	803, Unit 7, Building 9, Yuanyang Yifang Huayu Yuan, Chaoyang District, Beijing, PRC	Chinese

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Ms. Yan Bei (閻蓓)	Unit 405, Building 10, Zhongdian Yihe Jiayuan Shangxuan, No. 77, Hengjia Road, Xuanwu District, Nanjing, PRC	Chinese

For further details, please refer to the section headed “Directors and Senior Management” in this document.

PARTIES INVOLVED IN THE [REDACTED]

<u>Party</u>	<u>Name and Address</u>
Sole Sponsor	Zhongtai International Capital Limited 19/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong <i>(a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)</i>
Joint Bookrunners and Joint Lead Managers	Zhongtai International Securities Limited 7/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong <i>(a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)</i>
Auditor and Reporting Accountant.	Ernst & Young <i>Certified Public Accountants</i> 22/F CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Legal Advisers to our Company. . . .	<i>As to Hong Kong law:</i> Li & Partners 22/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Party	Name and Address
	<i>As to PRC law:</i>
	Jingtian & Gongcheng 34/F, Tower 3, China Central Place, 77 Jianguo Road, Chaoyang District, Beijing, PRC
	<i>As to Cayman Islands law:</i>
	Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal Advisers to the Sole Sponsor and the [REDACTED]	<i>As to Hong Kong law:</i>
	Hastings & Co. 5/F, Gloucester Tower, the Landmark, 11 Pedder Street, Central, Hong Kong
	<i>As to PRC law:</i>
	King & Wood Mallesons 18/F, East Tower, World Financial Centre, 1 Dongsanhuan Zhonglu, Chaoyang District, Beijing, PRC
Industry Consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B, Greenland Hui Centre, No. 500 Yunjin Road, Xuhui District, Shanghai, PRC
[REDACTED]	[•]

CORPORATE INFORMATION

Registered office in the Cayman Islands	Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman KY1-1209, Cayman Islands
Principal place of business in Hong Kong	Room 16, 28/F, One Midtown 11 Hoi Shing Road, Tsuen Wan New Territories, Hong Kong
Company’s website	www.yuanshimedia.com <i>(Note: the information contained in this website does not form part of this document)</i>
Company secretary	Mr. Au Yeung Ming Yin Gordon (歐陽銘賢) (HKICPA) Room 16, 28/F, One Midtown 11 Hoi Shing Road, Tsuen Wan New Territories, Hong Kong
Authorised representatives	Mr. Liu Naiyue 36-4201, Haixin Tianxi, No.1 Dong Hai Dong Lu, Laoshan District Qingdao, Shandong PRC Mr. Au Yeung Ming Yin Gordon Room 16, 28/F, One Midtown 11 Hoi Shing Road, Tsuen Wan New Territories, Hong Kong
Audit committee	Mr. Zhong Mingshan (鍾明山) (<i>Chairman</i>) Mr. Xian Guoming (洗國明) Mr. Xu Zongzheng (徐宗政)
Remuneration committee	Mr. Xu Zongzheng (徐宗政) (<i>Chairman</i>) Mr. Zhong Mingshan (鍾明山) Mr. Xian Guoming (洗國明)
Nomination committee	Mr. Xian Guoming (洗國明) (<i>Chairman</i>) Mr. Xu Zongzheng (徐宗政) Mr. Zhong Mingshan (鍾明山)

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CORPORATE INFORMATION

Hong Kong branch share registrar	Tricor Investor Services Limited Level 54 Hopewell Centre 183 Queen’s Road East Hong Kong
Principal share registrar	[•]
Compliance adviser	Zhongtai International Capital Limited 19/F, Li Po Chun Chambers 189 Des Voeux Road Central Central, Hong Kong
Principal bankers	Bank of China (Haining Branch) No. 315 Haichang Nan Lu Haining City
	Hangzhou United Rural Commercial Bank (Haining Branch) No. 78 Wenzong South Road Haizhou Street, Haining Jiaxing, People’s Republic of China

INDUSTRY OVERVIEW

Unless otherwise indicated, the information contained in this section is derived from various governmental and official publications, other publications and the market research report prepared by Frost & Sullivan, which was commissioned by us.

We believe that the sources of information are appropriate and we have taken reasonable and cautious care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. We, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective directors, senior management, representatives or any other person involved in the [REDACTED] have not independently verified such information and have made no representation as to the accuracy and completeness thereof. The relevant information and statistics may not be consistent with such other information and statistics compiled within or outside the PRC. As a result, you are advised not to place undue reliance on such information.

SOURCES OF INFORMATION

We have commissioned Frost & Sullivan, an independent market researcher and consultant, to analyse and report on the media industry and drama series market in China. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. Frost & Sullivan offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes culture and entertainment, technology, media and telecom, wholesale and retail trades, tourism, consumer products, automotive and transportation, chemicals, materials and food, commercial aviation, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, and industrial and machinery.

We commissioned Frost & Sullivan for a total fee of RMB500,000. We are of the view that the payment of such fee does not affect the fairness of the conclusions drawn in the F&S Report.

F&S Report

Our Company has included certain information from the F&S Report in this document because our Directors believe that such information facilitates an understanding of the relevant market for potential investors. The market research process for the F&S Report has been undertaken through detailed primary research which involves discussing the status of the media industry and drama series market with leading industry participants and industry experts, and secondary research, which involves reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database.

Analysis and forecasts contained in the Frost & Sullivan Report are based on the following major assumptions at the time of compiling such reports:

- China’s economy is likely to maintain steady growth in the next decade;
- China’s social, economic, and political environment is likely to remain stable in the forecast period; and
- Market drivers such as sustainable growth of entertainment demands of consumers, prevalence of Internet and mobile Internet, innovation on media technology, and support from the government are likely to drive the growth of China’s media industry and drama series market.

INDUSTRY OVERVIEW

OVERVIEW OF MACRO ECONOMY IN CHINA

Per Capita Disposable Income

Together with continuous growth in the economy and urbanization, the average income level of Chinese households has also increased continuously in recent years. In 2018, the per capita annual disposable income increased to RMB28,228 from RMB20,167 in 2014, representing a CAGR of 8.8%.

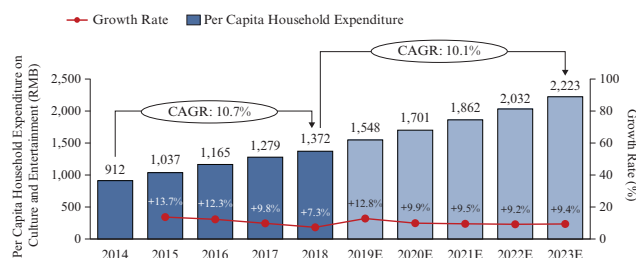
The growing per capita disposable income has had a positive effect on Chinese residents’ purchasing power, further encouraging the development of media and drama series industries. Frost & Sullivan estimates that by 2023, the per capita annual disposable income is expected to increase to RMB42,663, with a CAGR of 8.6% from 2018 to 2023.

Per Capita Household Expenditure on Culture and Entertainment

Akin to the increasing annual disposable income of Chinese households, the per capita household expenditure on culture and entertainment has kept a rapid growth, increasing from RMB912 in 2014 to RMB1,372 in 2018, with a CAGR of 10.7%.

With the improvement of the living standard of Chinese households and consumers’ growing demand on culture and entertainment, the per capita household expenditure on culture and entertainment is predicated to reach RMB2,223 in 2023, representing a CAGR of 10.1% from 2018.

Per Capita Household Expenditure on Culture and Entertainment (China), 2014–2023E



Source: National Bureau of Statistics, Frost & Sullivan

OVERVIEW OF MEDIA INDUSTRY IN CHINA

Definition and Segmentation of China’s Media Industry

The media industry refers to the collection of businesses that allows information to be shared, which is primarily comprised of traditional media such as TV shows, films, paper media (i.e. newspapers, magazines, books, etc.), audios, broadcasts, advertising, as well as new media such as Internet and mobile media.

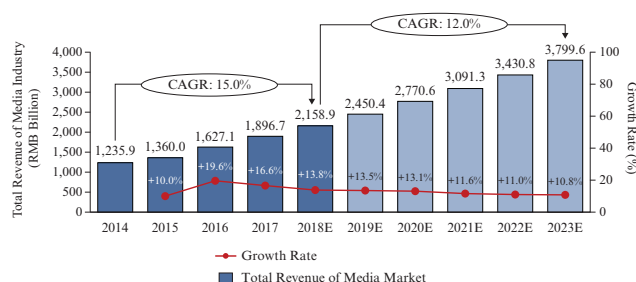
Market Size and Growth of China’s Media Industry

China’s media industry is keeping a rapid progress in past few years. Total revenue of media industry in China increased rapidly from RMB1,235.9 billion in 2014 to RMB2,158.9 billion in 2018, realizing a CAGR of 15.0%. Going forwards, the media industry is expected to continue with a double-digit growth, and is expected to grow at a CAGR of 12.0% from 2018 to 2023 and reach RMB3,799.6 billion in 2023.

The industry is primarily driven by Chinese consumers’ continuously increasing living standard and requirement on spiritual life. Meanwhile, the increasing demand provided incentives for the evolution of China’s media industry, which transformed the industry into a more diversified ecology.

INDUSTRY OVERVIEW

Total Revenue of Media Industry (China), 2014–2023E



Source: Frost & Sullivan

Market Size of China’s Media Industry by Segment

Media technologies have been rapidly developing in China, nurturing new patterns for the consumption of information and visual entertainment. With increasing penetration of Internet and mobile Internet, the rapidly growing new media such as Internet and mobile media has enjoyed the dominated status compared to traditional media such as TV and paper media in China’s media industry.

New media, including mobile media and Internet, has witnessed a rapid growth and constituted a major proportion of the overall media industry. In 2018, these two segments together contributed to over 70.0% of the total revenue of media industry in China.

The traditional media such as paper media and TV only occupied approximately 17.0% of China’s media industry. It could be seen that new media is becoming the mainstay segment of China’s media industry.

Market Drivers of China’s Media Industry

The development of the media industry in China is primarily driven by the following factors:

- **Sustainable growth of entertainment demands of consumers:** China 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 China. Chinese consumers start to seek high-quality and spiritual enjoyment products, rather than basic living necessities. Such favourable macro circumstances and sustainable growth of entertainment demands provide massive opportunities for the development of media industry. Gradually, watching media programs, such as TV series, web series, and films, has become popular daily entertainment activities.
- **Prevalence of Internet and mobile Internet:** Riding the wave of the “Internet plus” concept advocated by Chinese government, year 2016 is the golden year for the flourishing of Internet and mobile Internet. The characteristics of Internet, including unlimited geography coverage, inclusivity and promptness allow itself to be the major traffic source for many business activities as well as for the media 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 web series by themselves to attract users and traffic. Given the interactivity and mobility of Internet, new media such as Internet and mobile Internet media platforms have gradually overtaken traditional 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 China’s media industry is expected to accelerate.

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- **Innovation on media technology:** The development and evolution of technologies has created new media forms in terms of different channels. For example, the fast development of Internet has produced the popularity of new media channels through mobile devices. The innovation in media technology not only helps diversify the media products, but also increase the market coverage overall. In the future, new technology applications such as artificial intelligence (AI) and virtual reality (VR) could further drive the growth of media industry.
- **Support from the Government:** China’s government has released several supporting policies to encourage the development of culture and entertainment industries in recent years. For example, the “13th Five-Year Plan” has set the goal to make culture industry become the pillar industry of the national economy by 2020. As an important component in culture industry, Chinese media industry is enjoying the government’s favourable policies to achieve a fast growth pace. Therefore, government support is expected to be a key market driver in Chinese media industry.

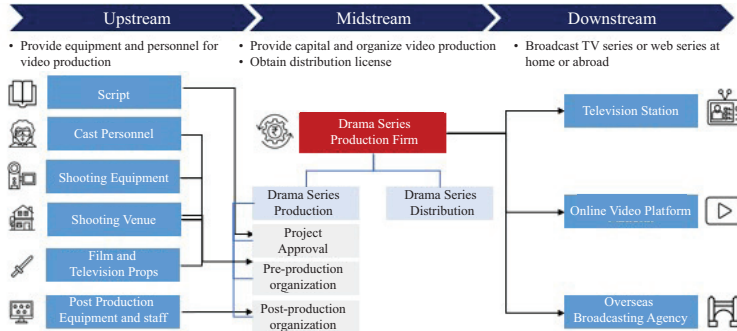
OVERVIEW OF DRAMA SERIES MARKET IN CHINA

Definition and Segmentation of China’s Drama Series Market

The drama series market consists of TV series market and web series market. TV series refers to a series of scripted episodes that are intended for broadcast on satellite channel of a TV station, cable television or Internet television. As a counterpart of TV series, web series refers to scripted shows that are generally in episodic form initially released over new media including the Internet and web television mediums.

Drama series production firms mainly engage in the investment, production and distribution of dramas. The upstream participants are mainly relatively small video studios or individual practitioners, providing drama production materials such as scripts, cast personnel, shooting equipment, props, etc.. Drama series production firms are responsible for providing capital and organising the drama production activities by engaging the upstream participants. Moreover, drama series production firms shall obtain the “Licence for Distribution of TV Series” (電視劇發行許可證) for each TV series before licensing to the downstream customers for broadcasting, and the pricing of the licence fee depends on the drama series production firms’ capital strength, propaganda ability, production quality, brand recognition, broadcasting schedule (first-run broadcast or rerun), prevailing market price, production cost, type of broadcasting channel and relationships with the customers. In addition, there is an abundant supply of a wide variety of suppliers in the TV series production industry. Thus, drama series production firm is the core of the value chain of China’s drama series market. It is an industry norm that the accounts receivable of drama series from customers such as TV stations is normally within three years and the risk of failing to settle payments by customers is relatively low.

Value Chain of Drama Series Market (China)



Source: Frost & Sullivan

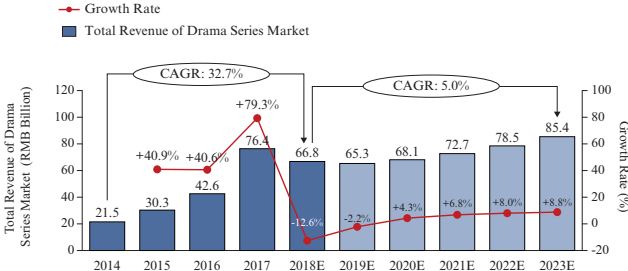
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Market Size and Growth of China’s Drama Series Market

Total revenue of drama series market increased significantly from RMB21.5 billion in 2014 to RMB66.8 billion in 2018, representing a CAGR of 32.7% during the period mainly due to the rapid economic growth, the increase in household income and the improvement of drama series. However, the drama series market in China experienced a sharp contraction in 2018 due to intensive policy and regulatory adjustment.

Going forward, total revenue of drama series market is expected to increase to RMB85.4 billion in 2023, representing a CAGR of 5.0% from 2018.

Total Revenue of Drama Series Market (China), 2014 – 2023E



Source: National Radio and Television Administration, Frost & Sullivan

Market Drivers of China’s Drama Series Market

The development of drama series market in China is primarily driven by the following factors:

- Upgrading consumption and increasing expense on entertainment:** The per capita annual disposable income of China residents increased significantly to RMB28,228 in 2018, representing a CAGR of 8.8% from 2014. The increase of people’s income contributes to the consumption upgrade and transition, as well as boosts the entertainment needs. The per capita expenditure of Chinese residents on entertainment has reached RMB1,372 in 2018, representing a CAGR of 10.7% from 2014. The continuous increase of disposable income and entertainment expenditure is expected to further drive the fast development of drama series market in China.
- Innovations in drama series:** To fulfill audience’ rising expectations on the quality of drama series, such as script authoring, shooting technology, and the performance of artists, drama series producers and Internet media 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 video series, so that the audience rating of video series can improve in such competitive market. Besides, technological innovations are viewed as one of 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.
- Rising penetration of Internet and mobile:** The rising penetration rate of Internet and mobile has provided the audiences new media channels to enjoy drama series. The emergence of new media channels also present drama series producers a new way to produce and distribute drama series. More options to produce drama series are expected to further drive the drama series market in China.

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- **Extensive capital investment:** Sufficient capital support has become a key market driver of drama series production industry. Many Internet companies such as Alibaba, Tencent and Baidu have started their strategic distribution in the market. In addition, different financing methods like financing through private equity and venture capital are also involved in the investment process and they provide drama series production companies with diversified financing means.

Entry Barriers of China’s Drama Series Market

The entry barriers of the drama series market in China are relatively high and consist of the following factors:

- **Administrative regulations:** Drama series production industry is under strict supervision by relevant administrations. Chinese government has formulated a series of detailed regulations, including 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 have specific legal requirements on the content production and publications. Moreover, new entrant to this market must acquire legal licences from government administrations before producing and publishing any visual media works.
- **Capital requirements:** Companies in drama series production industry usually have a strong capital strength. They need large capital to cover different expenses such as purchasing copyrights and labor costs. For the moment, the cost of content production and publication of drama series is in a relatively high level. Thus, it imposes a big entry barrier for new entrant to this market.
- **Professionals:** The production process of drama series requires a lot of professionals with expertise in different sectors such as directors, artists, photographers, publication teams and other staff members. These professionals usually have several years of professional experience and they have maintained a long-term cooperation relationship with related partners. Therefore, building a team with experienced professionals is another entry barrier in the market.
- **Brand attractions:** Large and leading companies in drama series production have established a well-known brand name in the market. Their brand awareness is generally accumulated based on the production of high quality drama series with good viewership and reputation. From the downstream point of view, their brands attract more buyers and allow the possibility of higher prices. From the upstream point of view, depending on their strong financial strength and brand value, these companies are better positioned to attract high quality artists and IP resources as well as excellent production and publication teams, including directors and producers. Most of the market resources are seized by leading market players. The absence of brand influence makes it difficult for new entrants to survive in the market.

Future Trends of China’s Drama Series Market

- **Collaboration of TV series and web series production companies:** As regulated by the policy of “One Television Series, Two Satellite Television Channels”, one TV series can only be broadcast in maximum two satellite channels at the same time. As a result, TV series production companies are likely to explore more distribution channels. They are expected to develop strategic alliance with not only TV stations but also online video platforms. In addition, the cost of TV production such as salary of artists has undergone rapid increase. The prevalence of high quality top tier TV series also triggers TV production companies to produce high-budget TV series with more episodes. More TV series production companies tend to strategically collaborate with other companies to mitigate the high cost of TV series production and realize resources sharing to improve capacity.

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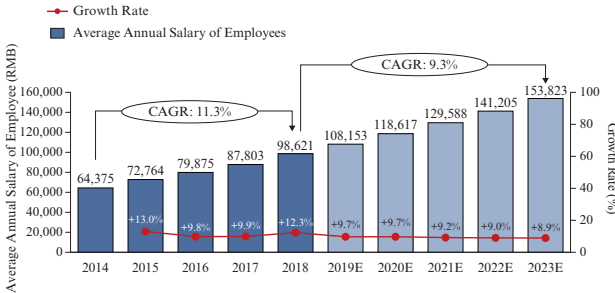
- Expansion of Internet media platform:** Typically, TV and web series production companies require substantial amount of capital to maintain business operations, including offering down payment for the artists and obtaining broadcast licence before shooting. However, down payment of online media platforms paid before shooting are relatively higher than that of TV stations, hence alleviating the cash flow pressure of TV and web series production companies. On the other hand, in light of the increasing penetration rate of Internet, more people are willing to watch episodes online instead of TV stations. As a result, there is a trend the TV stations and Internet media platforms starts to form strategic cooperation, utilizing their own edges to enrich distribution channels, and ultimately benefits audience.
- Cut capacity reform and increasing copyright price:** Since the “One Television Series, Two Satellite Television Channels” policy was released, the number of TV series broadcast on TV stations has shown a downward trend. Currently, approximately 20% of TV series which obtained broadcast licence are not able to be played. The gap between approved episodes and broadcast episodes has not been narrowed, which means that the “Cut Capacity” reform will continue, indicating the decline of number of TV series obtaining approval to broadcast will maintain. Under the influence of this reform, most TV series production companies prefer to produce more episodes for each TV series and there would be more high-budget TV series. In addition, the increase of production cost and higher demands of high-quality TV series will also drive the copyright price to keep going up.

Cost Analysis of China’s Drama Series Market

With the prosperity of China’s macro economy and development of culture, sports and entertainment industries, the average annual salary of employees in drama series market has increased rapidly from RMB64,375 in 2014 to RMB98,621 in 2018, representing a CAGR of 11.3%.

Furthermore, it is expected to keep increasing with a CAGR of 9.3% from 2018 to 2023 and reach RMB153,823 in 2023 due to the stable growth of drama series market and further development of China’s culture, sports and entertainment industries.

Average Annual Salary of Employees (China), 2014 – 2023E



Source: National Bureau of Statistics, Frost & Sullivan

Market Size and Growth of China’s TV Series Market

China’s TV series market has been undergoing an evolution based on the Chinese government’s imperative on improving the quality of domestic TV series. The market has stepped into a development phase when quality improvements outstrip the increase in quantity.

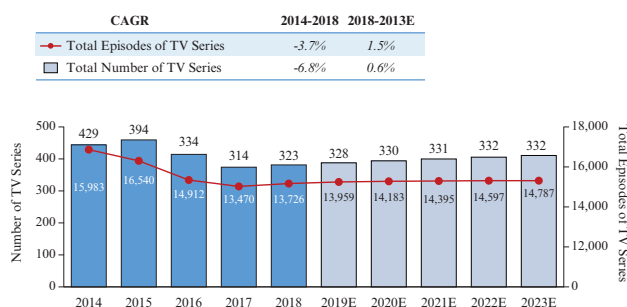
Although the total number of TV series observed a decline from 429 in 2014 to 323 in 2018, the total number of episodes was less affected, which represent the actual amount of work dedicated to TV series production increased on a per series basis. This served to facilitate an overall increase in the quality of Chinese TV series. Going forward, total

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number of TV series and total episodes of TV series in China are expected to gradually stabilize with CAGRs of 0.6% and 1.5% from 2018 to 2023, respectively, according to the F&S Report.

Furthermore, in order to support the TV series production industry, it is the policy of the government of Haining to provide government grants to the TV series production companies. Moreover, in order to provide incentive to the TV series production companies, the amount of certain government grants is provided in proportion to the amount of revenue profit generated by the TV series production company.

Total Number and Episodes of TV Series (China), 2014–2023E



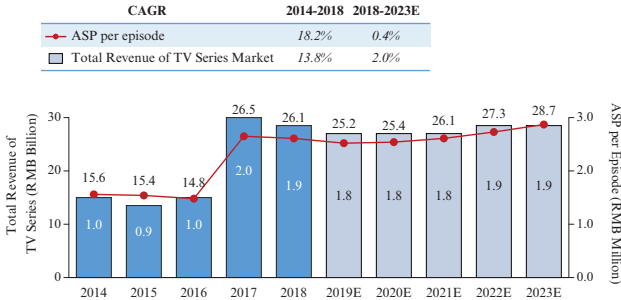
Source: National Radio and Television Administration, Frost & Sullivan

Total revenue of TV series increased largely from RMB15.6 billion in 2014 to RMB26.1 billion in 2018, representing a CAGR of 13.8% during the period. The increase in total revenue of TV series market is mainly due to rising average selling price (“ASP”) per episode, which grew from RMB1.0 million per episode in 2014 to approximately RMB1.9 million per episode in 2018, representing a CAGR of 18.2%. In general, the ASP of drama series is based on the production cost, which mainly consist of remuneration for artists, as well as other production costs such as content/script cost, costumes and props, post production, staff wages, etc. Akin to the exorbitant salaries of artists (especially stars) during 2016 to 2017, the ASP and total revenue of TV series grew rapidly. A group of Chinese government organizations jointly issued “*Opinions on the Allocation of Production Costs of TV Series and Web Series* (關於電視劇網路劇製作成本配置比例的意見 the “**Opinion**”) on September 2017 to cap the salaries of actors and actresses in order to maintain healthy development of the television and film industry. In addition, the NRTA has issued “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路視聽文藝節目管理的通知) on November 2018. According to both regulations, in China’s drama series and film industries, the total remuneration for all artists shall not exceed 40% of the total production cost, while the payment to the main artists shall not be more than 70% of the total remuneration for all artists. As a result, the ASP and total revenue of TV series went down gradually since 2017.

Going forward, total revenue of TV series market is forecasted to remain steady due to a stable ASP per episode in the forecast period. From 2018 to 2023, total revenue of TV series market is expected to increase to RMB28.7 billion in 2023, representing a CAGR of 2.0%.

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Total Revenue and ASP of TV Series Market (China), 2014–2023E



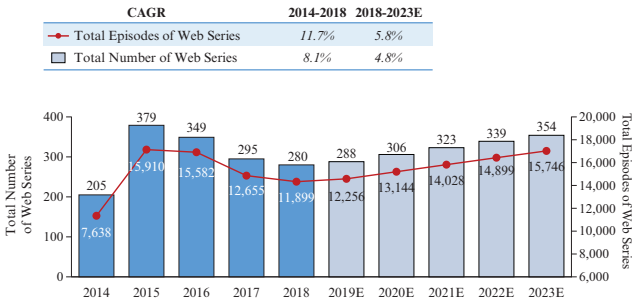
Source: National Radio and Television Administration, Frost & Sullivan

Market Size and Growth of China’s Web Series Market

The web series market in China experienced explosive growth in number before 2015. After 2015, China’s web series market entered the adjustment period, showing the trend of higher quality and customization for specific cooperative video website, and with the relative decrease in number. Overall, the total number of web series in China increased from 205 in 2014 to 280 in 2018, representing a CAGR of 8.1%. The total episodes of web series in China increased accordingly from 7.6 thousand in 2014 to 11.9 thousand in 2018, representing a CAGR of 11.7%.

Relatively, in the past few years, the approval requirements of web series were simpler than those of TV series. However, with the explosive growth of web series and the improvement of people’s acceptance of web series, the approval requirements of web series will be more and more consistent with those of TV dramas. In the future, the total number of web series and total episodes of web series will keep a CAGR of 4.8% and 6.0%, respectively, during 2018 to 2023.

Total Number and Episodes of Web Series (China), 2014–2023E



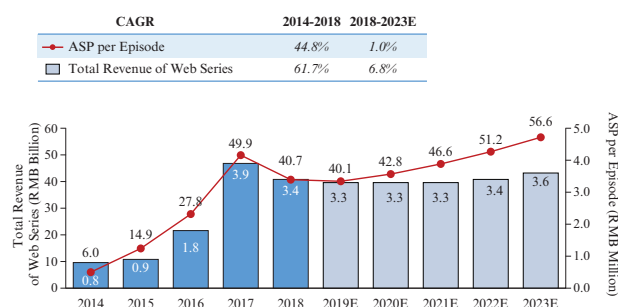
Source: Frost & Sullivan

Total revenue of web series increased dramatically from RMB6.0 billion in 2014 to RMB40.7 billion in 2018, representing a CAGR of 61.7%. The increase in total revenue of web series market is mainly due to the increase in ASP per episode of each web series, which grew from RMB0.8 million per episode in 2014 to RMB3.4 million per episode in 2018, representing a CAGR of 44.8% and the increase in the average number of episodes of each web series.

Going forward, the fast growth is expected to ease due to the Opinion. From 2018 to 2023, total revenue of web series market is expected to increase to RMB56.6 billion in 2023, representing a CAGR of 6.8%.

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Total Revenue and ASP of Web Series Market (China), 2014–2023E



Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF DRAMA SERIES MARKET IN CHINA

The drama series market, including the TV series market and the web series market, are highly fragmented in China. In 2018, the top five drama series groups accounted for a total market share of 14.4% in terms of revenue generated from investment, production, and distribution of TV series and web series.

The Company ranked between 20th and 30th in 2018, with a market share of 0.2% in terms of revenue of drama series.

Ranking and Market Share of Drama Series Group (China), 2018

Ranking	Drama Series Group	Revenue of	Market Share
		Drama Series (RMB Billion)	(%)
1	Group A	4.5	6.7%
2	Group B	1.7	2.6%
3	Group C	1.3	1.9%
4	Group D	1.1	1.7%
5	Group E	1.0	1.6%
	Top 5	9.7	14.4%
	Total	66.8	100.0%

Note: The revenue of drama series includes revenues generated from investment, production, and distribution of TV series and web series.

Source: Frost & Sullivan

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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 (中華人民共和國公司法) (the “**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 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. The Company Law is also applicable to foreign-invested companies, except otherwise set out in any other regulations.

According to both the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated by the SCNPC and came into effect on 12 April 1986, and was last revised on 3 September 2016, and the Implementation Rules for the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated by the Ministry of Foreign Economic Relations and Trade (對外經濟貿易部) (“**MFERT**”) on 12 December 1990 and was last revised on 19 February 2014 by the State Council, the procedures of establishment, examination and approval, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are governed by them. The establishment, breakup, merger or any other major modifications and the operation period of wholly foreign-owned enterprises, which involve the implementation of special access administrative measures prescribed by the State Council, shall be subject to the examination and approval of the MOFCOM or an agency authorized by the State Council. The wholly foreign-owned enterprises that does not involve the implementation of special access administrative measures are subject to record-filing management.

The Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Foreign Investment Catalogue**”) was promulgated by MOFCOM and the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) (the “**NDRC**”) on 28 June 2017 and implemented since 28 July 2017. The Foreign Investment Catalogue stipulated in detail the areas of entry pertaining to the categories of encouraged foreign investment industries, restricted foreign investment industries and prohibited foreign investment industries. Any industry not listed in the Foreign Investment Catalogue is a permitted industry. The special administrative measures for access of foreign investment of the Foreign Investment Foreign Investment Catalogue was replaced by the Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) (外商投資准入特別管理措施(負面清單) (2018年版)) (the “**Negative List**”) which was promulgated by the NDRC and the MOFCOM on 28 June 2018 and became effective on 28 July 2018. The Negative List contains a list of fields that foreign investment is restricted or prohibited.

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According to the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by MOFCOM on 8 October 2016 and was last revised on 29 June 2018 and became effective on 30 June 2018, the establishment and modifications of foreign-invested enterprises are subject to record-filing procedures, instead of prior approval requirements, provided that the establishment or change does not involve special access administrative measures.

On 15 March 2019, the NPC adopted the Foreign Investment Law. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Chinese-Foreign Equity Joint Ventures Law (中外合資經營企業法), the Chinese-Foreign Contractual Joint Ventures Law (中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law to become the legal foundation for foreign investment in the PRC.

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 by the departments of radio and television administration at or above the provincial level governments. Radio station or television 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 the SARFT on 19 July 2004 and came into effect on 20 August 2004, and was last revised on 31 October 2018, the Licence to Produce and Distribute Radio or Television Programmes (廣播電視節目製作經營許可證) shall be obtained by establishing institutions that produce and distribute radio and television programmes or engaging in the activities of production and distribution of radio and television programmes. The Licence to Produce TV Series (電視劇製作許可證) and the Licence for Distribution of TV Series (電視劇發行許可證) shall be obtained for the production and distribution of TV series respectively. Radio and television broadcasting institutions shall not broadcast TV series produced by institutions without Licence for Produce and Distribute Radio or Television Programmes or TV series without relevant distribution licence.

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Pursuant to the Administrative Provisions for Contents of TV Series (電視劇內容管理規定) which was promulgated by the 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. The TV series without the distribution licence shall not be distributed, broadcast or appraised for awards.

Administration 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 the State Administration of Press and Publication, Radio, Film and Television (國家新聞出版廣播電總局) (“SAPPRFT”, which is the predecessor of the NRTA) 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.

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

REGULATIONS IN RELATION TO PRODUCTION OF FILMS

Pursuant to PRC Law on the Promotion of the Film Industry (中華人民共和國電影產業促進法), which was promulgated by the SCNPC on 7 November 2016 and came into effect on 1 March 2017, a legal person or any other organization that intends to produce a film shall file the synopsis of the film script for the record with the film authority under the State Council or the film department of the provincial level government, and the script of a film involving any major theme or any materials relating to national security, foreign affairs, ethnicity, religion, military affairs, and other matters shall be submitted for review and approval as required by relevant regulations of the PRC. Once finished shooting, the film shall be submitted the abovementioned film administration for examination and apply for the Licence for Public Screening of Films (電影片公映許可證). A film without the Licence for Public Screening of Films shall not be distributed, projected, spread via information networks such as the Internet, telecom networks and broadcast networks or produced as any audio-visual product.

Pursuant to the Regulations on the Administration of Films (電影管理條例 (2001)), which was promulgated by the State Council on 25 December 2001 and came into effect on 1 February 2002, the PRC applies a film examination system. Films which have not been examined by the competent examination administration shall not be distributed, projected, imported or exported. A Licence for Public Screening of Films (電影片公映許可證) shall be issued by the examination administration after examined qualified.

Pursuant to Regulations for Administration of the Record-filing of Screenplay (Outline) and Films (電影劇本(梗概)備案、電影片管理規定), which was promulgated by the SARFT on 22 May 2006 and came into effect on 22 June 2006, and was revised on 11 December 2017, the PRC applies the system of screenplay (outline) record-filing and films examination. A screenplay (outline) that has not been put into records shall not be shot into a film, and a film that has not passed the examination shall not be released, shown, imported and exported.

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In addition, foreign investment in film production 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 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 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.

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

Pursuant to the Provisions on Mergers and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“M&A Rules”) promulgated by the MOFCOM, China Securities Regulatory Commission (中國證券監督管理委員會) (“CSRC”), 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) (“SASAC”), SAT, SAIC and SAFE on 8 August 2006, which became effective on 8 September 2006 and was revised on 22 June 2009 by MOFCOM, 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

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companies may repatriate foreign currency payments received 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 revised on 4 May 2015, 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 The Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular No. 13**”) promulgated by the SAFE on 13 February 2015 and became effective on 1 June 2015, 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 No. 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 SAFE Circular No. 19 which was promulgated by the SAFE on 30 March 2015 and came into effect as of 1 June 2015, 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 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

REGULATORY OVERVIEW

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.

Regulations In Relation to Offshore Investment

Pursuant to the Circular No. 37 which was promulgated by the SAFE on 4 July 2014 and came into effect on the same date, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle (“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.

The SAFE Circular No. 13 has further revised Circular No. 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 Implementing 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”) were promulgated by the State Council on 6 December 2007 and came into effect as of 1 January 2008, 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

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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, 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 Korgos 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 Korgos 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 Korgos within the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (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.

REGULATORY OVERVIEW

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 value-added tax (增值稅) (“**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 value-added tax 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%. Where a taxpayer purchase the agricultural products used for the production or consigned processing of goods to which the tax rate of 13% applies, the amount of input tax shall be calculated at the deduction rate of 10%. (3) As for exported goods and labor 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

The Labor Law and the Labor Contract Law

According to the Labor 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 laborers in labor safety and sanitation in China. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

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The principal regulations governing the employment contract is the PRC Labor Contracts Law, which was promulgated by the SCNPC on 29 June 2007 and was revised on 28 December 2012. 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 2018) (中華人民共和國社會保險法 (2018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 organizations, 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

REGULATORY OVERVIEW

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 screenplay, 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 Implementing 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 in 23 August 1982 and was last revised on 23 April 2019, and the Implementing 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.

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 license 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.

REGULATORY OVERVIEW

Domain Name

The Ministry of Industry and Information Technology (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.

HISTORY, REORGANISATION AND GROUP STRUCTURE

GENERAL

Our Group’s history can be traced back to November 2013, when Values Culture, our principal operating subsidiary, was founded by 14 individuals including the Core Shareholders (i.e. Mr. Bai, Mr. Liu, Ms. Liu, Ms. Wei and Mr. Wu) and started engaging in the business of the production and distribution of self-produced TV series. In addition to the production, distribution and licensing of broadcasting rights of self-produced TV series, we began to distribute and license the broadcasting rights of purchased TV series since January 2014 and provide distribution services as distribution agent since July 2016. As at the Latest Practicable Date, our Group had produced, purchased, distributed and/or licensed more than 15 TV series.

Values Culture established Beijing Values, Khorgas Values, Haining Values Television and Xinjiang Values as its wholly-owned subsidiaries in April 2014, December 2016, December 2017 and June 2018 respectively. Other than Haining Values Television which was voluntarily dissolved by deregistration in May 2019 as it had no material operations since its establishment, the above subsidiaries together with Values Culture were the operating subsidiaries of our Group as of the Latest Practicable Date. In October 2016, the shares in Values Culture were first listed on the NEEQ and were delisted in September 2018.

Mr. Bai had been a director and the chairman of the board of Values Culture since its establishment. In order to devote more time to his family and other personal affairs, Mr. Bai decided to cease to participate in the daily management and operations of Values Culture as well as other members of our Group, except remaining as a director of Values Culture and Beijing Values with a non-executive role to advise on the development of its business and operations in the PRC from a macro-perspective. Mr. Bai also remains as one of our substantial shareholders. For details of the qualifications and experience of other Core Shareholders, please refer to the section headed “Directors and Senior Management” in this document.

BUSINESS HISTORY AND MILESTONES

The following illustrates our major business development milestones and achievements:

<u>Year</u>	<u>Key Milestones</u>
2013	<ul style="list-style-type: none">• Values Culture was established in Zhejiang Province, the PRC and started engaging in the business of the production and distribution of self-produced TV series in December 2013.• Values Culture first obtained the License to Produce and Distribute Radio or Television Programmes.
2014	<ul style="list-style-type: none">• Values Culture began to distribute and license the purchased TV series.• Beijing Values was established in Beijing, the PRC.

HISTORY, REORGANISATION AND GROUP STRUCTURE

<u>Year</u>	<u>Key Milestones</u>
2016	<ul style="list-style-type: none">• Values Culture began to provide distribution services as distribution agent.• The Eagle Corps* (野山鷹), the TV series which we acted as executive producer, were awarded with “Contribution Award” of the 2015 Beijing Television Annual Viewership Ratings Billboard* (2015影視京榜年度收視「貢獻獎」) by Beijing Television* (北京電視台), “Third Prize” of Outstanding Works in 2015* (2015年度優秀作品「三等獎」) by Haiying International Cooperation Experimental Zone Management Committee* (海影國際合作實驗區管委會), “Excellent TV series Production Company Award” of the 2016 Southern Festival — Annual TV series Conference* (2016南方盛典—電視劇年會「優秀電視劇出品公司獎」) by Guangdong Radio and Television* (廣東廣播電視台), and The Ace Award of the Landmark Alliance 2015 National Drama Viewership Ratings Contribution Billboard* (地標聯盟2015國劇收視貢獻榜收視王牌獎) by Shandong Network Radio-Television Station Qilu Channel* (山東廣播電視台齊魯頻道).• The shares in Values Culture were listed on the NEEQ in October 2016.• Khorgas Values was established in Xinjiang Uygur Autonomous Region, the PRC.
2017	<ul style="list-style-type: none">• Values Culture was awarded with “First Tier Prize” of the 2016 First Comprehensive Assessment Winning Unit* (2016年度綜合考核優勝單位「一等獎」) by Haiying International Cooperation Experimental Zone Management Committee* (海影國際合作實驗區管委會).

HISTORY, REORGANISATION AND GROUP STRUCTURE

<u>Year</u>	<u>Key Milestones</u>
2018	<ul style="list-style-type: none">• Values Culture was awarded with “Special Award” of 2017 Annual Comprehensive Assessment of Outstanding Enterprises* (2017年度綜合考核優秀企業「特等獎」) by China (Zhejiang) International Film & Television Industries International Cooperation Experimental Zone Haining Base Management Committee* (中國(浙江)影視產業國際合作試驗區海寧基地管理委員會), The Second Batch of Zhejiang Province’s Growing Cultural Enterprises* (第二批浙江省成長型文化企業) by Zhejiang Cultural Reform and Development Working Group Office of Zhejiang Association of Cultural Industry Development* (浙江省文化產業促進會浙江省文化改革發展工作領導小組辦公室), 2017 National Drama Awards Quality Cooperation Company* (2017年度國劇頒獎禮優質合作公司) by Jiangsu City Joint Television Media Co., Ltd.* (江蘇城市聯合電視傳媒有限責任公司) and Jiangsu City Joint Television Culture Co., Ltd.* (江蘇城市聯合影視文化股份有限公司), “Excellent Television Drama Production Company Award” of 2017 Television Drama Awards* (2017年度電視劇大賞「優秀電視劇製作公司」) by Hunan Economic Television Station* (湖南經視) and 2017 “TV series Best Partner”* (2017年度「電視劇最佳合作夥伴」) by Tianjin Satellite Television* (天津衛視).• Xinjiang Values was established in Xinjiang Uygur Autonomous Region, the PRC.• The shares in Values Culture were delisted on the NEEQ in September 2018.
2019	<ul style="list-style-type: none">• Values Culture was awarded with “The Most Growing Company” in 2018* (2018年度「最具成長型企業」) by China (Zhejiang) International Film & Television Industries International Cooperation Experimental Zone Haining Base Service Centre* (中國(浙江)影視產業國際合作試驗區海寧基地服務中心).

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HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE HISTORY AND DEVELOPMENT

The following table contains brief information of our Company, subsidiaries and Consolidated Affiliated Entities as at the Latest Practicable Date:

<u>Name</u>	<u>Date of establishment and commencement of business</u>	<u>Place of incorporation or establishment</u>	<u>Principal activities</u>
Our Company	11 March 2019	Cayman Islands	Investment holding
YS Cultural Investment	20 March 2019	BVI	Investment holding
Fanta Culture	17 April 2019	Hong Kong	Investment holding
WFOE	27 May 2019	PRC	Investment holding
Values Culture	14 November 2013	PRC	Investments in, production, distribution and licensing of TV series
Beijing Values	3 April 2014	PRC	Investments in, production, distribution and licensing of TV series
Khorgas Values	29 December 2016	PRC	Investments in, production, distribution and licensing of TV series
Xinjiang Values	22 June 2018	PRC	Investments in, production, distribution and licensing of TV series

HISTORY, REORGANISATION AND GROUP STRUCTURE

Establishment and shareholding changes of the major members of our Group

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 March 2019 with an authorised share capital of US\$50,000 divided into 500,000,000 shares of US\$0.0001 each. It was incorporated for the purpose of implementing the Reorganisation.

On 11 March 2019, one fully-paid Share of US\$0.0001 was allotted and issued to Osiris International Cayman Limited (the initial subscriber and an Independent Third Party), which was transferred to BLW Investment on the same day.

On 11 March 2019, our Company allotted and issued 3,286 Shares, 1,233 Shares, 233 Shares, 200 Shares, 1,075 Shares, 1,158 Shares, 133 Shares, 400 Shares, 733 Shares and 213 Shares, all fully-paid at par, to BLW Investment, SYYT Investment, ZLLL Investment, Xieting Holding, SDJZ Investment, JMJ Group, SLZW Investment, LHW Investment, Jinping Holding and LWQ Investment respectively.

On 14 June 2019, our Company further allotted and issued 31,246 Shares, 9,434 Shares, 2,100 Shares, 1,800 Shares, 9,675 Shares, 10,425 Shares, 1,200 Shares, 3,600 Shares, 6,600 Shares, 1,920 Shares, 13,335 Shares, all fully paid at par, to BLW Investment, SYYT Investment, ZLLL Investment, Xieting Holding, SDJZ Investment, JMJ Group, SLZW Investment, LHW Investment, Jinping Holding, LWQ Investment and Suiyong Int'l, respectively.

On 18 June 2019, BLW Investment transferred 1,333 Shares to each of SDJZ Investment and Suiyong Int'l pursuant to the Profit Guarantee Settlement Arrangement. For further details of the Profit Guarantee Settlement Arrangement, please refer to the paragraphs headed “Establishment and shareholding changes of the major members of our Group — Values Culture” and “Steps of Reorganisation — 4. Transfer of Shares by BLW Investment to SDJZ Investment and Suiyong Int'l” below in this section. The shareholdings of our Company immediately following the above transfer are as follows:

Shareholders	Number of Shares being held	Shareholding percentage (%)
BLW Investment	31,867	31.87
SYYT Investment	10,667	10.67
ZLLL Investment	2,333	2.33
Xieting Holding	2,000	2.00
SDJZ Investment	12,083	12.08
JMJ Group	11,583	11.58
SLZW Investment	1,333	1.33
LHW Investment	4,000	4.00
Jinping Holding	7,333	7.33
LWQ Investment	2,133	2.13
Suiyong Int'l	14,668	14.67
Total	100,000	100.0

HISTORY, REORGANISATION AND GROUP STRUCTURE

On [•] 2019, our Shareholders resolved that, among others, all the shares in our Company at a par value of US\$0.0001 each will be subdivided into 20 Shares at a par value of US\$0.000005 each such that the authorised share capital of our Company shall be US\$50,000 divided into 10,000,000,000 Shares at a par value of US\$0.000005 each and the issued share capital shall be US\$10 divided into 2,000,000 Shares at a par value of US\$0.000005 each.

Conditional upon the share premium account of our Company being credited with the [REDACTED] of the [REDACTED], a sum standing to the credit of the share premium account of our Company will be [REDACTED] and [REDACTED] to paying up in full [REDACTED] Shares to be [REDACTED] and [REDACTED] to all the then existing Shareholders in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then shareholdings in our Company. The number of Shares to be issued under the [REDACTED] together with the number of Shares then held by all such Shareholders shall represent not more than 75% of the entire issued share capital of our Company immediately after the completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be issued upon exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme).

Pursuant to the [REDACTED], our Company will [REDACTED] [REDACTED] [REDACTED], being [25]% of the total issued share capital of our Company (as enlarged by the Shares [REDACTED] under the [REDACTED] and the Shares issued under the [REDACTED] excluding the Shares which may be [REDACTED] and [REDACTED] upon exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme) for subscription by the public in Hong Kong and placing to professional, institutional and individual investors.

YS Cultural Investment

YS Cultural Investment was incorporated under the laws of the BVI with limited liability on 20 March 2019. It was incorporated for the purpose of implementing the Reorganisation. On 20 March 2019, one share of a par value of US\$1.00 was allotted and issued as fully-paid to our Company.

Fanta Culture

Fanta Culture was incorporated under the laws of Hong Kong with limited liability on 17 April 2019. It was incorporated for the purpose of implementing the Reorganisation. On 17 April 2019, one share of HK\$1.00 was allotted and issued as fully-paid to YS Cultural Investment.

WFOE

WFOE was established in the PRC on 27 May 2019 as a limited liability company with an initial registered capital of HK\$150,000,000. WFOE is a direct wholly-owned subsidiary of Fanta Culture.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Values Culture

Values Culture was established in Zhejiang Province in the PRC on 14 November 2013 as a joint-stock limited company with an initial registered share capital of RMB60,000,000 divided into 60,000,000 shares with a nominal value of RMB1 each, which were fully paid up by 4 August 2015. It is principally engaged in the business of investments in, production, distribution and licensing of TV series. As of the date of establishment, the shareholding in Values Culture is as follows:

<u>Name of shareholder</u>	<u>Number of shares held</u>	<u>Percentage of shareholding (%)</u>
Mr. Bai ⁽¹⁾	17,500,000	29.17
Ms. Liu ⁽¹⁾	12,000,000	20.00
Mr. Wu ⁽²⁾	7,000,000	11.67
Mr. Liu ⁽¹⁾	5,000,000	8.33
Ms. Wei ⁽¹⁾	5,000,000	8.33
Ms. Xie Ting	3,000,000	5.00
Mr. Hu Wangdong	2,000,000	3.33
Ms. Lin Xin	2,000,000	3.33
Mr. Wang Jianlin ⁽³⁾	2,000,000	3.33
Mr. Sha Yuan	1,500,000	2.50
Mr. Xu Zhen	1,000,000	1.67
Ms. Xu Yingmei	1,000,000	1.67
Mr. Li Zhongyin	500,000	0.83
Ms. Zhu Hui	500,000	0.83
Total	60,000,000	100.0

Notes:

- (1) Mr. Bai, Mr. Liu, Ms. Liu and Ms. Wei have been the directors of Values Culture since 14 November 2013.
- (2) Mr. Wu had been a director and the general manager of Values Culture since 14 November 2013. On 4 June 2019, Mr. Wu resigned as director of Values Culture due to the internal personnel rearrangement within our Group but remains as general manager of Values Culture. Mr. Wu is also the chief executive officer of our Group.
- (3) Mr. Wang Jianlin has been a supervisor of Values Culture since 14 November 2013.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 22 July 2015, Mr. Xu Zhen entered into respective equity transfer agreements with Mr. Sun Fuqiu and Ms. Wang Haiting, pursuant to which Mr. Xu Zhen agreed to transfer his 900,000 shares (in which 450,000 shares were paid-up) and 100,000 shares (in which 50,000 shares were paid-up) in Values Culture to Mr. Sun Fuqiu and Ms. Wang Haiting at the considerations of RMB450,000 and RMB50,000 respectively, which were determined based on the amount of the registered capital of Values Culture actually paid-up by Mr. Xu Zhen. The respective transfers to Mr. Sun Fuqiu and Ms. Wang Haiting were settled on 4 August 2015 and 18 August 2015 respectively. On the same day, Ms. Xu Yingmei entered into an equity transfer agreement with Mr. Wu, pursuant to which Ms. Xu Yingmei agreed to transfer her 1,000,000 shares (in which 500,000 shares were paid-up) in Values Culture to Mr. Wu at the consideration of RMB500,000, which was determined based on the amount of the registered capital of Values Culture actually paid-up by Ms. Xu Yingmei. The transfer to Mr. Wu was settled on 15 August 2015. On 12 August 2015, an updated business licence reflecting such transfers was granted by the relevant PRC authority.

On 11 May 2016, the registered share capital of Values Culture increased from RMB60,000,000 to RMB135,000,000 by issuing 75,000,000 new shares, which were subscribed by Mr. Bai, for 5,000,000 shares in addition to his existing shares, and seven new shareholders, namely Ms. Zhang Hui, Mr. Xiao Hu, Ms. Jin Ping, Mr. Liu Hao, Mr. Xu Jun, Ms. Yang Yanli and Ms. Yu Fenghui for 15,000,000 shares, 15,000,000 shares, 15,000,000 shares, 10,000,000 shares, 7,000,000 shares, 5,000,000 shares and 3,000,000 shares, respectively, at the subscription price of RMB1.15 per share. The subscription price was determined based on the net asset value per share of Values Culture as of 31 December 2015. The above subscriptions were all settled by 25 May 2016.

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HISTORY, REORGANISATION AND GROUP STRUCTURE

The shareholding in Values Culture immediately after the above subscriptions is as follows:

Name of shareholder	Number of shares held	Percentage of shareholding (%)
Mr. Bai ^{(1) (6)}	22,500,000	16.67
Ms. Jin Ping	15,000,000	11.11
Mr. Xiao Hu	15,000,000	11.11
Ms. Zhang Hui ⁽⁵⁾	15,000,000	11.11
Ms. Liu ⁽¹⁾	12,000,000	8.89
Mr. Liu Hao	10,000,000	7.41
Mr. Wu ⁽²⁾	8,000,000	5.93
Mr. Xu Jun ⁽⁵⁾	7,000,000	5.19
Mr. Liu ⁽¹⁾	5,000,000	3.70
Ms. Wei ⁽¹⁾	5,000,000	3.70
Ms. Yang Yanli	5,000,000	3.70
Ms. Xie Ting	3,000,000	2.22
Ms. Yu Fenghui	3,000,000	2.22
Mr. Hu Wangdong	2,000,000	1.48
Ms. Lin Xin	2,000,000	1.48
Mr. Wang Jianlin ⁽³⁾	2,000,000	1.48
Mr. Sha Yuan	1,500,000	1.11
Mr. Sun Fuqiu ⁽³⁾	900,000	0.67
Mr. Li Zhongyin ⁽⁷⁾	500,000	0.37
Ms. Zhu Hui ⁽⁶⁾	500,000	0.37
Ms. Wang Haiting ⁽⁴⁾	100,000	0.07
Total	135,000,000	100.0

Notes:

- (1) Mr. Bai, Mr. Liu, Ms. Liu and Ms. Wei have been the directors of Values Culture since 14 November 2013.
- (2) Mr. Wu had been a director and the general manager of Values Culture since 14 November 2013. On 4 June 2019, Mr. Wu resigned as director of Values Culture due to the internal personnel rearrangement within our Group but remains as general manager of Values Culture. Mr. Wu is also the chief executive officer of our Group.
- (3) Mr. Wang Jianlin has been a supervisor of Values Culture since 14 November 2013. Mr. Sun Fuqiu has been a supervisor of Values Culture since 22 July 2015.
- (4) Ms. Wang Haiting has been the financial controller of Values Culture since 31 October 2017.
- (5) Mr. Xu is a substantial shareholder of Values Culture. Ms. Zhang Hui is the spouse of Mr. Xu.
- (6) Mr. Bai and Ms. Zhu Hui were directors of our Company from 11 March 2019 to 19 June 2019 and directors of YS Cultural Investment from 20 March 2019 to 19 June 2019.
- (7) Mr. Li Zhongyin is the father of Ms. Li Fang, one of our executive Director.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 14 October 2016, the shares in Values Culture were listed on the NEEQ (stock code: 839337). Pursuant to the equity transfer agreements dated 14 October 2016 and 20 October 2016 respectively (the “**Values Culture Equity Transfer Agreements**”), Hangzhou Baihuiquan and Suiyong Holdings acquired 11,125,000 shares and 10,000,000 shares in Values Culture from Zhang Hui and Liu Hao respectively at the transfer price of RMB4 per share. The considerations were determined after arm’s length commercial negotiations between the parties.

Following the transfers under the Values Culture Equity Transfer Agreements and pursuant to the subscription agreements dated 24 October 2016 (the “**Values Culture Subscription Agreements**”), Hangzhou Baihuiquan and Suiyong Holdings further agreed to subscribe for 5,000,000 shares and 10,000,000 shares in Values Culture at the subscription price of RMB4 per share, which was determined after arm’s length negotiations taking into account the prospect of the then group’s business and the listing status of Values Culture. The consideration was fully settled by 15 November 2016. Upon completion of such subscriptions, the registered share capital of Values Culture increased from RMB135,000,000 to RMB150,000,000 and an updated business licence reflecting such increase was granted by the relevant PRC authority on 30 December 2016.

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HISTORY, REORGANISATION AND GROUP STRUCTURE

The shareholding in Values Culture immediately after the above subscriptions is as follows:

Name of shareholder	Number of shares held	Percentage of shareholding (%)
Mr. Bai ⁽¹⁾ ⁽⁶⁾	22,500,000	15.00
Suiyong Holdings	20,000,000	13.33
Hangzhou Baihuiquan	16,125,000	10.75
Mr. Xiao Hu	15,000,000	10.00
Ms. Liu ⁽¹⁾	12,000,000	8.00
Ms. Jin Ping	11,000,000	7.33
Mr. Wu ⁽²⁾	8,000,000	5.33
Mr. Xu Jun ⁽⁵⁾	7,000,000	4.67
Mr. Liu ⁽¹⁾	5,000,000	3.33
Ms. Wei ⁽¹⁾	5,000,000	3.33
Ms. Yang Yanli	5,000,000	3.33
Mr. Liu Wenqing	4,000,000	2.67
Ms. Xie Ting	3,000,000	2.00
Ms. Yu Fenghui	3,000,000	2.00
Mr. Hu Wangdong	2,000,000	1.33
Ms. Lin Xin	2,000,000	1.33
Mr. Wang Jianlin ⁽³⁾	2,000,000	1.33
Mr. Sha Yuan	1,500,000	1.00
Ms. Zhang Dongying	1,500,000	1.00
Mr. Li Yan	1,000,000	0.67
Mr. Sun Fuqiu ⁽³⁾	900,000	0.60
Ms. Liu Jinglei	500,000	0.33
Mr. Li Zhongyin ⁽⁷⁾	500,000	0.33
Ms. Zhu Hui ⁽⁶⁾	500,000	0.33
Ms. Lu Ying	500,000	0.33
Ms. Zhang Hui ⁽⁵⁾	375,000	0.25
Ms. Wang Haiting ⁽⁴⁾	100,000	0.07
Total	150,000,000	100.0

HISTORY, REORGANISATION AND GROUP STRUCTURE

Notes:

- (1) Mr. Bai, Mr. Liu, Ms. Liu and Ms. Wei have been the directors of Values Culture since 14 November 2013.
- (2) Mr. Wu had been a director and the general manager of Values Culture since 14 November 2013. On 4 June 2019, Mr. Wu resigned as director of Values Culture due to the internal personnel rearrangement within our Group but remains as general manager of Values Culture. Mr. Wu is also the chief executive officer of our Group.
- (3) Mr. Wang Jianlin has been a supervisor of Values Culture since 14 November 2013. Mr. Sun Fuqiu has been a supervisor of Values Culture since 22 July 2015.
- (4) Ms. Wang Haiting has been the financial controller of Values Culture since 31 October 2017.
- (5) Mr. Xu Jun is a substantial shareholder of Values Culture. Ms. Zhang Hui is the spouse of Mr. Xu Jun.
- (6) Mr. Bai and Ms. Zhu Hui were directors of our Company from 11 March 2019 to 19 June 2019 and directors of YS Cultural Investment from 20 March 2019 to 19 June 2019.
- (7) Mr. Li Zhongyin is the father of Ms. Li Fang, one of our executive Director.

On 28 November 2016, each of Hangzhou Baihuiquan and Suiyong Holdings entered into a supplemental agreement (the “**First Supplemental Agreements**”) to the Values Culture Equity Transfer Agreements and the Values Culture Subscription Agreements with Values Culture, Mr. Bai and Mr. Liu, pursuant to which Mr. Bai and Mr. Liu agreed to guarantee each of Hangzhou Baihuiquan and Suiyong Holdings that the net profit of Values Culture in FY2016, FY2017 and FY2018 shall not be less than RMB50,000,000, RMB55,000,000 and RMB60,000,000 respectively and the sum of the net profits for FY2016, FY2017 and FY2018 shall not be less than RMB165,000,000 in total (the “**Profit Guarantee**”). If Values Culture fails to satisfy the Profit Guarantee, Mr. Bai and Mr. Liu shall transfer certain number of shares in Values Culture to Hangzhou Baihuiquan and Suiyong Holdings respectively pursuant to the First Supplemental Agreements. On 10 June 2019 and 6 June 2019, each of Hangzhou Baihuiquan and Suiyong Holdings further entered into separate supplemental agreements (the “**Second Supplemental Agreements**”) with Values Culture, Mr. Bai, Mr. Liu and other shareholders of BLW Investment (i.e. Ms. Liu, Ms. Wei and Mr. Wu), pursuant to which the obligations of Mr. Bai and Mr. Liu arising from Values Culture’s failure to meet the Profit Guarantee under the First Supplemental Agreement shall be fully discharged upon completion of the transfers of 1,333 Shares in the Company by BLW Investment to each of SDJZ Investment (as related offshore holding company of Hangzhou Baihuiquan) and Suiyong Int’l (as related offshore holding company of Suiyong Holdings) respectively (the “**Profit Guarantee Settlement Arrangement**”). For further details of the said transfers of the Shares by BLW Investment under the Profit Guarantee Settlement Arrangement, please refer to the paragraph headed “Steps of Reorganisation — 4. Transfer of Shares by BLW Investment to SDJZ Investment and Suiyong Int’l” below in this section.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 17 August 2018, Values Culture’s shareholders resolved to voluntarily delist Values Culture’s shares from NEEQ (“**NEEQ Delisting**”). On 23 August 2018, Values Culture applied and subsequently received regulatory approval for the NEEQ Delisting. The NEEQ Delisting completed on 26 September 2018.

The NEEQ Delisting was a commercial and strategic decision made by Values Culture’s directors, based on the desire to attain greater access to international investors and markets by [REDACTED] on another stock exchange.

Our Directors confirm that, to the best of their knowledge and belief, Values Culture had been in compliance with all applicable PRC securities laws and regulations as well as rules and regulations of the NEEQ in all material respects, and had not been subject to any disciplinary actions by the relevant regulators, during the period when it was listed on the NEEQ. Further, during the period of Values Culture listing on the NEEQ, none of its shareholders nor its directors had been subject to any investigations or disciplinary actions by any regulatory authority in the PRC nor had they committed any material breach of the relevant rules governing the NEEQ. As confirmed by our Directors, there is no matter that needs to be brought to the attention of the regulators and investors in relation to Values Culture’s listing on and delisting from the NEEQ mentioned above.

HISTORY, REORGANISATION AND GROUP STRUCTURE

For the period from the delisting of Values Culture from the NEEQ up to the Latest Practicable Date, the shareholding in Values Culture remained unchanged and the details of the shareholding in Values Culture as at the Latest Practicable Date are as follows:

Name of shareholder	Number of shares held	Percentage of shareholding (%)
Mr. Bai ^{(1) (6)}	22,500,000	15.00
Suiyong Holdings	20,000,000	13.33
Mr. Xu Jun ⁽⁵⁾	17,000,000	11.33
Hangzhou Baihuiquan	16,125,000	10.75
Ms. Liu ⁽¹⁾	12,000,000	8.00
Ms. Jin Ping	11,000,000	7.33
Mr. Wu ⁽²⁾	8,000,000	5.33
Mr. Sun Xianliang	6,500,000	4.33
Ms. Yang Yanli	5,000,000	3.33
Mr. Liu ⁽¹⁾	5,000,000	3.33
Ms. Wei ⁽¹⁾	4,300,000	2.87
Mr. Liu Wenqing	3,200,000	2.13
Ms. Xie Ting	3,000,000	2.00
Ms. Yu Fenghui	3,000,000	2.00
Ms. Lin Xin	2,000,000	1.33
Mr. Wang Jianlin ⁽³⁾	2,000,000	1.33
Mr. Hu Wangdong	2,000,000	1.33
Ms. Zhang Dongying	1,500,000	1.00
Mr. Tan Xu	1,500,000	1.00
Mr. Li Yan	1,000,000	0.67
Mr. Sun Fuqiu ⁽³⁾	900,000	0.60
Ms. Liu Jinglei	500,000	0.33
Ms. Zhu Hui ⁽⁶⁾	500,000	0.33
Ms. Lu Ying	500,000	0.33
Mr. Li Zhongyin ⁽⁷⁾	500,000	0.33
Ms. Zhang Hui ⁽⁵⁾	375,000	0.25
Ms. Wang Haiting ⁽⁴⁾	100,000	0.07
Total	150,000,000	100.0

Notes:

- (1) Mr. Bai, Mr. Liu, Ms. Liu and Ms. Wei have been the directors of Values Culture since 14 November 2013.
- (2) Mr. Wu had been a director and the general manager of Values Culture since 14 November 2013. On 4 June 2019, Mr. Wu resigned as director of Values Culture due to the internal personnel rearrangement within our Group but remains as general manager of Values Culture. Mr. Wu is also the chief executive officer of our Group.
- (3) Mr. Wang Jianlin has been a supervisor of Values Culture since 14 November 2013. Mr. Sun Fuqiu have been a supervisor of Values Culture since 22 July 2015.
- (4) Ms. Wang Haiting has been the financial controller of Values Culture since 31 October 2017.

HISTORY, REORGANISATION AND GROUP STRUCTURE

- (5) Mr. Xu Jun is a substantial shareholder of Values Culture. Ms. Zhang Hui is the spouse of Mr. Xu Jun.
- (6) Mr. Bai and Ms. Zhu Hui were directors of our Company from 11 March 2019 to 19 June 2019 and directors of YS Cultural Investment from 20 March 2019 to 19 June 2019.
- (7) Mr. Li Zhongyin is the father of Ms. Li Fang, one of our executive Director.

Beijing Values

Beijing Values was established in the PRC on 3 April 2014 as a limited liability company with an initial registered capital of RMB3,000,000. Since its establishment and up to the Latest Practicable Date, there had been no change in the shareholding of Beijing Values. Beijing Values was a wholly-owned subsidiary of Values Culture. Beijing Values is principally engaged in the business of investment in, production, distribution and licensing of broadcasting rights of TV series.

Khorgas Values

Khorgas Values was established in the PRC on 29 December 2016 as a limited liability company with an initial registered capital of RMB6,000,000. Since its establishment and up to the Latest Practicable Date, there had been no change in the shareholding of Khorgas Values. Khorgas Values was a wholly-owned subsidiary of Values Culture. Khorgas Values is principally engaged in the business of investment in, production, distribution and licensing of broadcasting rights of TV series.

Xinjiang Values

Xinjiang Values was established in the PRC on 22 June 2018 as a limited liability company with an initial registered capital of RMB10,000,000. Since its establishment and up to the Latest Practicable Date, there had been no change in the shareholding of Xinjiang Values. Xinjiang Values was a wholly-owned subsidiary of Values Culture. Xinjiang Values is principally engaged in the business of investment in production, distribution and licensing of broadcasting rights of TV series.

Haining Values Television

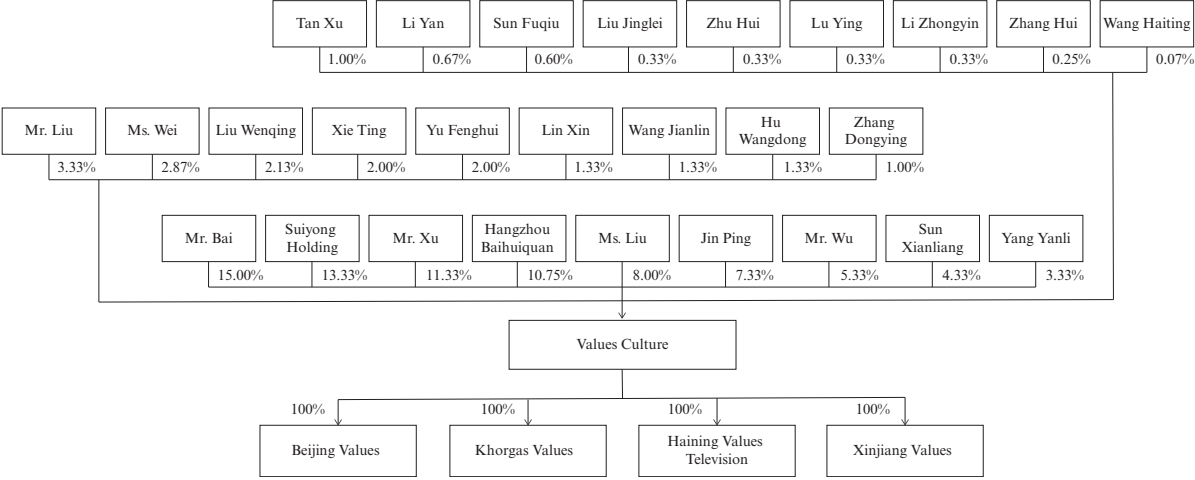
Haining Values Television was established in the PRC on 29 December 2017 as a direct wholly-owned subsidiary of Values Culture. Given that Haining Values Television had had no material operations since its establishment and to streamline our corporate structure, Haining Values Television was voluntarily dissolved by deregistration on 20 May 2019. Haining Values Television was solvent at the time of its deregistration.

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HISTORY, REORGANISATION AND GROUP STRUCTURE

REORGANISATION

The following diagram illustrates our corporate structure before the Reorganisation:



HISTORY, REORGANISATION AND GROUP STRUCTURE

Steps of Reorganisation

In preparation for the [REDACTED] and to streamline our corporate structure, our Group implemented the Reorganisation which involved the following principal steps:

1. *Incorporation of offshore holding companies*

Except for Suiyong Holdings which holds its Shares in our Company through Suiyong Int'l, its direct wholly-owned subsidiary in Hong Kong, the registered shareholders of Values Culture incorporated wholly-owned investment companies in the BVI for holding their respective shares in our Company. The details of the shareholders and the respective shareholdings of the offshore holding companies are as follow:

<u>Name of the offshore holding company</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Shareholder(s) and respective shareholdings of the offshore holding company</u>	
BLW Investment	28 November 2018	BVI	Mr. Bai ⁽¹⁾	43.44%
			Ms. Liu ⁽¹⁾	23.17%
			Mr. Wu	15.44%
			Mr. Liu ⁽¹⁾	9.65%
			Ms. Wei ⁽¹⁾	8.30%
SYYT Investment	28 November 2018	BVI	Mr. Sun Xianliang	40.62%
			Ms. Yang Yanli	31.25%
			Ms. Yu Fenghui	18.75%
			Mr. Tan Xu	9.38%
ZLLL Investment	28 November 2018	BVI	Ms. Zhang Dongying	42.86%
			Mr. Li Yan	28.57%
			Ms. Liu Jinglei	14.29%
			Ms. Lu Ying	14.29%
Xieting Holding	28 November 2018	BVI	Ms. Xie Ting	100%
JMJ Group	28 November 2018	BVI	Mr. Xu	97.84%
			Ms. Zhang Hui	2.16%
			SLZW Investment	28 November 2018
SLZW Investment	28 November 2018	BVI	Mr. Li Zhongyin ⁽³⁾	25.00%
			Ms. Zhu Hui	25.00%
			Ms. Wang Haiting ⁽¹⁾	5.00%
			LHW Investment	28 November 2018
LHW Investment	28 November 2018	BVI	Mr. Hu Wangdong	33.33%
			Mr. Wang Jianlin	33.34%
			Jinping Holding	28 November 2018
LWQ Investment	28 November 2018	BVI	Mr. Liu Wenqing	100%
SDJZ Investment ⁽²⁾	28 November 2018	BVI	Mr. Shao Hui ⁽¹⁾⁽²⁾	91.00%
			Mr. Jin Huiguang ⁽²⁾	3.88%
			Ms. Zhao Lijuan ⁽²⁾	3.10%
			Mr. Dai Honggang ⁽²⁾	2.02%

HISTORY, REORGANISATION AND GROUP STRUCTURE

Notes:

- (1) The individuals currently hold directorship in our Group.
- (2) SDJZ Investment was incorporated by Mr. Shao Hui, our non-executive Director, Mr. Jin Huiguang, Ms. Zhao Lijuan and Mr. Dai Honggang (the “**Selected Partners**”), each of them is the limited partner of Hangzhou Baihuiquan. Pursuant to an agreement dated 21 May 2019 between Hangzhou Baihuiquan and the Selected Partners, Hangzhou Baihuiquan made entrustment arrangements with the Selected Partners regarding the distribution of the earnings generated from SDJZ Investment’s holding of 12.08% of the issued share capital in our Company immediately prior to the completion of the [REDACTED] (which will be diluted to 9.06% of the issued share capital in our Company immediately after the completion of the [REDACTED]).
- (3) Mr. Li Zhongyin is the father of Ms. Li Fang, one of our executive Director.

2. Incorporation of our Company and allotment of Shares to offshore holdings companies

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 March 2019. Its initial authorised share capital was US\$50,000 divided into 500,000,000 shares of US\$0.0001 each. On the date of incorporation, one fully-paid Share of US\$0.0001 was allotted and issued to Osiris International Cayman Limited (the initial subscriber and an Independent Third Party of our Company), which was transferred to BLW Investment on the same day.

On 11 March 2019, our Company allotted and issued 3,286 Shares, 1,233 Shares, 233 Shares, 200 Shares, 1,075 Shares, 1,158 Shares, 133 Shares, 400 Shares, 733 Shares and 213 Shares, all fully-paid at par, to BLW Investment, SYYT Investment, ZLLL Investment, Xieting Holding, SDJZ Investment, JMJ Group, SLZW Investment, LHW Investment, Jinping Holding and LWQ Investment respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 14 June 2019, our Company further allotted and issued 31,246 Shares, 9,434 Shares, 2,100 Shares, 1,800 Shares, 9,675 Shares, 10,425 Shares, 1,200 Shares, 3,600 Shares, 6,600 Shares, 1,920 Shares, 13,335 Shares, all fully paid at par, to BLW Investment, SYYT Investment, ZLLL Investment, Xieting Holding, SDJZ Investment, JMJ Group, SLZW Investment, LHW Investment, Jinping Holding, LWQ Investment and Suiyong Int’l respectively. The shareholdings of our Company immediately following the above allotments are as follows:

<u>Shareholders</u>	<u>Number of Shares being held</u>	<u>Shareholding percentage (%)</u>
BLW Investment	34,533	34.53
SYYT Investment	10,667	10.67
ZLLL Investment	2,333	2.33
Xieting Holding	2,000	2.00
SDJZ Investment	10,750	10.75
JMJ Group	11,583	11.58
SLZW Investment	1,333	1.33
LHW Investment	4,000	4.00
Jinping Holding	7,333	7.33
LWQ Investment	2,133	2.13
Suiyong Int’l	13,335	13.33
Total	100,000	100.0

3. Incorporation of YS Cultural Investment and Fanta Culture, and establishment of WFOE

YS Cultural Investment was incorporated under the laws of the BVI with limited liability on 20 March 2019. As at the date of incorporation, YS Cultural Investment is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. On 20 March 2019, one share of a par value of US\$1.00 was allotted and issued as fully-paid to the Company. YS Cultural Investment is a direct wholly-owned subsidiary of our Company.

Fanta Culture was incorporated under the laws of Hong Kong with limited liability on 17 April 2019. As at the date of incorporation, one fully-paid share of HK\$1.00 was allotted and issued as fully-paid to YS Cultural Investment. Fanta Culture is a direct wholly-owned subsidiary of YS Cultural Investment.

WFOE was established in the PRC on 27 May 2019 as a limited liability company with an initial registered capital of HK\$150,000,000. WFOE is a direct wholly-owned subsidiary of Fanta Culture.

HISTORY, REORGANISATION AND GROUP STRUCTURE

4. *Transfer of Shares by BLW Investment to SDJZ Investment and Suiyong Int’l*

Hangzhou Baihuiquan and Suiyong Holdings have held 16,125,000 shares and 20,000,000 shares in Values Culture (representing approximately 10.75% and 13.33% of the entire equity interests in Values Culture) respectively since the completion of the relevant equity transfers and subscriptions in October 2016. In connection with the said transfers and subscriptions, Values Culture, Mr. Bai and Mr. Liu agreed with Hangzhou Baihuiquan and Suiyong Holdings on the Profit Guarantee. For further details of the Profit Guarantee, please refer to the paragraph headed “Establishment and shareholding changes of the major members of our Group — Values Culture” above in this section.

On 10 June 2019 and 6 June 2019, Hangzhou Baihuiquan and Suiyong Holdings further agreed respectively with Values Culture, Mr. Bai, Mr. Liu and other shareholders of BLW Investment (i.e. Ms. Liu, Ms. Wei and Mr. Wu) that the obligations of Mr. Bai and Mr. Liu arising from Values Culture’s failure to meet the Profit Guarantee shall be fully discharged upon BLW Investment having transferred (i) 1,333 Shares to SDJZ Investment (as related offshore holding company of Hangzhou Baihuiquan); (ii) and 1,333 Shares to Suiyong Int’l (as related offshore holding company of Suiyong Holdings) at nil consideration respectively (i.e. the Profit Guarantee Settlement Arrangement). The said share transfers were completed on 18 June 2019. The shareholding of our Company immediately following the above share transfers are as follows:

<u>Shareholders</u>	<u>Number of Shares being held</u>	<u>Shareholding percentage (%)</u>
BLW Investment	31,867	31.87
SYYT Investment	10,667	10.67
ZLLL Investment	2,333	2.33
Xieting Holding	2,000	2.00
SDJZ Investment	12,083	12.08
JMJ Group	11,583	11.58
SLZW Investment	1,333	1.33
LHW Investment	4,000	4.00
Jinping Holding	7,333	7.33
LWQ Investment	2,133	2.13
Suiyong Int’l	14,668	14.67
Total	100,000	100.0

HISTORY, REORGANISATION AND GROUP STRUCTURE

5. Deregistration of Haining Values Television

Haining Values Television was established in the PRC on 29 December 2017 as a direct wholly-owned subsidiary of Values Culture. Given that Haining Values Television had had no material operations since its establishment and to streamline our corporate structure, Haining Values Television was voluntarily dissolved by deregistration on 20 May 2019. Haining Values Television was solvent at the time of its deregistration.

6. Contractual Arrangements

On 26 June 2019, WFOE entered into a series of agreements with Values Culture and its registered shareholders to exercise and maintain control over the operations of the Consolidated Affiliated Entities and obtain their economic benefits and to prevent leakage of assets and values to the shareholders of Values Culture. Please refer to the section headed “Contractual Arrangements” in this document for further details.

7. Share subdivision

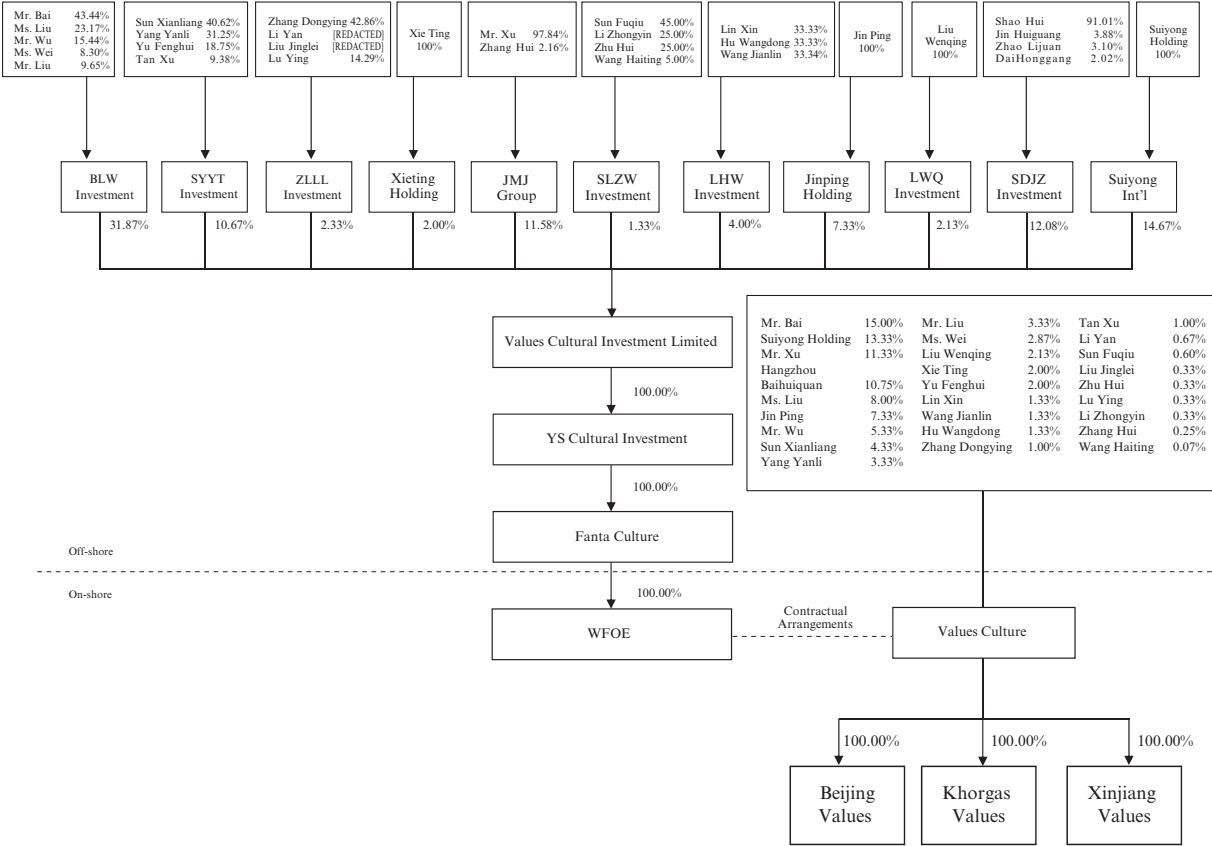
On [•] 2019, our Shareholders resolved that, among others, all the issued and unissued shares of our Company at a par value of US\$0.0001 each will be subdivided into 20 Shares at a par value of US\$0.000005 each such that the authorised share capital of our Company shall be US\$50,000 divided into 10,000,000,000 Shares at a par value of US\$0.000005 each and the issued share capital shall be US\$10 divided into 2,000,000 Shares at a par value of US\$0.000005 each.

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HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE AFTER REORGANISATION

The following diagram illustrates our corporate structure immediately after the completion of the Reorganisation but prior to the completion of the [REDACTED]:

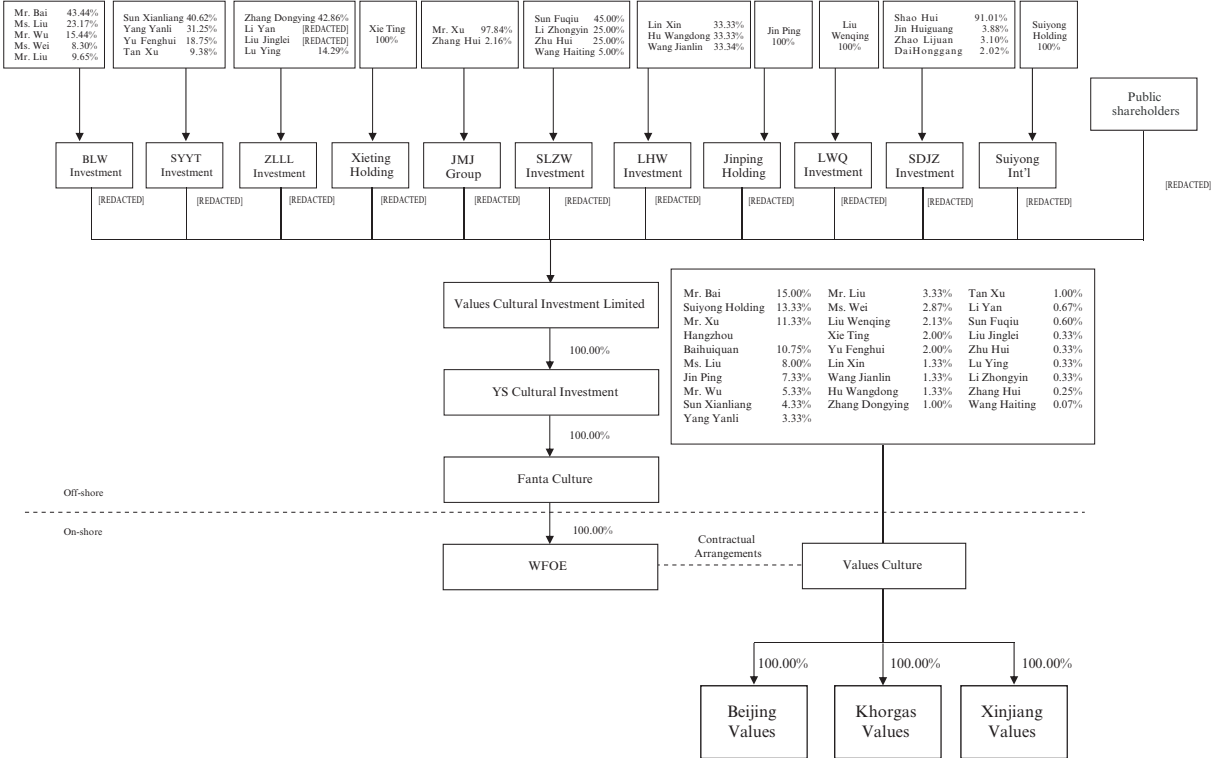


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HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE [REDACTED]

The following diagram illustrates our corporate structure immediately after the completion of the [REDACTED]:



HISTORY, REORGANISATION AND GROUP STRUCTURE

PRC LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that all relevant approvals and permits (as applicable) in respect of the reorganization of our PRC companies as described above have been obtained and the procedures and steps involved are in compliance with relevant PRC laws and regulations.

SAFE Registration & ODI Registration

Pursuant to the Circular No. 37 promulgated by the SAFE and came into force on 4 July 2014, a PRC resident must register with the local branch of SAFE before he contributes legal assets or equity interests in China or overseas in an overseas special purpose vehicle, which is directly incorporated or indirectly controlled by the PRC resident for the purpose of overseas investment or financing.

Pursuant to the SAFE Circular No. 13 promulgated by the SAFE and came into force on 1 June 2015, 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 confirmed by our PRC Legal Advisers, each of the ultimate individual shareholders of our Company, namely Mr. Bai, Mr. Xu, Ms. Liu, Ms. Jin Ping, Mr. Wu, Mr. Sun Xianliang, Mr. Liu, Ms. Yang Yanli, Ms. Wei, Mr. Liu Wenqing, Ms. Xie Ting, Ms. Yu Fenghui, Ms. Lin Xin, Mr. Hu Wangdong, Mr. Wang Jianlin, Ms. Zhang Dongyin, Mr. Tan Xu, Mr. Li Yan, Mr. Sun Fuqiu, Ms. Liu Jinglei, Mr. Li Zhongyin, Ms. Zhu Hui, Ms. Lu Ying, Ms. Zhang Hui, Ms. Wang Haiting, Mr. Shao Hui, Mr. Jin Huiguang, Ms. Zhao Lijuan and Mr. Dai Honggang have completed the foreign exchange registrations in May 2019 pursuant to the Circular No. 37 and the SAFE Circular No. 13 in relation to their offshore investments as PRC residents.

On 25 August 2016, Suiyong Holdings established Suiyong Int'l, a wholly-owned subsidiary, through its investment in Hong Kong and obtained a Certificate of Foreign Investment issued by the Department of Commerce of Guangdong Province, specifying that the aggregate domestic investment amounted to RMB84,450,318 (equivalent to US\$12,890,000). In accordance with the then in-effect “Administrative Measures for Approval and Record-filing on Overseas Investment Projects (《境外投資項目核准和備案管理辦法》)” promulgated by NDRC and effective from 8 May 2014, a foreign investment project with a domestic investment less than US\$300 million implemented by a local enterprise shall be subject to the filing procedures of foreign investment project with the provincial development and reform commission. At the material time of the establishment of Suiyong Int'l in 2016, Suiyong Holdings did not conduct the filing procedures of foreign investment project with Guangdong Provincial Development and Reform Commission. In accordance with the Administrative Measures for Approval and Record-filing on Overseas Investment Projects (《境外投資項目核准和備案管理辦法》) a project subject to the approval and filing requirement, if implemented without any approval document or filing notice, the NDRC shall, in conjunction with the relevant departments, order the investor to cease the implementation of the project, and submit or transfer the case to the relevant authority to subject the relevant liable persons to legal and administrative liabilities in accordance with PRC laws. On 24 June 2019, our PRC Legal Advisers had conducted an interview with

HISTORY, REORGANISATION AND GROUP STRUCTURE

relevant officer of the Guangdong Provincial Development and Reform Commission. With reference to the officer, at the time when Suiyong Holdings established Suiyong Int'l through investment, Suiyong Holdings only invested to establish an overseas subsidiary without conducting any specific investment project, therefore it was not required to make filing to the Guangdong Provincial Development and Reform Commission pursuant to the regulatory requirement of the Guangdong Provincial Development and Reform Commission at that time. As confirmed by the officer, Suiyong Holdings has completed all necessary procedures in relation to its overseas investment. Given the abovementioned, our PRC Legal Advisers consider that the legal risk of the inability for Suiyong Holdings to continue to hold the Shares resulted from the suspension order for implementation arising from the failure of filing to the NDRC in relation to the establishment of Suiyong Int'l is relatively low.

M&A Rules

According to the M&A Rules jointly promulgated by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006 and came into force on 8 September 2008 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (4) 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 or equity interest in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisers are of the opinion that prior CSRC approval for the [REDACTED] and trading of our Shares on the Stock Exchange is not required because (i) WFOE was not 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.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

Our Group is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. We also make Fixed Return Investment in TV series and engage in the business of investment in and production of films. We conduct our business and investment through our Consolidated Affiliated Entities, which hold the requisite permit and approval required for our business, including the Licence to Produce and Distribute Radio or Television Programmes. 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) of TV series or any enterprise conducting the film production business. As a result, we are not able to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations.

As a result of the foregoing, on 26 June, 2019, we entered into a series of Contractual Arrangements with Values Culture and the Relevant Shareholders through WFOE to conduct the business of production and distribution of and investment in TV series and films in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of, the Consolidated Affiliated Entities. The agreements underlying such Contractual Arrangements include: (i) exclusive business co-operation agreement, (ii) exclusive option agreement, (iii) equity pledge agreement and (iv) shareholders’ rights proxy agreement, the details of such agreements are set out in the paragraph headed “Details of the Contractual Arrangements” in this section.

Pursuant to the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group, through WFOE, and all risks arising from the business of the Consolidated Affiliated Entities are also effectively borne by our Group as a result of such Consolidated Affiliated Entities being treated as our wholly-owned subsidiaries. Financial positions and results of operations of the Consolidated Affiliated Entities were combined into our financial position and results of operations under HKFRSs as if they were subsidiaries of our Group during the Track Record Period. Accordingly, our Directors consider that it is fair and reasonable for WFOE to be entitled to all economic benefits generated by the business operated by the Consolidated Affiliated Entities through the Contractual Arrangements as a whole.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with Foreign Investment Catalogue, which was jointly issued by the MOFCOM and the NDRC in 2017, and the Negative List which was promulgated by the MOFCOM and the NDRC on 28 June 2018 and became effective on 28 July 2018. The current version of the Foreign Investment Catalogue and the Negative List contains specific provisions on, among others, (i) market access of foreign capital; and (ii) the areas of entry pertaining to the categories of restricted foreign investment industries and prohibited foreign investment industries.

CONTRACTUAL ARRANGEMENTS

As advised by our PRC Legal Advisers, except for our business of making pure financial investment in TV series or films as non-executive producer without participating in the production or distribution process, our business falls within the Negative List. As at the Latest Practicable Date, we made such pure financial investment in one TV series and one film which, to the best knowledge of our Directors, are still undergoing distribution process.

The PRC Legal Advisers advised that pure financial investment in TV series or films without participation in their production and/or distribution process does not fall within restricted or prohibited foreign investment business. However, having considered the following factors, the Contractual Arrangements have covered our investment business in respect of the aforementioned TV series and film:

- (i) the investment amount made by the Consolidated Affiliated Entities for each of the the TV series and the film was RMB3.6 million and RMB3.0 million, respectively, which was not material;
- (ii) during the Track Record Period, the revenue contribution from the investment in the TV series was approximately RMB2.5 million and the interest income generated from the film was approximately RMB0.8 million;
- (iii) it is confirmed by our Company and the PRC Legal Advisers that the Consolidated Affiliated Entities had discharged their investment obligations in respect of the TV series and the film and we expect that we will receive our investment return in respect of the TV series by the end of 2019. For the film, as at the Latest Practicable Date, we were still in the process of negotiating with the executive producer of the film regarding the arrangement for payment of our investment return;
- (iv) we have approached the other contractual parties of the investment agreements we entered into in respect of the aforementioned TV series and film but they refused to novate the obligations of our Consolidated Affiliated Entities under the relevant investment agreements to WFOE; and
- (v) we undertake that any new business that does not fall within the restricted or prohibited industry pursuant to the Foreign Investment Catalogue and the Negative List will be conducted by WFOE or its subsidiaries and the Consolidated Affiliated Entities undertake that they will not conduct any such new business.

After considering that (i) the Contractual Arrangements enable our Group to conduct business in industries that are subject to foreign investment restrictions in the PRC; and (ii) the above reasons for covering our business of making pure financial investment in the aforementioned TV series and film under the Contractual Arrangements, our Directors are of the view that the Contractual Arrangements are narrowly tailored for the purpose of foreign ownership restrictions requirement. Nevertheless, we will terminate the Contractual Arrangements to the extent permissible and directly hold the maximum percentage of ownership interests permissible by the relevant laws if the relevant government authority

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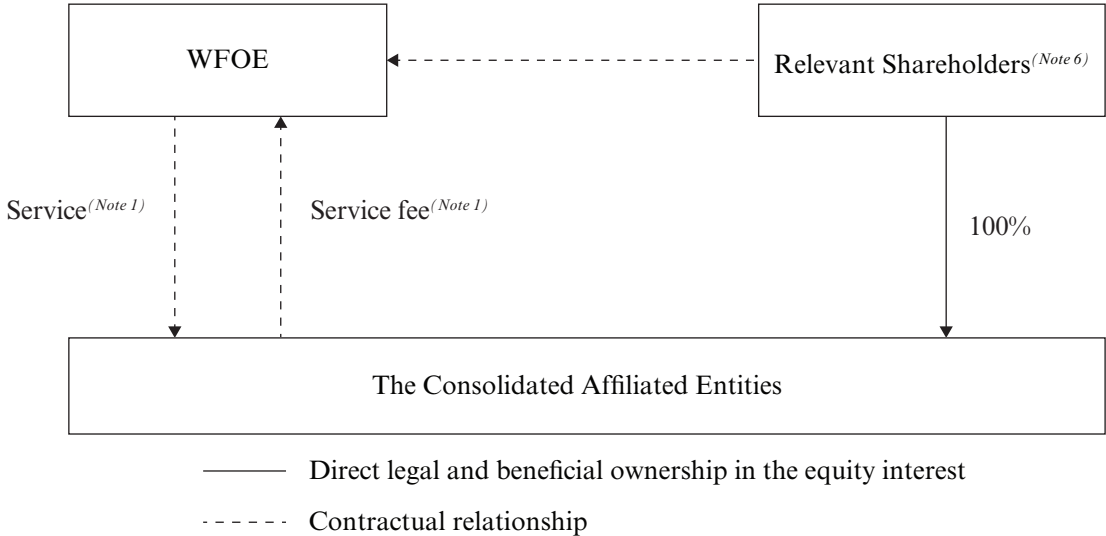
CONTRACTUAL ARRANGEMENTS

allows foreign entities for holding equity interest in any enterprise conducting the production and operation (including distribution of TV series) of TV series or any enterprise conducting the film production business.

DETAILS OF THE CONTRACTUAL ARRANGEMENTS

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

- (1) Exclusive Business Co-operation Agreement^(Note 1)
- (2) Exclusive Option Agreement^(Note 2)
- (3) Equity Pledge Agreement^(Note 3)
- (4) Shareholders’ Rights Proxy Agreement^(Note 4)
- (5) Spouse Undertakings^(Note 5)



Notes:

- 1. Please refer to the paragraph headed “Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this section for details.
- 2. Please refer to the paragraph headed “Details of the Contractual Arrangements — Exclusive Option Agreement” in this section for details.
- 3. Please refer to the paragraph headed “Details of the Contractual Arrangements — Equity Pledge Agreement” in this section for details.
- 4. Please refer to the paragraph headed “Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement” in this section for details.

CONTRACTUAL ARRANGEMENTS

5. Please refer to the paragraph headed “Details of the Contractual Arrangements — Spouse undertakings” in this section for details.
6. The Relevant Shareholders are Mr. Bai, Suiyong Holding, Mr. Xu, Hangzhou Baihuiquan, Ms. Liu, Ms. Jin Ping, Mr. Wu, Mr. Sun Xianliang, Mr. Liu, Ms. Yang Yanli, Ms. Wei, Mr. Liu Wenqing, Ms. Xie Ting, Mr. Yu Fenghui, Ms. Lin Xin, Mr. Hu Wangdong, Mr. Wang Jianlin, Mr. Zhang Dongyin, Mr. Tan Xu, Mr. Li Yan, Mr. Sun Fuqiu, Mr. Liu Jinglei, Mr. Li Zhongyin, Ms. Zhu Hui, Ms. Lu Ying, Mr. Zhang Hui and Ms. Wang Haiting.

Exclusive Business Co-operation Agreement

Values Culture and WFOE entered into an exclusive business co-operation agreement on 26 June, 2019 (the “**Exclusive Business Co-operation Agreement**”), pursuant to which Values Culture agreed to engage WFOE as its exclusive provider of technical support, consultation and other services, including

- (i) to provide technical support and professional training for the staff of Values Culture;
- (ii) to assist Values Culture in providing consultation, collection and research on the techniques and market information in relation to the principal business of Values Culture (except those market research that wholly foreign-owned enterprise is prohibited from engaging in by the PRC laws (including any laws, regulations, rules, notices, explanations or other binding documents issued by the central or local legislative, administrative or judicial authorities before or after the agreement));
- (iii) to provide Values Culture with corporate management consultation;
- (iv) to provide Values Culture with marketing and promotion services;
- (v) to provide Values Culture with management services in relation to customer orders and customer related services, assist in formulating plan for maintaining the relationship with customers and assist in maintaining such relationship;
- (vi) to provide Values Culture with services in relation to the transfer, lease and disposal of facilities and assets of Values Culture;
- (vii) to provide Values Culture with services in relation to the design, installation and daily management, maintenance and update of computer network system, hardware and database;
- (viii) to allow the use by Values Culture of intellectual property rights legally owned by WFOE or persons designated by WFOE; and
- (ix) to provide other services as required by Values Culture from time to time if permitted by the laws of the PRC.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Exclusive Business Co-operation Agreement, the service fee shall be equivalent to the total combined profit of Values Culture, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, WFOE shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities, provided that the adjusted amount shall not exceed the limit as stated above. WFOE shall send the service fee invoice to Values Culture within 40 days after each fiscal year end for the services provided in the preceding fiscal year. Values Culture has agreed to pay the service fee within 30 days after receiving the relevant invoice.

In addition, pursuant to the Exclusive Business Co-operation Agreement, without the prior written approval from WFOE, Values Culture shall not, and shall procure the other Consolidated Affiliated Entities not to, accept the same or any similar services provided by any third party and shall not, establish cooperation relationships similar to that formed by the Exclusive Business Co-operation Agreement with any third party.

The Exclusive Business Co-operation Agreement also provides that, (i) all proprietary rights and other rights and interests of all intellectual property rights generated, developed or created during the performance of the Exclusive Business Co-operation Agreement are solely and exclusively owned by WFOE, and (ii) WFOE is authorised to use all existing intellectual property rights owned by the Consolidated Affiliated Entities before execution of the Exclusive Business Co-operation Agreement for free.

Our Directors are of the view that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to WFOE and hence, our Group as a whole.

The Exclusive Business Co-operation Agreement shall take effect upon the execution date and shall remain valid unless (i) all the equity interest and/or assets of Values Culture have been legally transferred to WFOE or the nominee(s) designated by WFOE; or (ii) it is terminated in accordance with the provisions of the Exclusive Business Co-operation Agreement. Nonetheless, WFOE shall always have the rights to terminate the agreement by giving a prior written notice of termination.

Exclusive Option Agreement

WFOE, Values Culture and the Relevant Shareholders entered into an exclusive option agreement on 26 June, 2019 (the “**Exclusive Option Agreement**”), pursuant to which the Relevant Shareholders jointly and severally granted irrevocably to WFOE the rights to require the Relevant Shareholders to transfer any or all their equity interests and/or assets in Values Culture to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The Relevant Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to WFOE and/or its nominee(s) any consideration paid by WFOE and/or its nominee(s) as requested by WFOE. The Relevant Shareholders and Values Culture shall not enter into similar agreement with any third party or to grant exclusive option to any third party.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Exclusive Option Agreement, the Relevant Shareholders and Values Culture have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior written approval from WFOE, including but not limited to the following matters:

- (i) Values Culture shall not in any manner supplement, change or alter its business scope, constitutional documents or increase or decrease its registered capital or change the structure of its registered capital in other manner without the prior written consent of WFOE;
- (ii) Values Culture shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards and practices as a going concern;
- (iii) Values Culture shall not sell, transfer, gift, create encumbrances or otherwise dispose of any of its or its affiliates' assets, business, legal or beneficial interest of its income or allow any guarantee or security to be created on its and its affiliates' assets without the prior written consent of WFOE;
- (iv) Values Culture shall not terminate or procure its management team to terminate any of the Contractual Arrangements, or enter into any contracts or agreements that conflict with the Contractual Arrangements;
- (v) Values Culture and its affiliates shall not incur any indebtedness other than those in the ordinary course of business, or having been disclosed to and consented by WFOE in writing;
- (vi) except as demanded by PRC laws, Values Culture shall not dissolve or liquidate without the prior written consent of WFOE;
- (vii) Values Culture and its affiliates shall maintain their normal operation within their principal business scope and shall not alter its principal business or allow any acts or transactions which adversely affects Values Culture's business or assets value;
- (viii) Values Culture shall not enter into any material contracts with a value above RMB1 million without the prior written consent of WFOE, except the contracts executed in the ordinary course of business;
- (ix) Values Culture and its affiliates shall not provide loan or guarantee to any person without the prior written consent of WFOE;
- (x) Values Culture and its affiliates shall provide its labor, operational and financial information to WFOE or its nominee(s) upon WFOE's request;
- (xi) Values Culture shall not spin-off, merge, enter into joint operation agreements with other entities, acquire or be acquired by other entities; or invest in any entities without the prior written consent of WFOE;

CONTRACTUAL ARRANGEMENTS

- (xii) Values Culture shall immediately inform WFOE if its and its affiliates’ assets, business or income may be subject to any litigations, arbitrations or administrative proceedings and to take all necessary actions as reasonably requested by WFOE;
- (xiii) Values Culture shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or take necessary and proper defences against claims to maintain Values Culture and its affiliates’ ownership of all their assets;
- (xiv) if the Relevant Shareholders or Values Culture fail(s) to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, WFOE may request Values Culture or the Relevant Shareholders to perform the tax obligations or pay the amount equivalent thereto to WFOE;
- (xv) Values Culture shall not distribute any bonus, dividend, distributable profits and/or assets and other income derived from the equity interests held by the Relevant Shareholders to the Relevant Shareholders without the prior written consent of WFOE; and
- (xvi) when necessary, Values Culture and its affiliates shall only purchase insurances from insurers that WFOE recognises, and the amounts and categorises of the insurances shall be the same with the companies having similar businesses and other income derived from the equity interests held by the Relevant Shareholds or assets in the same area.

The Exclusive Option Agreement takes effect upon the execution date and shall remain valid until (i) it is terminated in writing by all parties, or (ii) upon the transfer of the entire equity interests held by the Relevant Shareholders and/or the transfer of all the assets of Values Culture to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the agreement by giving a prior written notice of termination.

Equity Pledge Agreement

WFOE, Values Culture and the Relevant Shareholders entered into an equity pledge agreement on 26 June, 2019 (the “**Equity Pledge Agreement**”), pursuant to which each of the Relevant Shareholders agreed to pledge all of their respective equity interests in Values Culture to WFOE as a security interest to guarantee (i) the payment of service fee and interest under the Contractual Arrangements; (ii) performance of all other obligations under the Contractual Arrangements; and (iii) other payment obligations arising from or in connection with the Contractual Arrangements, including but not limited to liquidated damages, compensations and each expense for the realisation of the pledge.

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Under the Equity Pledge Agreement, the Relevant Shareholders represent and warrant to WFOE including but not limited to the following matters:

- (i) the pledged equity interests can be pledged and transferred legally. Each of the Relevant Shareholders is the only legal owner of their respective equity interests and have the authority to pledge all or any part of the equity interests. There is no existing dispute in relation to the ownership of the pledged equity interests;
- (ii) except as agreed in the Contractual Arrangements, there is no other pledge, mortgages or encumbrances in any other forms on the pledged equity interests and WFOE shall enjoy the first priority of security interest in respect of the pledged equity interests;
- (iii) each of the Relevant Shareholders shall not transfer all or any part of his/her/its equity interests in Values Culture and shall not create or allow any guarantee or other liabilities thereon that may affect the rights and interest of WFOE without its prior written consent;
- (iv) each of the Relevant Shareholders shall not create or allow others to create any new encumbrances on the pledged equity interests without the prior written consent of WFOE. Any encumbrances created on all or any part of the pledged equity interests without the prior written consent of WFOE shall be invalid;
- (v) each of the Relevant Shareholders shall not perform any acts which may adversely reduce the value of the pledged equity interests or adversely affect the validity of the pledge under the Equity Pledge Agreement. The Relevant Shareholder(s) shall inform WFOE immediately if such event happens and shall use his/her/its other assets to provide guarantee as reasonably requested and satisfied by WFOE and to take all necessary actions to solve or minimise the adverse effect;
- (vi) the Relevant Shareholders shall comply with and perform the provisions under all laws and regulations in relation to pledge of the equity interests. Upon receiving the notices, orders or suggestions from the relevant authorities in relation to pledge, the Relevant Shareholders shall present such notices, orders or suggestions within five working days to WFOE and comply with such notices, orders or suggestions or to raise opposition as reasonably requested or consented by WFOE; and
- (vii) each of the Relevant Shareholders has agreed to, and has procured its immediate shareholder(s), ultimate shareholder(s) (or de facto controller(s)), directors, successors, agents and property trustees to make all appropriate arrangements and sign all necessary documents to ensure that in case of (i) merge, spin-off, dissolution, liquidation, de-registration, revocation of business licence or transfer of equity interests; (ii) change of controlling shareholders or de facto controllers; (iii) death, incapacity, divorce and or other circumstances that may affect the Relevant Shareholders to exercise his/her/its rights; and/or (iv) the occurrence of any circumstances that may affect the Relevant Shareholders to exercise his/her/

CONTRACTUAL ARRANGEMENTS

its rights, the successors, liquidators, creditors, transferees, successor, agents or property trustees of the Relevant Shareholders shall continue to perform the obligations of the agreement.

The Equity Pledge Agreement takes effect upon the execution date and shall remain valid until (i) all the agreements underlying the Contractual Arrangements (other than the Equity Pledge Agreement) have been terminated; (ii) all the obligations under the Contractual Arrangements have been fulfilled or all the secured debts have been repaid; or (iii) each of the Relevant Shareholders has transferred his/her/its equity interests in Values Culture or Values Culture has transferred all of its assets in accordance with the Exclusive Option Agreement. Nonetheless, WFOE shall always have the rights to terminate this agreement by giving a prior written notice of termination. As at the Latest Practicable Date, we are in the process of registering the Equity Pledge Agreement with the Administration for Market Regulation in the PRC.

Shareholders’ Rights Proxy Agreement

Each of Values Culture, the Relevant Shareholders and WFOE entered into a shareholders’ rights proxy agreement on 26 June, 2019 (the “**Shareholders’ Rights Proxy Agreement**”), pursuant to which, each Relevant Shareholder irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder’s rights in Values Culture, including without limitation to, the rights to:

- (i) propose to convene, participate in and attend the general meetings of Values Culture on behalf of the Relevant Shareholders, receive any notices on the convening and proceedings of the general meetings and sign the minutes and resolutions of the meetings, exercise voting rights on all matters that require discussion and resolution of the general meetings (including but not limited to the designation, appointment or replacement of directors, legal representatives, supervisors and senior management of Values Culture), and sign any documents that require signature from the Relevant Shareholders and submit any documents for filing purposes to the company registration authority on behalf of the Relevant Shareholders;
- (ii) authorise or resolve on the disposal of assets of Values Culture on behalf of the Relevant Shareholders;
- (iii) resolve on the dissolution and liquidation of Values Culture on behalf of the Relevant Shareholders, and form a liquidation group on behalf of the Relevant Shareholders and exercise the authority of the liquidation group during the liquidation period according to law;
- (iv) decide to transfer or otherwise dispose of the equity interests of Values Culture held by the Relevant Shareholders and, for the purposes of the foregoing, sign all required documents and perform all required procedures on behalf of the Relevant Shareholders; and

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- (v) exercise other shareholder’s rights as specified in other applicable PRC laws and regulations and the articles of association of Values Culture (and its amendments from time to time).

The Shareholders’ Rights Proxy Agreement has an indefinite term and will be terminated in the event that all the equity interests held by the Relevant Shareholders or all assets of Values Culture have been legally and effectively transferred to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate this agreement by giving a prior written notice of termination.

Spousal undertakings

The spouse of each of the Relevant Shareholders, where appropriate, has signed an undertaking to the effect that (i) the equity interests of Values Culture held and to be held by each of the Relevant Shareholders (together with any other interests therein) do not fall within the scope of communal properties, (ii) he/she has unconditionally and irrevocably waived the rights to the respective Relevant Shareholder’s rights or interests in the equity interests in Values Culture and will not have any claim on such interests; (iii) the respective Relevant Shareholder has exclusive right to enjoy and perform the rights and obligations under the Contractual Arrangements and does not require the consent of the spouse; and (iv) should the spouse acquire the respective Relevant Shareholder’s equity interests in Values Culture, he/she shall be bound by the Contractual Arrangements, and at the request of WFOE, he/she shall sign documents in the form and substance consistent with the Contractual Arrangement.

Dispute resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to 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 confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award any temporary or permanent injunctive relief (for instance, the injunctive relief for commencement for business operation or transfer of assets), remedies against the equity interests or assets of Values Culture, or order the winding up of Values Culture.

However, our PRC Legal Advisers have advised that an arbitral tribunal normally would not grant such kind of injunctive relief or order the winding up of Values Culture pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC. As a result of the above, in the event that Values Culture or the Relevant Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner. Please refer to the paragraph headed “Risk Factors — Risks relating to the Contractual Arrangements” for further details.

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Conflict of interest

The Shareholders’ Rights Proxy Agreement provides that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are directors or staff of our Company, the power of attorney shall be granted to other unrelated directors or staff of our Company, and any director or staff of our Company who are Relevant Shareholders shall not participate in the decisions in relation to the Contractual Arrangements.

Loss sharing

Under the relevant PRC laws and regulations, none of our Company and WFOE 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. WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. 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 requisite PRC operational licences and approvals, and that their financial position and results of operations are combined 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.

However, as provided in the Exclusive Option Agreement, without the prior written consent of WFOE, Values Culture shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its assets or allow any third party create any other security interest on its assets; (ii) execute any material contract with a value above RMB1 million, except those entered into in the ordinary course of business; (iii) provide any loan or guarantees in any form to any third party; (iv) incur, any debt that is not incurred in the ordinary course of business or not disclosed to and consented by WFOE; (v) enter into any spin-off consolidation or merger with any third party, or acquire or being acquired by any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from the Consolidated Affiliated Entities can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by the PRC laws, the Relevant Shareholders have hereby irrevocably undertaken that, in compliance with the PRC laws, Values Culture shall transfer all remaining asset to WFOE or its nominee(s), at the lowest price as permitted by the PRC laws, after deduction of payments of liquidation expenses, staff salaries, social security fee, statutory compensation, and outstanding taxes and settlement of other debts. WFOE or its nominee(s) does not have any payment obligation arising thereon to the extent permitted by the applicable laws of the PRC in force. The Relevant Shareholders shall return to WFOE or its nominee(s) any income (if any) received by them arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

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Insurance

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

Our confirmation

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

Circumstances under which we will adjust or unwind the Contractual Arrangements

We will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of our business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority accepts applications for the requisite permit and approval required for our business to be made by sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisers 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) WFOE, Values Culture and each of the Relevant Shareholders and their spouses (if applicable) are legally established and validly subsisting entities or natural persons with full civil capacity. The aforesaid persons have the qualifications and capabilities to enter into the Contractual Arrangements and have obtained the necessary internal approval and authorisation for the execution and performance of the Contractual Arrangements;
- (ii) the contents, execution and performance of the Contractual Arrangements do not violate the applicable PRC laws. There is no violation to the provisions of Article 52 under the PRC Contract Law (中華人民共和國合同法) including the provision of “covering illegal purposes in a legal form” that will invalidate the Contractual Arrangements; and
- (iii) the Contractual Arrangements do not violate any provisions of the articles of associations of WFOE or Values Culture.

Our PRC Legal Advisers consulted with NRTA, Xinjiang Radio and Television Administration, Zhe Jiang Radio and Television Administration and Beijing Radio and Television Administration, which are the competent government authorities, who orally confirmed that the Contractual Arrangements do not violate any applicable PRC laws and regulations.

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We have been advised by our PRC Legal Advisers, however, that there are 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 Adviser. We have been further advised by our PRC Legal Adviser that if the PRC government finds that the Contractual Arrangements do not comply with the PRC government restrictions on foreign investment in the relevant business, we could be subject to severe penalties.

Based on the above analysis and advice from our PRC Legal Adviser, 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 except for the relevant arbitration clauses as described in the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Dispute resolution”, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

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 2012 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 (中華人民共和國民法通則). It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual arrangements 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 arrangements to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of 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 Advisers are of the view that the relevant terms of the agreements under the Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisers are of the view that the agreements under the Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form” such that they also do not fall within circumstance (iv) above under Article 52 of the PRC Contract Law because the agreements under the Contractual Arrangements were not entered into for illegitimate purposes.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company upon the [REDACTED], a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed “Continuing Connected Transactions” in this document.

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ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Combination of financial results of our Consolidated Affiliated Entities

Under the Exclusive Business Co-operation Agreement, it was agreed that, in consideration of the services provided by WFOE, Values Culture will pay service fees to WFOE. Subject to the provisions of PRC laws, the services fees are the remaining amount of the after-tax profits of the Consolidated Affiliated Entities after making up the losses in the previous year (if any) and extracting the statutory reserve (if applicable). Without exceeding the agreed limits aforesaid, WFOE has the right to adjust the amount of service fees based on the specific circumstances of its services provided to the Consolidated Affiliated Entities, as well as the operation conditions and development needs of the Consolidated Affiliated Entities. WFOE also has the right to periodically receive or inspect the accounts of Values Culture. Accordingly, WFOE has the ability, at its sole discretion, to extract all of the economic benefit of Values Culture through the Exclusive Business Co-operation Agreement.

In addition, under the Exclusive Business Co-operation Agreement and the Exclusive Option Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of Values Culture as WFOE’s prior written consent is required before any distribution can be made. In the event that Values Culture distributes any bonus, dividends, distributable profits and/or any assets and other income derived from the equity interests held by the Relevant Shareholders without the prior written consent of WFOE, the Relevant Shareholders shall notify WFOE within three working days upon obtaining the said interests and pay the relevant interests to WFOE as soon possible in accordance with the terms of the Exclusive Option Agreement.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE 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 combined into our Company’s financial statements.

In this regard, our Directors consider that our Company can combine 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 combining the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountants’ Report in Appendix I to this document.

DEVELOPMENT IN LEGISLATION ON FOREIGN INVESTMENT IN THE PRC

Adoption of the Foreign Investment Law

On 15 March 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law, which will come into effect as of 1 January 2020. Upon its coming into effect, the Foreign Investment Law will replace the Sino-Foreign Equity Joint Venture

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Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law to become the legal foundation for foreign investment in the PRC.

Impact and potential consequences of the Foreign Investment Law on our Contractual Arrangement

The Foreign Investment Law specifically stipulates three forms of foreign investment, namely, (a) establishment of a foreign invested enterprise in the PRC by a foreign investor, either individually or collectively with any other investor; (b) obtaining shares, equity interests, assets, interests or any other similar rights or interests of an enterprise in the PRC by a foreign investor; and (c) investment in any new construction project in the PRC by a foreign investor, either individually or collectively with any other investor.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licences and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisers, 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 Foreign Investment Law will not, by itself, have any material adverse impact on the legality and validity of the Company’s Contractual Arrangements.

However, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. Therefore, there remain uncertainty regarding whether future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, and then whether our Contractual Arrangements will be recognised as foreign investment, whether our 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.

For the details of risks relating to the Foreign Investment Law, please see the paragraph headed “Risk Factors — Risks relating to the Contractual Arrangements — Substantial uncertainties exist with the PRC foreign investment legal regime may have a significant impact on our Group’s corporate structure and business operations.”

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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:

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

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OVERVIEW

Our Group was established in 2013 and is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. Our customers include TV stations (including their operating entities), companies which are engaged in the business of distribution of TV series, executive producers and copyright owners of the TV series. Since our incorporation and as at the Latest Practicable Date, we have produced and licensed more than 15 TV series covering a wide spectrum of genres. Our TV series are broadcast on well-known TV stations such as CCTV, Tianjin Radio & Television Station* (天津廣播電視台), Shandong Radio and Television (山東廣播電視台) and Anhui Broadcasting Corporation (安徽廣播電視台) and online video platforms such as iqiyi.com (愛奇藝), v.qq.com (騰訊視頻), fun.tv (風行網) and pptv.com (PP視頻).

Our business of licensing of broadcasting rights of TV series involves the licensing of broadcasting rights of TV series that are produced by us as executive producer or TV series that we have purchased the copyrights (or broadcasting rights). For our business of investment in TV series as non-executive producer, we not only make equity investment in the TV series, but also, as the case may be, participate in the production and/or distribution process. For our business of acting as the distribution agent of TV series, we promote the relevant TV series to the TV stations (including their operating entities) and negotiate the terms and conditions relating to the licensing of the TV series with them on behalf of the copyright owners of the TV series. We provide our products and services primarily through our Consolidated Affiliated Entities. For details of our business and revenue model, please refer to the paragraph headed “Our business and revenue model” in this section.

In recognition of our achievements in our business operations, we received various awards which include The Second Batch of Zhejiang Province’s Growing Cultural Enterprises* (第二批浙江省成長型文化企業) in 2018, the “First Tier Prize” of the 2016 First Comprehensive Assessment Winning Unit* (2016年度綜合考核優勝單位「一等獎」), “Special Award” of 2017 Annual Comprehensive Assessment of Outstanding Enterprises* (2017年度綜合考核優秀企業「特等獎」) and “The Most Growing Company” in 2018* (2018年度「最具成長型企業」). For details about our awards, please refer to the paragraph headed “Awards, accreditation and membership in industry organisations — Awards and accreditation” in this section.

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The following table sets forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Licensing of broadcasting rights of TV series . . .	101,503	99.5	92,350	93.0	138,618	90.0
Distribution service of TV series	472	0.5	—	—	12,939	8.4
Income under co-financing arrangements	—	—	6,916	7.0	2,528	1.6
	<u>101,975</u>	<u>100.0</u>	<u>99,266</u>	<u>100.0</u>	<u>154,085</u>	<u>100.0</u>

Income under co-financing arrangements refers to income generated from our investment in TV series as non-executive producer.

COMPETITIVE STRENGTHS

Our Group’s continued success can be attributed to the following competitive strengths which differentiate us from our competitors:

Well established track record of successful TV series with experienced and professional management team

Our Group aims to produce high quality and popular TV series. We believe our efforts are well recognised by the TV series industry. During the Track Record Period and up to the Latest Practicable Date, our TV series have received various awards. For instance, The Eagle Corps* (野山鷹) has been awarded the Viewer Ratings Champion of the National Television Broadcasting Alliance (全國電視劇播出聯盟年度收視冠軍), The Furthest Distance* (遙遠的距離) has been awarded the “Viewership Ratings Contribution Award” of the 2016 Annual Fashion Theater* (2016年度風尚劇場「收視貢獻獎」), Jade* (女管家) has been awarded “Excellent Works Award” of 2017* (2017年度「優秀作品獎」) and Scrambling For Gold* (奪金戰) has been awarded the National Drama Ceremony 2018 “Viewership Ratings Contribution Awards” (2018年度國劇頒獎禮收視貢獻獎). The above awards are recognition of our excellent achievements in the TV series industry. Please refer to the paragraph headed “Awards, accreditation and membership in industry organisations — Awards and accreditation” in this section for further details of our awards and accreditation. Moreover, our self-produced TV series National Spirit* (共和國血脈) had its first-run broadcast on comprehensive channel of CCTV (CCTV-1) in June 2019. According to the F&S Report, only TV series that is of top production quality and is well recognised by the PRC government can have first-run broadcast on CCTV and satellite television.

Our experienced and professional management team plays an important role and provides significant contribution to our established track record of successful TV series. Our Directors and senior management possess in-depth knowledge and understanding of their respective fields of responsibility in the TV series industry. Our chief executive officer, Mr. Wu, has over seven years of experience in the industry, specialising in production, marketing and distribution of TV series. Prior to joining our Group, he was involved in the

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production and distribution of a well-known TV series which won the best production award of the 29th Jiangsu TV Golden Phoenix Awards in 2013 (第29屆江蘇省電視金鳳凰獎電視劇最佳作品獎) and the outstanding TV series award of the 27th China TV Golden Eagle Award in 2014 (第27屆中國電視金鷹獎優秀電視劇). For further details of the qualifications and experience of our Directors and senior management members, please refer to the section headed “Directors and Senior Management” in this document.

Our Directors believe that our professional team comprises of knowledgeable and experienced, production and distribution professionals and they will continue to be our Group’s invaluable assets and strive our Group towards greater success and capture future growth.

Well-developed and diversified network of customers

Our Group has strived to strengthen and develop our customer base since our establishment. During the Track Record Period, we had a diversified customer base which included TV stations (including their operating entities), companies which are engaged in the business of production or distribution of TV series and copyright owners of TV series. For TV stations, our customers are based in various provinces in the PRC. In order to keep up with technological advancement and modern trends of development of the media industry, we also secured customers which could distribute our TV series to companies running online video platforms so as to enable our TV series to be broadcast on such online video platforms. Further, during the Track Record Period and up to the Latest Practicable Date, we have customers which help distribute our TV series for broadcasting in overseas countries.

Our Directors believe that our solid customer base enables us to maintain a stable source of revenue as well as further develop our business. Over the years, we have consistently achieved customer satisfaction which in turn allows our Group to gain the trust of our existing customers and give us a competitive edge to capture more business opportunities in the future. We believe that our years of experience in the TV series industry, our market knowledge, together with the wide range of genre of TV series we offer allow us to meet the requirements of our customers and maintain close working relationships with them. Further, we believe that such relationships with our customers enhance our brand recognition and are good references for new potential customers in the future.

Established and stable relationships with a variety of reliable suppliers

Since our incorporation and up to the Latest Practicable Date, we have participated in the production of a wide spectrum of genres of TV series. We engaged different suppliers such as artists, scriptwriters, directors, cinematographers and art designers for different genres of TV series. Leveraging on our established business network and our relationships with a variety of suppliers, we have been able to acquire a steady supply of high-quality expertise and services in accordance with customers’ demand. Accordingly, our close working relationships with our suppliers have helped us to strengthen our relationships with our customers and maintain our competitiveness in TV series industry especially in terms of operational efficiency and product quality. Moreover, according to the F&S Report, there

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is an abundant supply of a wide variety of suppliers in the TV series production industry. As a result, we enjoy the flexibility of selecting suppliers subject to our needs, which enables us to reduce risk of delay in projects caused by shortage of suppliers.

Well-positioned to combine and leverage on operations of our different business segments

At the early stage of our business development, our Group mainly focuses on producing TV series as executive producer and licensing the broadcasting rights of such TV series to TV stations. Throughout the years of our operation, we have developed additional business including licensing of broadcasting rights of purchased TV series, investment in TV series as non-executive producer and acting as the distribution agent of TV series. Moreover, as at the Latest Practicable Date we have acted as non-executive producer for one web series which is currently available for broadcast on the online video platforms. We believe that, by taking up different roles through different business engagements, our Group is able to have better and comprehensive understanding about the drama series market and, in particular, its market trends such as the latest preferences of the public audience. Our in-depth knowledge about the market gained from our different business segments allows us to respond quickly to the changing demands of our customers and produce popular TV series. Moreover, we can further develop our business by combining and leveraging on our operations in different business segments. For instance, while we are engaged in the business of investment in TV series as non-executive producer, we may also act as the distribution agent for the executive producer of that TV series. Further, we can also benefit from working with different market players or professionals including our suppliers through our engagements in various business segments so as to enhance the efficiency of our operations and allows us to have better control over our production costs and quality.

BUSINESS STRATEGIES

We intend to strengthen our position and expand revenue sources by implementing the following business strategies:

Continue to strengthen and expand our business of licensing of broadcasting rights of TV series

Based on our established competitive strengths and leveraging on our history of successful operation since our incorporation, we target to strengthen and expand our business of licensing of the broadcasting rights of TV series by producing or purchasing more high quality and popular TV series. Our licensing business is our core business segment which contributed 99.5%, 93.0% and 90.0% of our total revenue during the Track Record Period respectively. Given the importance of this business segment to our Group, we intend to devote more resources to reinforce our market position and drive the overall growth of our business.

Moreover, according to the F&S Report, the per capita annual disposable income of China residents increased significantly to RMB28,228 in 2018, representing a CAGR of 8.8% from 2014. The per capita expenditure of Chinese residents on entertainment has reached RMB1,372 in 2018, representing a CAGR of 10.7% from 2014. The continuous increase of disposable income and entertainment expenditure is expected to further drive the

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fast development of drama series market which includes the TV series market in China. We also believe that we will continue to benefit from the PRC government’s policy in supporting the development of drama series market. For instance, according to the F&S Report, the NRTA issued 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) in 2017 to cultivate a sound environment for drama series market development.

In view of the above, we believe there is strong market demand in the business segment of licensing of the broadcasting rights of TV series. Since according to the F&S Report the TV series market in the PRC is highly fragmented and we account for approximately 0.2% of the market share in terms of revenue generated from investment, production, and distribution of TV series and web series in the PRC in 2018, we believe that there is good potential for the future business growth of our Group. Moreover, throughout the years of our business operations, we have developed close working relationships with our existing customers of our licensing business who are TV stations (including their operating entities) and companies which are engaged in the business of distribution of TV series. Accordingly, we have profound understanding of their requirement on the content of the TV series they desire to broadcast and we are confident that the TV series produced or purchased by us will be broadcast by them. Further, in order to strengthen our relationship with the existing customer, we have entered into a strategic co-operation agreement with Customer I, pursuant to which Customer I agrees to give priority to us for purchasing TV series produced or distributed by us and arrange such TV series to be broadcast on satellite channel of a TV station. For details of such strategic co-operation agreement, please refer to the paragraph headed “Customers — Principal terms of contracts — (iv) Strategic co-operation agreement” in this section. In view of the aforementioned market demand, it is our strategy to continue to strengthen and expand our business of licensing of the broadcasting rights of TV series by producing or purchasing more high quality and popular TV series. As our licensing business is capital intensive, we intend to utilise approximately [REDACTED] and [REDACTED] from the [REDACTED] of the [REDACTED] for producing and purchasing TV series respectively. For details, please refer to the paragraph headed “Future Plans and [REDACTED] — [REDACTED]” in this document.

Expanding our business by tapping into the web series market

According to the F&S Report, the drama series market in the PRC consists of TV series market and web series market. Web series refers to scripted shows that generally in episodic form initially released only over the Internet and web television mediums. According to the F&S Report, with increasing penetration of Internet and mobile Internet, such rapidly growing new media has enjoyed the dominated status compared to traditional media such as TV and paper media in China’s media industry. New media, including mobile media and Internet, has witnessed a rapid growth and constituted a major proportion of the overall media industry. In 2018, these two segments together contributed to over 70.0% of the total revenue of media industry in China. As the web series are primarily broadcast on the Internet and web television mediums, with the rapid growing of the Internet and the mobile media, we believe that the web series market will play a more important role in the drama series market. According to the F&S Report, the total revenue of web series market

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increased dramatically from RMB6.0 billion in 2014 to RMB40.7 billion in 2018, representing a CAGR of 61.7%. From 2018 to 2023, the total revenue of web series market is expected to increase to RMB56.6 billion in 2023, representing a CAGR of 6.8%.

Given that the web series market is highly fragmented according to the F&S Report and the increase in the actual amount of the revenue is significant, our Directors believe that there is good potential for our Group to develop in the web series market. Accordingly, in order to capture such business opportunities in the web series market, we target to expand our business by producing or investment in more web series in the capacity of executive producer or non-executive producer and licensing such web series to online video platforms. Our Directors believe that we are capable of implementing this expansion plan by leveraging on our knowledge and experience gained from production and distribution of TV series. As at the Latest Practicable Date, we have acted as non-executive producer for one web series which is currently available for broadcast on the online video platforms. We target to develop closer working relationship with the online video platforms and produce more web series for them in the future. We intend to finance this expansion plan by our own internal resources or bank borrowing.

Further expand our in-house team and capacity to cope with future business opportunities

Our ability to produce and distribute new TV series is highly dependent on our internal personnel capacity to manage the production and distribution process. It is our strategy to continue to strengthen and expand our business of licensing of the broadcasting rights of TV series by producing or purchasing more high quality and popular TV series. As mentioned in the paragraph headed “Future Plans and [REDACTED] — [REDACTED]” of this document, we have identified four TV series which will be produced by our Group and we will continue to explore the opportunity of producing or distributing more TV series in the future. To cope with the potential increase in number of TV series to be produced or distributed by us, we plan to hire additional experienced staff to support our business growth. Given the competition in the market, we believe that our [REDACTED] will also assist us in attracting and recruiting suitable and capable staff and increase the attractiveness of joining our Group through offering competitive package to potential candidates. We intend to finance this expansion plan by our own internal resources or bank borrowing.

OUR BUSINESS AND REVENUE MODEL

Our Group was established in 2013 and is principally engaged in the businesses of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series.

(i) Licensing of broadcasting rights of TV series

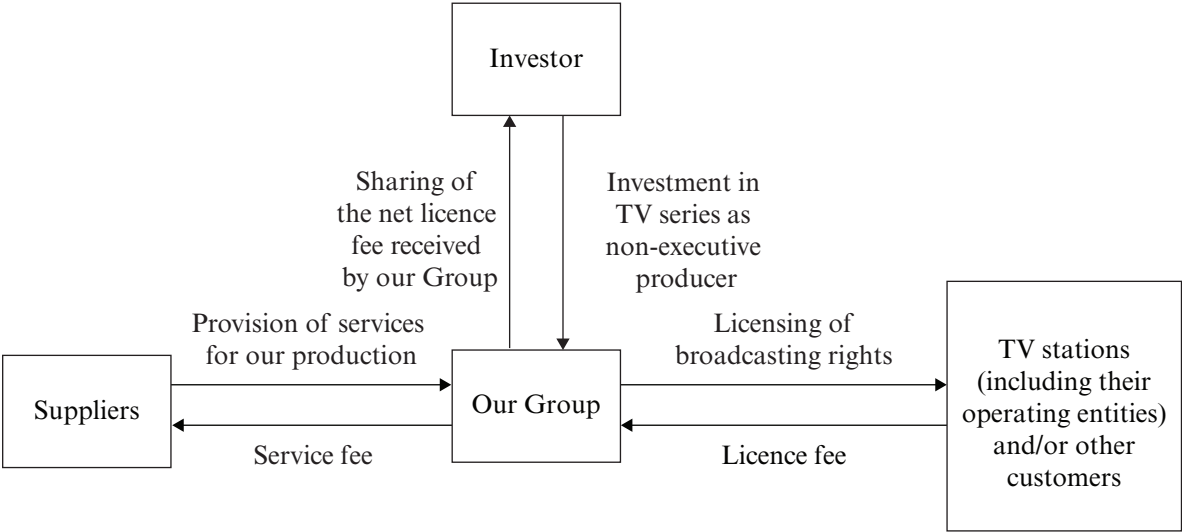
Our business of licensing of broadcasting rights of TV series involves the licensing of broadcasting rights of TV series produced by us as executive producer or TV series that we have purchased the copyrights (or broadcasting rights).

BUSINESS

(a) Licensing of broadcasting rights of self-produced TV series

We produce TV series either solely by ourselves or jointly with other investor under a co-financing arrangement. Under the co-financing arrangement, if we act as the executive producer, we contribute the majority of the investment amount and take a leading role in the production and distribution of such TV series. We are responsible for overseeing the whole production and distribution process while the other minority investor takes a passive role and mainly makes equity investment with limited involvement in the production process and/or distribution process such as casting and reviewing of production budgets. We license the TV series produced by us as executive producer to TV stations (including their operating entities) and companies which are engaged in the business of distribution of TV series. If there is minority investor in our TV series, we share the net licence fee received by us from our customer with the investor according to the proportion of its investment.

Our business of licensing of broadcasting rights of TV series produced by us as executive producer and its revenue model are summarised in the chart below:

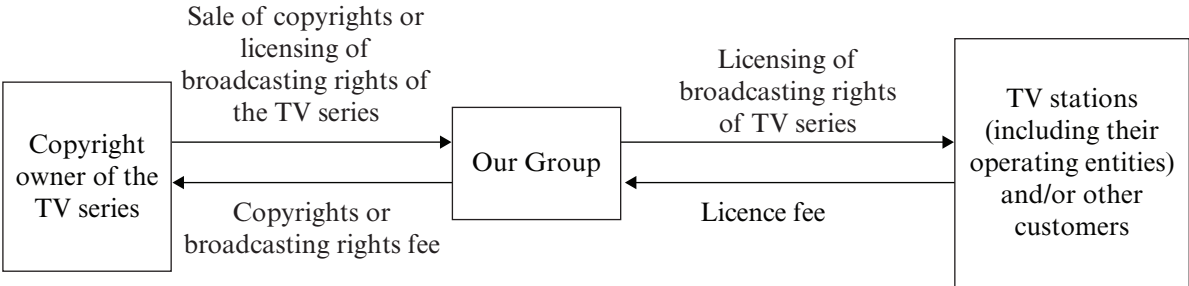


(b) Licensing of broadcasting rights of purchased TV series

Our Group purchases the copyrights (or broadcasting rights) associated with the TV series from the copyright owners of the TV series and in turn license the broadcasting rights to TV stations (including their operating entities) and companies which are engaged in the business of distribution of TV series.

BUSINESS

Our business of licensing of broadcasting rights of purchased TV series and its revenue model are summarised in the chart below:



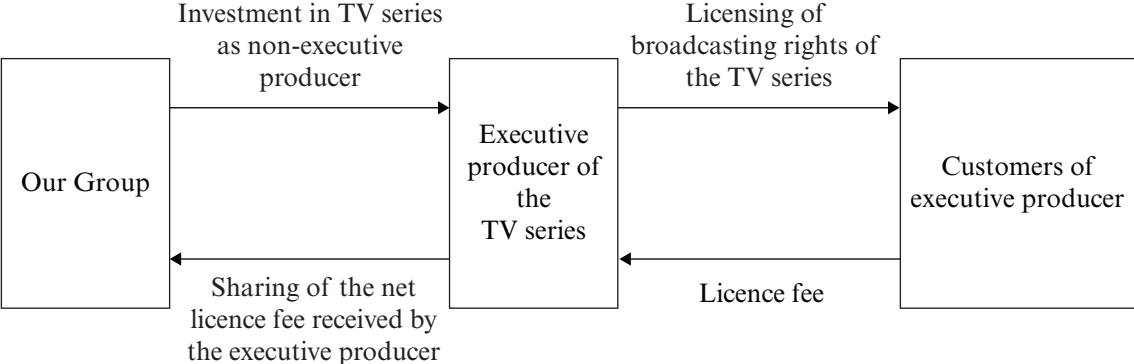
We charge a fixed licence fee for licensing the broadcasting rights of TV series. We determine the licence fee based on factors such as the type of the broadcasting channel (i.e. satellite channel of TV stations, terrestrial channel of TV stations or online video platforms) to be used by the potential customer for broadcasting the TV series, the broadcasting schedule (whether it is a first-run broadcast or a rerun and the broadcasting timeslot), the cost of production or purchasing the relevant copyrights or broadcasting rights, our target profit margin and the prevailing market price. Our licence fee is usually settled by instalments on specified milestone dates or by one lump sum payment.

(ii) Investment in TV series as non-executive producer

We reach co-financing arrangement with the executive producer of the TV series through which we act as non-executive producer and minority investor of the TV series. As a non-executive producer, we not only make equity investment in the TV series, but also, as the case may be, participate in the production and/or distribution process. By leveraging on our industry insights and extensive experience of TV series production and distribution, we provide advice to the executive producers based on the market trends regarding the production process in relation to quality control, casting, shooting and post-production and may determine certain matters jointly with the executive producers.

BUSINESS

Our business of investment in TV series as non-executive producer and its revenue model are summarised in the chart below:



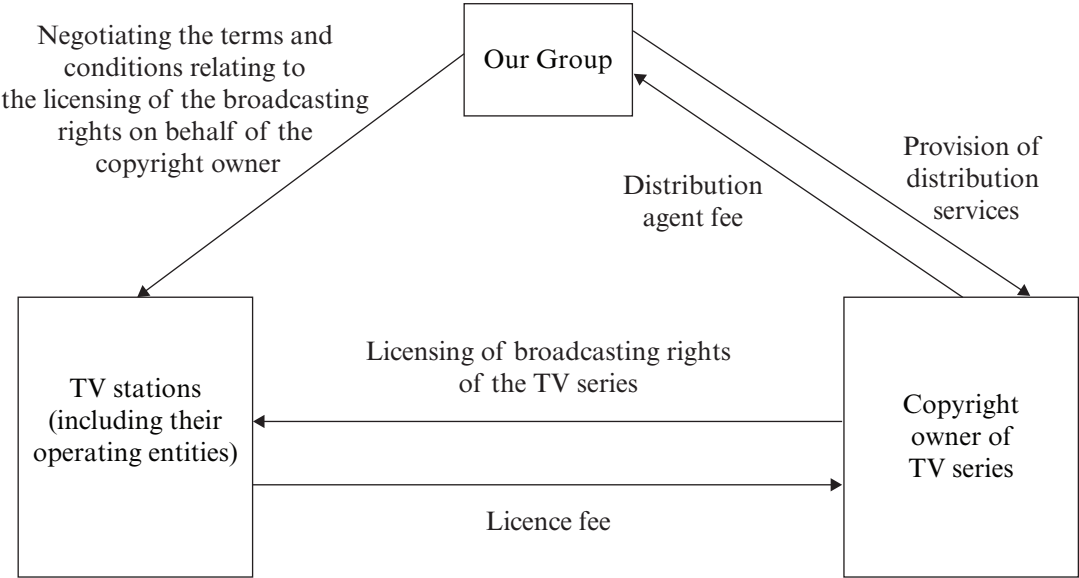
Our Group generate investment income by sharing the net licence fee according to the proportion of our investment. The net licence fee is calculated by deducting the distribution costs incurred by the executive producers from the licence fee earned by them by licensing of the broadcasting rights of the relevant TV series. The distribution cost is usually 15% of the total licence fee. Our Group usually receives payment from the executive producer by instalments on specified milestone dates.

(iii) Acting as the distribution agent of TV series

We act as distribution agent for copyright owners of TV series who approach us from time to time given our well established relationship with our customers and our reputation in the industry. We may also act as distribution agent for the executive producers (who are also copyright owners) of the TV series that we act as non-executive producer. We promote the relevant TV series to the TV stations (including their operating entities) and negotiate the terms and conditions relating to the licensing of the broadcasting rights of the TV series with them on behalf of the copyright owners of the TV series. Upon agreeing on the terms and conditions, the relevant copyright owners of the TV series will enter into contract and license the broadcasting rights to the TV stations (including their operating entities) directly. We charge the relevant copyright owners of the TV series a distribution agent fee for our distribution service.

BUSINESS

Our business of acting as distribution agent of TV series and its revenue model are summarised in the chart below:



Our Group charges the copyright owner of the TV series a distribution agent fee which is calculated on the basis of a fixed percentage of the licence fee to be received by the copyright owner from the TV stations (including their operating entities). The rate of distribution agent fee we receive typically ranges from 15% to 20% of the licence fee. Our distribution agent fee is usually settled after the copyright owner of the TV series has received the relevant licence fee.

In addition to the above principal businesses, our Group has been exploring the feasibility of tapping into the film production industry by leveraging our network and experience gained from production of TV series. Accordingly, our Group has also been engaged in the business of investment in and production of films during the Track Record Period. However, since the relevant films have not been distributed during the Track Record Period, our Group did not generate any revenue from the films production business during such period.

BUSINESS

OUR TV SERIES

During the Track Record Period, we produced and distributed various TV series covering a wide spectrum of genres including period romance, modern legend, family ethics, urban romance, patriotism, country romance, modern detective and war. Our major TV series during the Track Record Period are as follows:

	Name of the TV series	Date of the Licence for Distribution of TV Series	Genre	Number of episodes	Self-produced/purchased TV series	Revenue recognised during the Track Record Period (RMB'000)	Major media platforms on which the TV series is broadcast during the Track Record Period
1.	The Furthest Distance* (遙遠的距離)	12 September 2016	Period romance	48	Self-produced	113,508	<ul style="list-style-type: none"> — First-run broadcast by the satellite channel of the following TV stations: Anhui Broadcasting Corporation (安徽廣播電視台), Shandong Radio and Television (山東廣播電視台) — Rerun by the satellite channel of the following TV stations: CCTV, Guizhou Television* (貴州廣播電視台), Hebei Television* (河北廣播電視台), Hubei Television (湖北廣播電視台) — Terrestrial channel of the following TV stations: Henan Broadcasting System (河南廣播電視台), Hunan Broadcasting System (湖南廣播電視台), Guangxi Television* (廣西電視台), Liaoning Television* (遼寧廣播電視台), etc. — Online video platforms: iqiyi.com (愛奇藝), sohu.com (搜狐網), baofeng.com (暴風影音), le.com (樂視視頻) and v.qq.com (騰訊視頻), etc.
2.	Jade* (女管家)	4 November 2016	Modern legend	43	Self-produced	60,448	<ul style="list-style-type: none"> — First-run broadcast by the satellite channel of the following TV stations: Hubei Television* (湖北廣播電視台) and Shandong Radio and Television (山東廣播電視台) — Terrestrial channel of the following TV stations: Guangxi Television* (廣西電視台), Sichuan Radio and Television (四川廣播電視台), Hunan Broadcasting System (湖南廣播電視台), Zhejiang Radio & TV Station* (浙江廣播電視台), Chongqing Broadcasting Station* (重慶廣播電視台), Shanghai Television Station* (上海廣播電視台) and Jiangsu Television* (江蘇網絡廣播電視台), etc. — Online video platforms: iqiyi.com (愛奇藝), v.qq.com (騰訊視頻), fun.tv (風行網) and baofeng.com (暴風影音), etc.

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	Name of the TV series	Date of the Licence for Distribution of TV Series	Genre	Number of episodes	Self-produced/ purchased TV series	Revenue recognised during the Track Record Period <i>(RMB'000)</i>	Major media platforms on which the TV series is broadcast during the Track Record Period
3.	The Golden Years Of The Nursing Mother* (養母的花樣年華)	27 June 2017	Family ethics	55	Purchased	58,507	— First-run broadcast by the satellite channel of the following TV stations: Tianjin Radio & Television Station* (天津廣播電視台) and Shandong Radio and Television (山東廣播電視台)
4.	Super Father-In-Law & Son-In-Law* (超級翁婿)	3 July 2017	Urban romance	40	Purchased	34,449	— First-run broadcast by the satellite channel of the following TV station: Shandong Radio and Television (山東廣播電視台) — Rerun by the satellite channel of the following TV station: Hainan Broadcasting Station* (海南廣播電視台) — Terrestrial channel of the following TV station: Shenyang Radio & TV* (沈陽廣播電視台) — Online video platforms: iqiyi.com (愛奇藝), v.qq.com (騰訊視頻), fun.tv (風行網) and pptv.com (PP視頻), etc.
5.	The Way We Were* (歸去來)	23 March 2018	Urban romance	50	Purchased	29,182	— Rerun by the satellite channel of the following TV stations: Shenzhen Television* (深圳電視台) and Fujian Television* (福建電視台)

As at the Latest Practicable Date, we have participated in the investment, production and/or distribution of the following TV series, which have not generated any revenue for our Group during the Track Record Period.

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BUSINESS

As executive producer

TV series	Genre	Actual or estimated total investment amount (RMB)	Percentage of equity interest held by our Group (%)	Status as at the Latest Practicable Date	Estimated or actual first-run broadcast time
Yan Yang Chun* (燕陽春)	Modern legend	38 million	100.0	Broadcast on television station	First-run broadcast on satellite channel of Shandong Radio and Television* (山東廣播電視台) and Tianjin Radio & Television Station* (天津廣播電視台) in April 2019
National Spirit* (共和國血脈)	Patriotism	59 million	80.0	Broadcasting on television station	First-run broadcast on comprehensive channel of CCTV (CCTV-1) in June 2019
Love In The Mountains And Rivers* (愛在青山綠水間)	Country romance	46 million	95.0	In the course of post-production	By the end of 2019

As non-executive producer

TV or web series	Genre	Actual or estimated total investment amount (RMB)	Percentage of equity interest held by our Group (%)	Status as at the Latest Practicable Date	Estimated first-run broadcast time
Evil Nights (罪夜無間)	Modern detective	9 million	40.0	Available for broadcast on online video platform	Not applicable as it is a web series but it was first broadcast on online video platform in April 2019
Healer Of Children* (了不起的兒科醫生)	Medical drama	60 million	21.4	In the course of post-production	First half of 2020
Starting Line* (起跑線)	Modern education	22 million	10.0	Pending to apply for record-filing and announcing of production through the website of NRTA	Not applicable as the production process has not been commenced yet
The Battle of Xiangjiang* (湘江之戰)	War	11 million	20.0	Pending to apply for record-filing and announcing of production through the website of NRTA	Not applicable as the production process has not been commenced yet

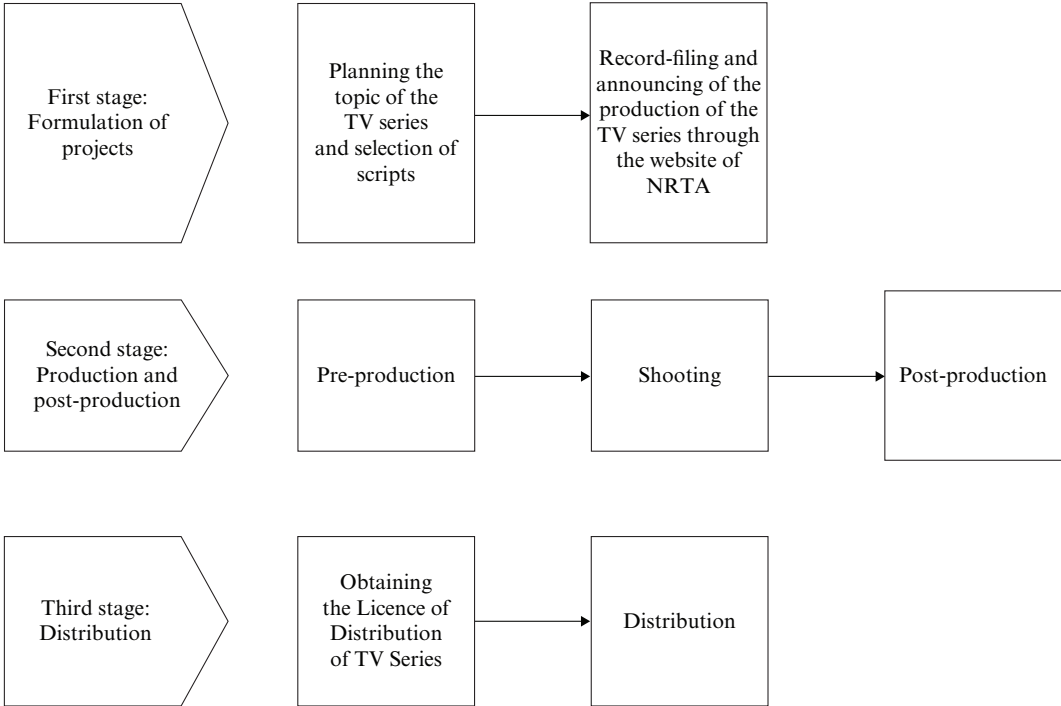
BUSINESS

OUR BUSINESS PROCESS

(i) Licensing of broadcasting rights of TV Series

(a) Licensing of broadcasting rights of self-produced TV series

Our operation in this business segment usually involves the following processes:



Note: It usually takes eight to fifteen months to complete the process from shooting to obtaining the Licence for Distribution of TV Series.

First stage: Formulation of projects

Planning the topic of the TV series and selection of scripts:

Our planning department and marketing and distribution department closely monitor the market trends and policies and maintain regular contact with our customers so as to understand the topic of the TV series they desire before formulating our production plan. We usually plan the topic of our TV series according to the market trend and the needs of our customers and will then proceed to select suitable script from scriptwriter or to engage scriptwriter to develop the script.

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Record-filing and announcing of the production of the TV series through the website of NRTA

During the period when we prepare the script of the TV series, we will arrange for record-filing and announcing of the production of the relevant TV series through the website of NRTA. It usually takes one to two months for NRTA to approve the record filing and announcement.

Second stage: Production and Post-production

Pre-production

In view of the tight time schedule for production of TV series, we usually start the pre-production process upon the commencement of the record-filing and announcing process. Our pre-production process mainly involves formation of our production crew and formulation of a detailed production plan which includes details on the production schedule and the budget. Our production crew includes our suppliers such as artists, scriptwriters, directors, cinematographers and art designers and we normally engage them on a project-by-project basis. We obtain fee quotes from these suppliers when formulating our production budget. In addition to forming our production crew and formulation of our production plan, we also need to handle other pre-production process such as location scouting.

After forming the production crew, we will make application to the provincial counterpart of NRTA for obtaining the Licence to Produce TV Series for the relevant TV series. It usually takes one to two months to obtain the Licence to Produce TV Series.

Shooting

The shooting stage of the production commences upon obtaining the Licence to Produce TV Series. It is usually led by the producer of the TV series who is responsible for designing and implementing the shooting plan, with the assistance and support of various working teams. Our Group usually designates our own staff to be the executive producer for the TV series which our Group takes a leading role in its production. The executive producer, with the assistance of a production manager, is responsible for the overall supervision and management of the production process. The production manager is mainly responsible for monitoring the production schedule and budget so as to prevent any time or cost over-run and the production manager will report to our executive producer on a regular basis regarding the production progress. In order to promote our TV series, we may also invite our target customers to visit the shooting site so as to allow them to have better understanding about the content and the quality of our TV series.

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Post-production:

Our post-production process mainly involves editing, sound-mixing, voice dubbing, sound-tracking and processing of computer generated special effects if required. We usually engage our suppliers to perform the work required in post-production process for us.

Third stage: Distribution

Obtaining the Licence for Distribution of TV Series:

Upon completion of post-production process, our approval committee will have final internal review of our TV series to ensure its content and quality can meet the requirement of our target customers as well as the NRTA.

Once the TV series is approved by our approval committee, we will make application to the provincial counterpart of NRTA for obtaining the Licence for Distribution of TV Series for distributing the TV series.

Distribution:

During the distribution process, we promote our TV series to our target customers by showing the trailer and sample TV series to them. We also negotiate the price of our TV series with our target customers. We sign contract for licensing of the broadcasting rights upon agreeing the terms with our customers and deliver the TV series to them according to the time stated in the relevant contract.

(b) Licensing of broadcasting rights of purchased TV series

Leveraging upon our experience gained from production of TV series and our well established network of customers, our Group purchases the copyrights (or broadcasting rights) associated with the TV series from the copyright owners of the TV series and in turn license the broadcasting rights to our customers. Our planning department and marketing and distribution department identify promising TV series by attending various TV series exhibition. As our Group maintains close and regular communication with our customers, we are able to keep abreast of our customers' needs and identify suitable TV series that suit their demands. If we believe there is a good prospect in distributing the relevant TV series after discussing with the target customer, we will purchase the copyrights (or broadcasting rights) of the TV series. We usually would have already identified the target customers and had a preliminary negotiation on the terms and price before we purchase the broadcasting right from the copyright owner. We will then license the broadcasting right to the TV stations (including their operating entities) and/or companies which are engaged in the business of distribution of TV series and receive the licence fee.

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(ii) Investment in TV series as non-executive producer

In addition to producing the TV series by ourselves as executive producer, we also act as non-executive producer for those TV series in which we are the minority investor. We are usually invited by the executive producer of the TV series, to make investment in their proposed TV series. We review the production proposal prepared by the relevant executive producer in detail and negotiate the terms of our investment (including our level of involvement, the amount of investment and the return on investment) with them. We usually take into account factors such as the script, cast, marketability of the TV series, the amount of investment and the return on investment when making our investment decisions. We sign the relevant contract upon agreeing the terms of investment with the executive producer. As a non-executive producer, we not only make equity investment in the TV series, but also, as the case may be, participate in the production and/or distribution process. By leveraging on our industry insights and extensive experience of TV series distribution, we provide advice to the executive producers based on the market trends regarding the production process in relation to quality control, casting, shooting and post-production and may determine certain matters jointly with the executive producers. We will review the production budget and our investment return status on a regular basis.

(iii) Acting as the distribution agent of TV series

Given our well established relationship with our customers and our reputation in the industry, we are approached by copyright owners of TV series from time to time to act as their distribution agent. We may also act as distribution agent for the executive producers (who are also copyright owners) of the TV series that we act as non-executive producer. We promote the relevant TV series to the TV stations (including their operating entities) and negotiate the terms and conditions relating to the licensing of the TV series with them on behalf of the copyright owners of the TV series. Upon agreeing on the terms and conditions, the relevant copyright owners of the TV series will enter into contract and license the broadcasting rights to the TV stations (including their operating entities) directly. We charge the relevant copyright owners of the TV series a distribution agent fee for our distribution service.

SALES AND MARKETING

Our sales and marketing strategy focuses on maintaining close and regular contact with TV stations and strives to promote the relevant TV series to them as we believe our distribution capability is important to both of our business of licensing of broadcasting rights and acting as the distribution agent. Our marketing and distribution department is responsible for monitoring the market trend and government policies and exploring business opportunities with the TV stations by understanding their requirement on the content of the TV series they desire to broadcast. In addition, we actively participate in industry events such as China (Shenzhen) International TV Drama & TV Program Fair and Beijing TV Program Market & Exhibition to explore business and cooperation opportunities with potential customers so as to broaden our customer base. We believe our close relationship with the TV stations enables us to identify suitable script of TV series for them and meet their requirement on the quality of the TV series which could in turn increase our success rate in securing our contract with them.

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CUSTOMERS

During the Track Record Period, for our business of licensing of broadcasting rights of TV series, our customers were TV stations (including their operating entities) and companies which were engaged in the business of distribution of TV series; for our business of investment in TV series as non-executive producer, our customers were executive producers of the relevant TV series; and for our business of acting as the distribution agent of TV series, our customers were the copyright owners of the relevant TV series.

Major customers

During the Track Record Period, our five largest customers in aggregate accounted for approximately 91.9%, 82.9% and 84.2%, respectively of our total revenue, and our largest customers accounted for approximately 37.8%, 24.5% and 39.5%, respectively of our total revenue. The chart below set forth the particulars of our five largest customers during the Track Record Period:

For the year ended 31 December 2016

Rank	Customer	Background	Year of commencement of business relationship	Typical credit terms and payment method	Transaction amount <i>(RMB'000)</i>	Percentage of our total revenue
1	Customer A	Television station in Anhui province	Since 2015	Within one month of the relevant milestone dates; by bank transfer	38,522	37.8%
2	Customer B	Television station in Shandong province	Since 2015	Within 30 working days after receipt of invoice; by bank transfer	36,249	35.5%
3	Customer C	The indirect wholly-owned subsidiary of a television station in Guizhou province	Since 2015	Within one year after broadcasting; by bank transfer	11,321	11.1%
4	Xian Jiayunshe Digital Entertainment Company Limited* (西安佳韻社數字娛樂發行股份有限公司)	A subsidiary of a company listed in the PRC	Since 2015	Within five to seven working days of the relevant milestone dates; by bank transfer	5,887	5.8%
5	Customer D	Television station in Hubei province	Since 2015	Within 30 to 90 working days after signing of contract or broadcasting; by bank transfer	1,732	1.7%

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For the year ended 31 December 2017

Rank	Customer	Background	Year of commencement of business relationship	Typical credit terms and payment method	Transaction amount <i>(RMB'000)</i>	Percentage of our total revenue
1	Customer B	Television station in Shandong province	Since 2015	Within 30 working days after receipt of invoices; by bank transfer	24,344	24.5%
2	Customer D	Television station in Hubei province	Since 2015	Within 30 to 90 working days after signing of contract or broadcasting; by bank transfer	23,622	23.8%
3	Customer E	An indirect subsidiary of a television station in Hebei province	Since 2017	Within 180 working days to one year after broadcasting; by bank transfer	19,270	19.4%
4	Customer F	Television station in Heilongjiang province	Since 2017	Within 30 to 60 days of the relevant milestone dates; by bank transfer	8,186	8.2%
5	Customer G	A wholly-owned subsidiary of a company listed in the PRC	Since 2015	Within five working days after confirmation of the investment return amount by our Group; by bank transfer	6,916	7.0%

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For the year ended 31 December 2018

Rank	Customer	Background	Year of commencement of business relationship	Typical credit terms and payment method	Transaction amount <i>(RMB'000)</i>	Percentage of our total revenue
1	Customer B	Television station in Shandong province	Since 2015	Within 30 working days after receipt of invoice; by bank transfer	60,858	39.5%
2	Customer H	Public institution operating TV stations in Shenzhen	Since 2016	Within 40 working days to 15 months after broadcasting; by bank transfer	27,295	17.7%
3	Customer I	The indirect subsidiary of a television station in Tianjin	Since 2017	Within 60 days upon receipt of invoice or immediately after broadcasting; by bank transfer	22,182	14.4%
4	Customer J	A limited company jointly owned by a state-owned corporation and a television station in Hainan province	Since 2018	Within one year after broadcasting by instalments; by bank transfer	10,038	6.5%
5	Customer K	Private company engaging in production and distribution of television programs	Since 2018	After the customer receiving the relevant licence fee and within five working days after receipt of our invoice; by bank transfer	9,368	6.1%

None of our Directors or any of their respective associates or, to the knowledge of our Director's, shareholders who own more than 5% of our Company's issued share capital had any interest in any of our five largest customers during the Track Record Period. Save for Customer I, none of our top five customers was also our supplier during the Track Record Period. Customer I is an indirect subsidiary of a television station in Tianjin province. In FY2018, we licensed the broadcasting right of a TV series to Customer I the transaction amount of which was RMB22.2 million, representing approximately 14.4% of our total revenue for FY2018. In addition, we engaged Customer I for promotional services for the same TV series in FY2018 for a total fee of approximately RMB1.2 million, representing approximately 0.8% of our total purchase for FY2018. Moreover, we acquired the broadcasting right of a TV series from Customer I in FY2018 for a total licence fee of RMB5.0 million, representing approximately 3.2% of the our total purchase in the same period. According to the F&S Report, it is common in the industry that companies engaged in the business of distribution of TV series act as licensor or licensee of TV series and

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provide promotional services for TV series when conducting their business. Therefore, Customer I, being a company engaged in the business of distribution of TV series, become both our supplier and customer during the Track Record Period.

Principal terms of agreements

(i) Agreements for licensing of broadcasting rights of TV series

We usually enter into agreements for licensing of broadcasting rights of TV series with our customers on a project-by-project basis. The agreements usually set out the following salient terms:

- *Timing of delivery of finished product:* The agreements in general set out a specific delivery time.
- *Our fee:* We charge a fixed licence fee for licensing the broadcasting rights to our customer. Our fee is usually settled by customers by instalments of pre-agreed milestone dates or by one lump sum payment and is usually paid by bank transfer.
- *Content requirement:* We are bound by the requirements according to the relevant laws and regulations.
- *Warranties:* Usual warranties include our corporate authority and power to enter into the agreement.
- *Intellectual property rights ownership:* The customers only have the rights to broadcast the relevant TV series in the designated areas for a limited period of time.
- *Breach and termination:* The party who is in breach of the agreement may be liable to compensate the other party for losses and the agreement may be terminated.

(ii) Agreements for investment in TV series as non-executive producer

We usually enter into agreements for investment in TV series as non-executive producer with our customers on a project-by-project basis. The agreements usually set out the following salient terms:

- *Timing of making investments:* The agreements in general set out a specific time for making investments.
- *Our fee:* We share the net licence fee received by the executive producer according to the proportion of our investment. Our fee is usually settled by customers by instalments and is usually paid by bank transfer.
- *Content requirement:* We are bound by the requirements according to the relevant laws and regulations.

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- *Intellectual property rights ownership:* The intellectual property rights are either proportioned according to our investment ratio or only belong to the executive producer of the relevant TV series.
- *Breach and termination:* The party who is in breach of the agreement may be liable to compensate the other party for losses and the agreement may be terminated.

(iii) Agreements for acting as the distribution agent of TV series

We usually enter into agreements for acting as the distribution agent of TV series with our customers on a project-by-project basis. The agreements usually set out the following salient terms:

- *Period of service:* The agreements in general set out a specific period of service time.
- *Our fee:* We charge a distribution fee which is calculated at a fixed percentage of the licence fee to be received by the relevant copyright owners from the TV stations (including their operating entities). Our fee is usually settled by customers by instalments and is usually paid by bank transfer.
- *Content requirement:* We are bound by the requirements according to the relevant laws and regulations.
- *Intellectual property rights ownership:* The customers have the copyrights of the relevant TV series.
- *Breach and termination:* The party who is in breach of the agreement may be liable to compensate the other party for losses and the agreement may be terminated.

(iv) Strategic co-operation agreement

We have also entered into a strategic co-operation agreement with Customer I, for a term of five years effective from March 2019. It is stipulated in the agreement that, among other things, (i) we agree to give Customer I priority to purchase TV series produced or distributed by us; and (ii) Customer I agrees to give priority to us for purchasing TV series produced or distributed by us and arrange such TV series to be broadcast on satellite channel of a TV station.

During the Track Record Period and up to the Latest Practicable Date, our Group has not received any material complaints from our customers.

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PRICING POLICY

Under our pricing strategies, we generally price our products with reference to our cost-estimate of each TV series coupled with other commercial factors. We determine the licence fee based on factors such as the type of the broadcasting channel (i.e. satellite channel of TV stations, terrestrial channel of TV stations or online video platforms) to be used by the potential customer for broadcasting the TV series, the broadcasting schedule (whether it is a first-run broadcast or a rerun and the broadcasting timeslot), the prevailing market price, the production cost, the cost of purchasing the relevant copyrights or broadcasting rights and our target profit margin. During the Track Record Period, for our business of licensing of broadcasting rights of TV series, the price per episode of each TV series for first-run broadcast on satellite channel ranged from RMB428,000 to RMB850,000. Our price per episode for rerun of a TV series is generally lower than that for first-run.

CREDIT CONTROL

We have adopted stringent credit control procedures and we monitor our working capital on an on-going basis to minimise potential credit risks. We have established record system to monitor receivables and outstanding invoices. Our finance staff will report regularly to our senior management and we will analyse and formulate relevant procedures to collect outstanding fees. In general, the credit period granted by us is 90 to 365 days. Please refer to the paragraph headed “Financial Information — Discussion on certain financial position items — Trade and notes receivables” for further details.

INVENTORY

Our inventory is comprised mainly of raw materials (i.e. scripts), work in progress (i.e. TV series in the course of production) and finished goods (i.e. TV series which have already obtained the Licence for Distribution of TV Series). We monitor the inventory level on a regular basis in order to ensure it can meet the production and distribution requirements. As at 31 December 2016, 2017 and 2018, our inventories amounted to approximately RMB74.2 million, RMB130.4 million and RMB203.9 million, respectively, representing approximately 24.6%, 44.8% and 50.5% of our total current assets, respectively.

We purchase a script when and if we consider that it has potential for future production and its price is within our budget. It is our policy to accumulate sufficient number of scripts to meet our continuous production and distribution needs. During the Track Record Period, we have purchased two, three and five scripts respectively. When we purchase a script, we will sign the contract with the relevant scriptwriter to ensure that the intellectual property rights are duly transferred to us.

We review the production progress of our TV series regularly so as to ensure that they can be completed and the Licence for Distribution of TV Series can be obtained according to the relevant schedule.

BUSINESS

Our planning department and marketing and distribution department work on the distribution plan for each TV series and aim at distributing the TV series according to the distribution plan so as to minimise the risk of exposure to obsolete stock.

Provisioning policy

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal.

SUPPLIERS

Our suppliers mainly include copyright owners of the TV series who sell the copyright or license the broadcasting rights of the TV series to us and service providers in TV series production industry such as artists, scriptwriters, directors, cinematographers and art designers.

Major suppliers

During the Track Record Period, our five largest suppliers in aggregate accounted for approximately 46.3%, 60.6% and 56.8%, respectively of our total purchases, and our largest suppliers accounted for approximately 14.5%, 17.7% and 19.5%, respectively of our total purchases. The chart below set forth the particulars of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2016

Rank	Supplier	Background	Year of commencement of business relationship	Major purchases	Typical credit terms and payment method	Transaction amount <i>(RMB'000)</i>	Percentage of our total purchases
1	Supplier A	Sole proprietorship enterprise providing television and film related services	Since 2015	Artists and scripts	According to the progress of production and upon demand of the supplier; by bank transfer	16,226	14.5%
2	Supplier B	Sole proprietorship enterprise providing television and film related services	Since 2015	Scripts, director and shooting services	Upon the relevant milestone dates; by bank transfer	13,689	12.2%
3	Dongyang City Jiunian Film Studio* (東陽市政年影視工作室)	Sole proprietorship enterprise providing television and film related services	Since 2014	Scripts	Within seven days of the relevant milestone dates; by bank transfer	8,633	7.7%
4	Supplier C	Sole proprietorship enterprise providing television and film related services	Since 2015	Artists	Upon or within two to three working days of the relevant milestone dates; by bank transfer	8,226	7.3%
5	Supplier D	Limited partnership providing television and film related services	Since 2015	Artists	Upon or within three days of the relevant milestone dates; by bank transfer	5,139	4.6%

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BUSINESS

For the year ended 31 December 2017

<u>Rank</u>	<u>Supplier</u>	<u>Background</u>	<u>Year of commencement of business relationship</u>	<u>Major purchases</u>	<u>Typical credit terms and payment method</u>	<u>Transaction amount</u> <i>(RMB'000)</i>	<u>Percentage of our total purchases</u>
1	Supplier E	Private company providing television and film related services	Since 2017	Broadcasting rights of TV series	Within 15 working days of the relevant milestone dates; by bank transfer	20,769	17.7%
2	Supplier F	Sole proprietorship enterprise providing television and film related services	Since 2017	Shooting services	According to the progress of production and by instalments; by bank transfer	17,549	14.9%
3	Yongkang Cuiyong Film and Television Cultural Studio* (永康崔勇影視文化工作室)	Sole proprietorship enterprise providing television and film related services	Since 2015	Art design services	Upon or within three working days of the relevant milestone dates; by bank transfer	14,764	12.6%
4	Supplier G	Sole proprietorship enterprise providing television and film related services	Since 2016	Scripts, directors, artists and shooting services	Upon or within five days of the relevant milestone dates or within ten working days upon receipt of invoice; by bank transfer	9,181	7.8%
5	Supplier A	Sole proprietorship enterprise providing television and film related services	Since 2015	Artists and scripts	According to the progress of production and upon demand of the supplier; by bank transfer	8,955	7.6%

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For the year ended 31 December 2018

Rank	Supplier	Background	Year of commencement of business relationship	Major purchases	Typical credit terms and payment method	Transaction amount (RMB'000)	Percentage of our total purchases
1	Supplier H	Private company providing television and film related services	Since 2016	Copyrights of TV series	Upon the relevant milestone date or within five working days to six months of the relevant milestone dates; by bank transfer	30,189	19.5%
2	Dongyang Hengdian Linheping Film Studio* (東陽橫店林和平影視工作室)	Sole proprietorship enterprise providing television and film related services	Since 2018	Director, scripts	Upon the relevant milestone dates; by bank transfer	16,694	10.8%
3	Supplier G	Sole proprietorship enterprise providing television and film related services	Since 2016	Scripts, directors, artists and shooting services	Upon or within five days of the relevant milestone dates or within ten working days upon receipt of invoice; by bank transfer	15,030	9.7%
4	Supplier I	Private company providing advertising, planning and designing services	Since 2018	Planning and consulting services	Immediate upon completion of the contract; by bank transfer	14,617	9.5%
5	Supplier J	Private company providing television and film related services	Since 2018	Broadcasting rights of TV series	Within seven days of the relevant milestones dates; by bank transfer	11,321	7.3%

Our Directors confirm that, we have not encountered any material disputes with our suppliers during the Track Record Period.

None of our Directors or any of their respective associates or, to the knowledge of our Director's, shareholders who own more than 5% of our Company's issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

Principal terms of contracts

We usually enter into contracts with our suppliers on a project basis. The contracts will usually set out the salient terms below:

- *The suppliers' fees:* Their fees are usually to be settled by instalments or by one lump sum subject to the terms of the contract. We usually settle their fees by bank transfer.

BUSINESS

- *Scope and delivery time of work:* The contract will set out the scope and delivery or completion time of work.
- *Compliance:* The contracts will set out the requirement that the suppliers shall provide their services/products and the materials and equipment they use are in compliance with the relevant laws and regulations.
- *Breach and termination:* In the event any party is in breach of the contract, the breaching party will be liable for the actual economic loss caused.

Basis for the selection of suppliers

We select the suppliers based on a number of factors such as prior experience, expertise, complexity and specific requirements of the task. We will also consider the quality of their service in our past engagement with them. We inspect their work according to our requirements and we closely monitor their progress of work.

QUALITY CONTROL

For the TV series produced by us, we have adopted internal examination and approval procedures and guidelines for our production process which aims to serve both compliance and quality control purposes. We monitor the quality of the TV series produced by us and services of our suppliers regularly and provide our feedback to them during the preparation and execution of the production and monitor the progress of their work. We also communicate with our customers regularly throughout the stages of planning, preparation and execution of the production.

In the course of production of each TV series, we place great emphasis on reviewing its content to ensure they are in compliance with applicable legal and regulatory requirements in the PRC and specific content or technical requirements of our customers. For data, images or footages which we obtain from third parties, they must also be reviewed before being used in production. Any content that promotes obscenity or violence, or undermines social morality or harms the interests of the state should be strictly prohibited.

We also keep regular contact and actively coordinate with responsible personnel of our target customers who in turn conducts examination of our work from compliance and technical perspectives. We may send them sample videos for preview and make appropriate adjustments to ensure our productions meet their requirements and specifications. The head of our production team will conduct a final review on the TV series before it could be delivered to our customer.

Our Directors confirm that there was no material dispute, lawsuit, or arbitration brought against us due to dissatisfaction of customers during the Track Record Period.

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RESEARCH AND DEVELOPMENT

Due to the nature of our business, we focus on investment in, production and distribution of TV series and we do not have a research and development department during the Track Record Period.

EMPLOYEES

As at 31 December 2016, 2017 and 2018 and the Latest Practicable Date, we had 14, 17, 25 and 21 employees, respectively who are all located in the PRC. The following table sets forth the number of our employees by functional role as at the Latest Practicable Date:

Functional role/department	Number of employees
Management	3
Planning	3
Production	2
Marketing and Distribution	7
Finance	4
Office	2
Total	<u>21</u>

Our recruitment policy is based on a number of factors including the level of knowledge and experience we require of our staff. We provide introductory training at the time when members of our staff first join us and thereafter regular on-the-job training, depending on his or her role. In addition, it is our policy to provide training to our staff on a needed basis to enhance their technical and industry knowledge. We believe such initiatives have contributed to the increased employee productivity.

As required by the PRC regulations, we participate in various employee benefit plans that are organised by local governments, including housing, pension and social insurance. We are required under PRC laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local governments from time to time.

We enter into a standard employment contract with all our employees which set out terms such as remuneration and confidentiality requirements.

During the Track Record Period, there was no material disputes with our employees in the course of our Group’s operations. We believe that we maintain a positive working relationship with our employees.

OCCUPATIONAL SAFETY AND HEALTH

Taking occupational health and safety as one of our prime responsibilities, we have established relevant safety policies and provide training to our staff prior to the production of the TV series or film.

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As executive producer, we are responsible for the overall planning, command, control and coordination of the production process, including management of the occupational safety and health of the production crew. In particular, we have devised a thorough procedural guideline document to supervise the TV series shooting procedures and provide production crew with a management measures handbook which sets out, among other things, the production safety management measures that are required to be observed by the production crew.

Our Directors have confirmed that, our Group did not experience any material safety problems and no material safety accidents occurred due to the fault of our Group during the Track Record Period.

ENVIRONMENTAL COMPLIANCE

Due to the nature of our business, we do not generate industrial pollutants. As at the Latest Practicable Date, we have not come across any non-compliance issues in respect of any applicable laws and regulations on environmental protection or complaints from our customers or the public in relation thereto.

Our Directors confirm that, our Group did not experience any material environmental protection problems during the Track Record Period.

INSURANCE

We have taken out personal injury and medical insurance for the production crew for the TV series or films that we act as executive producer. However, we did not maintain insurance coverage for business interruption or product liabilities. Depending on the circumstances and nature of the specific projects, we will determine on a case by case basis on the need to obtain different insurance coverage and we will review our insurance needs regularly. Based on our industry experience and the market practice, the Directors are of the view that the major aspects of our operation have been covered by insurance and the insurance coverage maintained by us is adequate for our current business operations.

Please refer to the paragraph headed “Risk Factors — Risk related to our business — We maintain limited insurance coverage which do not cover all business risks” for the relevant details.

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INTELLECTUAL PROPERTY

Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

<u>No.</u>	<u>Domain Name</u>	<u>Expiry Date</u>
1.	http://www.yuanshimedia.com	2 March 2023
2.	http://www.yuanshiwenhua168.com	26 May 2021

The abovementioned registrations prevent others from using the same domain names during the subsisting registration period.

Copyrights

In general, the proprietary rights attached to the content of the TV series or film we produced belong to us. In case of jointly-produced TV series or film, the proprietary rights of the same will either be proportioned according to our investment ratio or only belong to the executive producer of the relevant TV series or film projects.

As at the Latest Practicable Date, we have registered copyright for one TV series in the PRC. As advised by our PRC Legal Advisers, pursuant to the Trial Procedures for Voluntary Registration of Works (作品自願登記試行辦法) of the PRC, the main purpose of copyright registration is to protect the legitimate rights and interests of authors or other copyright owners and users of works, to help resolve copyright disputes caused by copyright ownership, and to provide prima facie evidence for resolving copyright disputes. The work is registered voluntarily. Whether the work is registered or not, the copyright obtained by the author or other copyright owner according to law is not affected. Accordingly, although we have not registered copyright for our other TV series, it does not affect our ownership of copyrights in such TV series.

For further details of our material intellectual property rights, please refer to the paragraph headed “Statutory and General Information — 2. Further information about our business — 2.2 Intellectual property rights of our Group” in Appendix IV to this document. For risks associated with our intellectual property rights, please refer to the paragraph headed “Risk Factors — Risks relating to our industry — We may face disputes relation to intellectual property rights” in this document.

PROPERTY

As at the Latest Practicable Date, our Group did not own any real properties.

As at the Latest Practicable Date, we rented six properties in Beijing, Haining, Kashgar and Khorghas from the Independent Third Parties with an aggregate gross floor area of approximately 682.2 sq.m., all of which are used as our offices.

BUSINESS

As at the Latest Practicable Date, we have not filed the lease agreements of all the six leased properties in PRC with local housing administration authorities as required by the Administrative Measures for Commodity Housing Leasing (商品房屋租賃管理辦法). As advised by our PRC Legal Advisers, non-registration of such lease agreements in respect of these properties will not affect their validity but the lessors and we as lessee could be liable to a fine ranging from RMB1,000 to RMB10,000 in respect of each lease agreement that is not registered in case we should fail to effect registration of the lease agreements upon request by the relevant municipal land and real estate administration bureau. As at the Latest Practicable Date, we had not received any such request by the relevant municipal land and real estate administration bureau. Our Directors are of the view that none of these leased properties the lease agreements of which have not yet been registered are material to our operations in the PRC as they are only used as our offices and we do not have any difficulty in relocating to alternative premises if needed.

AWARDS, ACCREDITATION AND MEMBERSHIP IN INDUSTRY ORGANISATIONS

Awards and accreditation

During the Track Record Period and up to the Latest Practicable Date, we have received the following awards which are recognition of our excellence achievements in the TV series industry:

<u>Year</u>	<u>Award/Accreditation</u>	<u>Awarding Organisation</u>	<u>Awarded TV series/Party</u>
2016	“Contribution Award” of the 2015 Beijing Television Annual Viewership Ratings Billboard* (2015影視京榜年度收視「貢獻獎」)	Beijing Television* (北京電視台)	The Eagle Corps* (野山鷹)
2016	“Excellent TV series Production Company Award” of the 2016 Southern Festival-Annual TV series Conference* (2016南方盛典 — 電視劇年會「優秀電視劇出品公司獎」)	Guangdong Radio and Television (廣東廣播電視台)	The Eagle Corps* (野山鷹)
2016	The Ace Award of the Landmark Alliance 2015 National Drama Viewership Ratings Contribution Billboard* (地標聯盟2015國劇收視貢獻榜收視王牌獎)	Shandong Network Radio-Television Station — Qilu Channel (山東廣播電視台齊魯頻道)	The Eagle Corps* (野山鷹)
2017	“Viewership Ratings Contribution Award” of the 2016 Annual Fashion Theater* (2016年度風尚劇場「收視貢獻獎」)	Hunan Broadcasting System — Entertainment Channel (湖南廣播電視台娛樂頻道)	The Furtherest Distance* (遙遠的距離)

BUSINESS

<u>Year</u>	<u>Award/Accreditation</u>	<u>Awarding Organisation</u>	<u>Awarded TV series/Party</u>
2017	“First Tier Prize” of the 2016 First Comprehensive Assessment Winning Unit* (2016年度綜合考核優勝單位「一等獎」)	Haiying International Cooperation Experimental Zone Management Committee* (海影國際合作實驗區管委會)	Values Culture
2017	“Best Viewership Rating” of the First Drama Purchasing Alliance in Jiangsu Province* (第一購劇聯盟江蘇地區「最佳收視獎」)	The First Drama Purchasing Alliance* (第一購劇聯盟)	Jade* (女管家)
2018	“Special Award” of 2017 Annual Comprehensive Assessment of Outstanding Enterprises* (2017年度綜合考核優秀企業「特等獎」)	China (Zhejiang) International Film & Television Industries International Cooperation Experimental Zone Haining Base Management Committee* (中國(浙江)影視產業國際合作試驗區海寧基地管理委員會)	Values Culture
2018	The Second Batch of Zhejiang Province’s Growing Cultural Enterprises* (第二批浙江省成長型文化企業)	Zhejiang Cultural Reform and Development Working Group Office* (浙江省文化改革發展工作領導小組辦公室) of Zhejiang Association of Cultural Industry Development* (浙江省文化產業促進會)	Values Culture
2018	Viewer Ratings Champion of the National Television Broadcasting Alliance (全國電視劇播出聯盟年度收視冠軍)	China Alliance of Radio, Film and Television — Transaction Committee National Drama Alliance* (中國廣播電影電視社會組織聯合會節目交易工作委員會全國電視劇播出聯盟)	The Eagle Corps* (野山鷹)

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<u>Year</u>	<u>Award/Accreditation</u>	<u>Awarding Organisation</u>	<u>Awarded TV series/Party</u>
2018	“Excellent Television Drama Production Company Award” of 2017 Television Drama Awards* (2017年度電視劇大賞「優秀電視劇製作公司」)	Hunan Economic Television Station (湖南經視)	Values Culture
2018	2017 Sichuan Economic Channel — Sichuan Province Network “Viewership Ratings Contribution Award”* (2017年度四川經濟頻道四川省網「收視貢獻獎」)	Sichuan Radio and Television — Economic Channel of the TV series Centre* (四川廣播電視台影視劇中心經濟頻道)	Jade* (女管家)
2019	“The Most Growing Company” in 2018* (2018年度「最具成長型企業」)	China (Zhejiang) International Film & Television Industries International Cooperation Experimental Zone Haining Base Service Centre* (中國(浙江)影視產業國際合作試驗區海寧基地服務中心)	Values Culture
2019	National Drama Ceremony 2018 “Viewership Ratings Contribution Awards” (2018年度國劇頒獎禮收視貢獻獎)	Jiangsu City Joint Television Media Co., Ltd. and Jiangsu City Joint Television Culture Co., Ltd. (江蘇城市聯合電視傳媒有限責任公司及江蘇城市聯合影視文化股份有限公司)	Scrambling for Gold* (奪金戰)

Membership in industry organisations

We actively participate in the activities in our industry. We are the member of the Capital Radio & TV Program Producers Association (首都廣播電視節目製作業協會), an professional association consisting of the most influential television and film production companies with operations in the capital city.

Further, our executive Director, Li Fang (李芳) and chief publicity and marketing officer, Yan Bei (閔蓓) are the members of the Nanjing Film and Television Artists Association* (南京市電影電視藝術家協會).

The aforesaid memberships of our Group and our individual members symbolise the recognition and reputation of our Group among members in our industries and other key players such as artists and agencies.

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MARKET AND COMPETITION

According to the F&S Report, the drama series market consists of TV series market and web series market. Drama series production firms mainly engaged in the investment, production and distribution of dramas. The upstream participants are mainly relatively small video studios or individual practitioners, providing drama production materials such as scripts, cast personnel, shooting equipment, props, etc.. Drama series production firms are responsible for providing capital and organising the drama production activities by engaging upstream participants.

According to the F&S Report, the total revenue of China’s drama series market increased significantly from RMB21.5 billion in 2014 to RMB66.8 billion in 2018, representing a CAGR of 32.7% during the period mainly due to the rapid economic growth, the increase in household income and the improvement of drama series. However, the drama series market in China experienced a sharp contraction in 2018 due to intensive policy and regulatory adjustment. Going forward, total revenue of drama series market is expected to increase to RMB85.4 billion in 2023, representing a CAGR of 5.0% from 2018.

The drama series market is highly fragmented in China. In 2018, the top five drama series groups accounted for a total market share of 14.4% in terms of revenue generated from investment, production, and distribution of TV series and web series and we account for approximately 0.2% of the market share. According to the F&S Report, the entry barriers of the drama series market in China are relatively high in view of strict supervision by relevant administrations, large capital requirement, demand for experienced professional and reputable brand name. For further details, please refer to the section headed “Industry Overview” in this document.

We compete mainly based on our expertise and experience, reputation, customer relationship, market knowledge and our track record with our suppliers to enhance our quality control of our TV series. We believe that we possess the competitive strengths as discussed in the paragraph headed “Competitive Strengths” in this section above, and we will strive to capture growth opportunities in the market by implementing the strategies set out under the paragraph headed “Business Strategies” in this section above.

SEASONALITY

Our Directors believe that the industry in which we operate does not exhibit any significant seasonality. As such, our business is not tied to any seasonal factors.

REGULATORY COMPLIANCE

Licences and permits

Companies that conduct the television program production business in the PRC shall possess the Licence to Produce and Distribute Radio or Television Programmes in accordance with the relevant regulations, and are subject to laws and regulations as set forth in the section headed “Regulatory Overview” of this document.

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Set out below are the key PRC approvals, permits, licences and certificates required for our operations:

<u>Holder</u>	<u>Document</u>	<u>Date of issue</u>	<u>Date of expiration</u>	<u>Description</u>
Values Culture . .	Licence to Produce and Distribute Radio or Television Programmes	1 April 2019	31 March 2021	Permit for production and distribution of radio and television programmes
Khorgas Values . . .	Licence to Produce and Distribute Radio or Television Programmes	1 April 2019	31 March 2021	Permit for production and distribution of radio and television programmes
Beijing Values . . .	Licence to Produce and Distribute Radio or Television Programmes	29 October 2018	29 October 2020	Permit for production and distribution of radio and television programmes
Xinjiang Values . . .	Licence to Produce and Distribute Radio or Television Programmes	24 April 2019	23 April 2021	Permit for production and distribution of radio and television programmes

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, save and except for the non-compliance incident mentioned in the paragraph below, we had obtained all requisite certificate, permits and licences from the relevant regulatory authorities in the PRC in relation to our establishment and business operation.

Non-compliance incidents

Our PRC Legal Advisers have advised us that, save as disclosed below, we had complied with applicable PRC laws and regulations in all material respects during the Track Record Period and the subsequent period up to the Latest Practicable Date.

Particulars of the non-compliance

During the Track Record Period, one of our Group’s Consolidated Affiliated Entities, Xinjiang Values, was engaged in the acquisition of the copyright and licensing of the broadcasting rights of a TV series, namely Super Father-In-Law & Son-In-Law* (超級翁婿) without the Licence to Produce and Distribute Radio or Television Programmes. Xinjiang Values was incorporated in 22 June 2018 and is engaged in the business of distribution and licensing of TV series. On 6 July 2018, Xinjiang Values acquired the copyrights of Super Father-In-Law & Son-In-Law* (超級翁婿) from the copyright owner with the intention of licensing the broadcasting rights of the said TV series to potential customers. Subsequently on 31 July 2018, Xinjiang Values licensed the broadcasting rights of the said TV series to our customer.

According to the Regulations on Radio and Television Administration (Revised in 2017) (廣播電視管理條例 (2017年修訂)) and the Administrative Provisions on the Production and Distribution of Radio and Television Programmes (廣播電視節目製作經

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營管理規定), entities engaged in the production and distribution of TV series must obtain the Licence to Produce and Distribute Radio or Television Programmes. However, at the material time, Xinjiang Values did not have the Licence to Produce and Distribute Radio or Television Programmes when it acquired the copyright of Super Father-In-Law & Son-In-Law* (超級翁婿) and licensed the broadcasting rights of the said TV series to our customer.

Reasons of the non-compliance

After the incorporation of Xinjiang Values, our Group submitted an application for the Licence to Produce and Distribute Radio or Television Programmes on 2 July 2018 to the Xinjiang Radio and Television Administration* (新疆維吾爾自治區廣電局) (“**Xinjiang Television Administration**”), the regulatory authority responsible for the processing of the licence application at the relevant time. However, according to the interview conducted by the PRC Legal Advisers with the Xinjiang Production and Construction Corps Third Division of Cultural, Radio and Television Administration* (新疆生產建設兵團第三師文化廣播電視局) (“**Xinjiang Third Division Television Administration**”) on 20 May 2019, the authority for approving the Licence to Produce and Distribute Radio or Television Programmes, among other legal rights, was being transferred to it from the Xinjiang Television Administration during the period between June 2018 and March 2019 (the “**Transition Period**”) and accordingly, Xinjiang Values’ licence application was not processed during the Transition Period.

Notwithstanding the above, Xinjiang Values acquired the copyright and licensed the broadcasting rights of Super Father-In-Law & Son-In-Law* (超級翁婿) to our customers for the following reasons (i) an application for the Licence to Produce and Distribute Radio or Television Programmes had been submitted by Xinjiang Values at the material time; (ii) all of our Group’s other Consolidated Affiliated Entities have obtained the Licence to Produce and Distribute Radio or Television Programmes, as such, the responsible staff for handling our Group’s licence and permits believed Xinjiang Values will have no difficulty in obtaining the Licence to Produce and Distribute Radio or Television Programmes; and (iii) during the Transition Period, the Group encountered a valuable business opportunity to license the broadcasting rights of Super Father-In-Law & Son-In-Law* (超級翁婿) to our customer. Accordingly, the responsible staff did not pay much attention to such licensing issue when Xinjiang Values acquired the copyright and licensed the broadcasting rights of Super Father-In-Law & Son-In-Law* (超級翁婿) to our customer.

Legal consequence and maximum potential penalty

As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, if an entity engages in the production and distribution of radio and television programmes without the Licence to Produce and Distribute Radio or Television Programmes, the provincial government may halt the said illegal activity, seize all equipment used, confiscate the medium on which the TV series is recorded on and issue a maximum fine of RMB50,000. Notwithstanding the aforementioned potential penalties, according to the interview conducted by the PRC Legal Advisers with the Xinjiang Third Division Television Administration as mentioned above, Xinjiang Third Division Television Administration confirmed that company such as Xinjiang Values which engaged in the production and distribution of television programmes without the Licence to Produce and Distribute Radio

BUSINESS

or Television Programmes during the Transition Period will not be liable for the breach or be subject to the regulatory authority’s administrative penalty given that (i) company such as Xinjiang Values qualifies for the licensing requirements; and (ii) such company has applied for the licence during the Transition Period. Based on the aforementioned confirmation from the regulatory authority, the PRC Legal Advisers are of the view that the likelihood of penalty being imposed against Xinjiang Values is low.

Remedies and rectification measures

Xinjiang Values have since obtained the Licence to Produce and Distribute Radio or Television Programmes issued by the relevant regulatory authority on 24 April 2019 upon completion of the Transition Period in March 2019.

Xinjiang Values have further obtained written confirmation from Xinjiang Third Division Television Administration that since the incorporation of Xinjiang Values, it has not discovered any breaches against the relevant laws and regulations by Xinjiang Values which warrants any investigation or prosecution from the regulatory authority or any records of administrative penalty.

As at the Latest Practicable Date, Xinjiang Values have not received any notification from the relevant regulatory authorities alleging that it has breached the Regulations on Radio and Television Administration (Revised in 2017) and the Administrative Provisions on the Production and Distribution of Radio and Television Programmes.

In respect of the non-compliance incident, our Directors believe, and the Sole Sponsor concurs, that the non-compliance incident will not have any material and adverse impact on the operations or financial conditions of our Group based on the following reasons: (i) the maximum penalty imposed for the breach is minimal as mentioned above; (ii) the chance of penalty being imposed against Xinjiang Values is low; and (iii) Xinjiang Values have obtained written confirmation from the relevant regulatory authority that no breaches were discovered since its incorporation.

Measures to prevent future occurrence

In response to the non-compliance incident, our Group has established and implemented procedures to ensure that all of our Consolidated Affiliated Entities have obtained and maintained all the licences and/or approvals required for our business in accordance with the applicable laws and regulations. Our marketing and distribution department is responsible for maintaining records of the validity period of our existing licences and/or approvals and to arrange for renewal where necessary. Our management will continue to monitor the latest news, regulations and/or policies in relation to our business operation and to apply for further licences and/or approvals where necessary. Our Group will further seek professional advice from the relevant legal advisers when necessary or appropriate to ensure due compliance with applicable PRC laws and regulations.

BUSINESS

LEGAL PROCEEDINGS

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Track Record Period, neither we nor any of our Directors were involved in any litigation, arbitration or administrative proceedings which could have a material adverse impact on our business, financial condition or results of operations. As at the Latest Practicable Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or our Directors which may have a material and adverse impact on our business, financial condition or results of operations.

RISK MANAGEMENT AND INTERNAL CONTROL

We recognise the importance of good corporate governance and strive to improve it through a variety of means. It is the responsibility of our Board to ensure that we maintain sound and effective internal controls to safeguard our business and assets at all times.

Investment Risk Management

We make investment in TV series and films as non-executive producer. For this kind of investment, each investment decision is made after considering various factors such as return expectations and risks involved and will be approved by our investment committee. Our investment decision committee consists of five members of our management and each member has a veto right in respect of the investment decision to be made.

Our finance department is mainly responsible for monitoring our investment performance on a regular basis. Any material factors will be timely reported to our chairman of the Board and the chief executive officer for further discussion.

We have established a set of investment policies and internal control measures which require us to continually monitor the return performance of our investments as well as the market risks, in order to achieve reasonable returns on our investments while mitigating our exposure to investment risks.

These policies and measures require, among other things, that:

- we shall only invest in TV series and films that are produced by reputable executive producers and/or those with established relationships with us;
- we shall evaluate the marketability of the relevant TV series and films; and
- investment projects shall be reviewed and assessed on a continual basis after initiation. The responsible staff shall promptly report to chairman of the Board and the chief executive officer when any material operational, financial or other investment risk is discovered.

BUSINESS

We believe that our internal policies regarding investments in TV series and films and related investment risk management mechanism are adequate to identify and mitigate our investment risk exposure. We may also from time to time review and update our investment policies as required by our development, the economy and industry environment.

Additional Measures

In addition, our Group has taken the following measures to ensure on-going compliance with various applicable laws and regulations and strengthen our internal controls:

- (a) A detailed memorandum prepared by the Hong Kong legal advisers of the Company, setting out the ongoing regulatory requirements of our Directors after the [REDACTED] had been distributed to and reviewed by our Directors in June 2019;
- (b) Our Directors and members of the senior management of our Group attended training sessions conducted by the Hong Kong legal advisers in June 2019 regarding the on-going obligations and duties of directors of a publicly listed company;
- (c) Our Company has appointed Mr. Au Yeung Ming Yin Gordon as our company secretary, who is responsible for the day-to-day compliance matters of our Group. He is also responsible for monitoring the timing for convening annual general meetings of our Company;
- (d) An audit committee has been established to oversee the financial reporting, risk management and internal control systems of our Company for compliance with the requirements of the Listing Rules; and
- (e) Our Company has appointed Zhongtai International Capital as our compliance adviser to advise on compliance matters in accordance with the Listing Rules upon the [REDACTED].

In preparation of the [REDACTED], we engaged an independent external consulting firm (the “**Internal Control Consultant**”) to review our internal control systems and procedures (the “**Internal Control Review**”) in April 2019. The Internal Control Consultant provided recommendations for our management’s consideration to enhance our internal control measures and procedures. We have taken actions to adopt the recommended measures and procedures to enhance our internal control system. The Internal Control Consultant performed a follow-up review in June 2019 to review the status of the management actions taken by our Group to address the recommendations of the Internal Control Review (the “**Follow-up Review**”). The Internal Control Consultant raised no further findings in the Follow-up Review.

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BUSINESS

The Internal Control Review and the Follow-up Review were conducted based on the information provided by our Company and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

Our Directors are of the view that the internal control measures adopted by our Group are adequate and effective in managing our business risks.

RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

OUR SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme, our Company will be owned as to (i) approximately [REDACTED]% by BLW Investment, which is in turned owned as to approximately 43.44%, 23.17%, 15.44%, 8.30% and 9.65% by each of Mr. Bai, Ms. Liu, Mr. Wu, Ms. Wei and Mr. Liu respectively; and (ii) approximately [REDACTED]% by Suiyong Int’l, which is wholly owned by Suiyong Holdings. On 18 April 2016, the Core Shareholders entered into the acting in concert agreement, pursuant to which each of the Core Shareholders confirmed, among others, the existence of their acting in concert arrangements regarding their control over Values Culture since its establishment and further undertook that they would maintain the acting-in-concert relationship for five years from the date of this agreement. As each of BLW Investment, the Core Shareholders, Suiyong Int’l and Suiyong Holdings is directly or indirectly entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of our Company immediately upon completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme), each of them will be regarded as our substantial shareholders under the Listing Rules. For details regarding the shareholding interest of our substantial shareholders, please refer to the section headed “Substantial Shareholder” of this document.

Save as disclosed above, there is no other person who, immediately upon completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme), will be directly or indirectly interested in 10% or more of the Shares then in issue.

INDEPENDENCE FROM OUR SUBSTANTIAL SHAREHOLDERS

Our Directors consider that our Company is capable of carrying on our business and is operationally and financially independent from our Shareholders including our substantial shareholders and their close associates after [REDACTED] for the following reasons:

Management independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. The executive Directors are primarily responsible for overall management of our Group. The senior management officers, including, our chief executive officer, Mr. Wu and our chief financial officer, Ms. Wang Haiting are responsible for the day-to-day management of our Group’s businesses and operations.

RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

Although three of our executive Directors, Mr. Liu, Ms. Liu and Ms. Wei are substantial shareholders due to their respective interest in BLW Investment as disclosed above, we consider that our Board and senior management will function independently from our substantial shareholders because:

- (a) each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum;
- (c) three out of our nine Directors are independent non-executive Directors who have extensive experience in different professions. They have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of our independent non-executive Directors from different backgrounds provides a balance of views and opinions; and
- (d) as a listed entity on the NEEQ before delisting, Values Culture, the operational company of our Group, has the experience in adopting corporate governance measures to assist their board of directors in the exercise of its responsibilities, such as holding board meetings regularly, publishing financial results within the required timeframe and disclosing the information on a non-selective basis.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our substantial shareholders following the completion of the [REDACTED].

Operational independence

We have also established a set of internal control procedures to facilitate the effective operation of our business.

We believe that we are capable of carrying on our business independently of our substantial shareholders and their respective close associates. We have obtained all necessary licences for our business operation and we have sufficient operational capacity in terms of capital and employees to operate independently from our substantial shareholders. Our Directors confirmed that our Group will be able to operate independently from our substantial shareholders and their close associates upon the [REDACTED].

RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

Financial independence

Our Directors consider that our Group will be financially independent from our substantial shareholders and any of their respective close associates upon [REDACTED]. All loans due to our Shareholders had been fully settled in [•], and all guarantee and personal securities provided by certain Shareholders for our Group’s borrowings will be fully released or replaced by corporate guarantee upon the [REDACTED]. Our Group has a properly audited independent financial system and an independent financial reporting system. The financial decisions are made according to our Group’s own business needs.

In view of our Group’s internal resources and the estimated [REDACTED] from the [REDACTED], our Directors consider that our Group will have sufficient capital for its financial needs. Our Directors further consider that, upon the [REDACTED], our Group is capable of obtaining financing from external sources independently without the support of our substantial shareholders or their respective associates.

COMPETING BUSINESS

None of our substantial shareholders and our Directors and their respective close associates has any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

In order to properly manage any potential or actual conflict of interests between us and our substantial shareholders, we have adopted the following corporate governance measures:

- (a) we have established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if we enter into connected transactions with our substantial shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (b) our Company has appointed independent non-executive Directors to ensure the effective exercise of independent judgments on the decision-making process of our Board and provide independent advice to our Shareholders;
- (c) our independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our substantial shareholders (“**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Company shall disclose decisions with basis on matters reviewed by the independent non-executive Directors either through annual report, or by way of announcement and/or other documents issued or published by our Company as required under the Listing Rules;

RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

- (e) our substantial shareholders have undertaken to provide all information necessary to our Company for the Annual Review;
- (f) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in which such Directors and/or their respective close associates have material interest, he/she/they may not vote on the resolutions of our Board considering and approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles;
- (g) our Company has appointed Zhongtai International Capital Limited as the compliance adviser, which will provide advice and guidance to our Company in respect of compliance with applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal control; and
- (h) where the advice from independent professional, such as that from financial adviser, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such independent professional will be made at our Company’s expenses.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Substantial Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

CONTINUING CONNECTED TRANSACTIONS

We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED].

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below details of the non-exempted continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

Background

Our Group is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. We also make Fixed Return Investment in TV series and engage in the business of investment in and production of films. We conduct our business and investment through our Consolidated Affiliated Entities, which hold the requisite permit and approval required for our business, including the Licence to Produce and Distribute Radio or Television Programmes. 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) of TV series or any enterprise conducting the film production business. As a result, we are not able to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations.

As a result of the foregoing, on 26 June, 2019, we entered into a series of Contractual Arrangements with Values Culture and the Relevant Shareholders through WFOE to conduct the business of production and distribution of and investment in TV series and films in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of, the Consolidated Affiliated Entities. The agreements underlying such Contractual Arrangements include: (i) exclusive business co-operation agreement; (ii) exclusive option agreement; (iii) equity pledge agreement and (iv) shareholders’ rights proxy agreement, the details of such agreements are set out in the section headed “Contractual Arrangements” in this document.

CONTINUING CONNECTED TRANSACTIONS

Listing Rules implications

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their relationship with our Group:

<u>Connected persons</u>	<u>Connected relationship</u>
Mr. Liu	an executive Director and a substantial shareholder of our Company
Ms. Liu	an executive Director and a substantial shareholder of our Company
Ms. Wei	an executive Director and a substantial shareholder of our Company
Mr. Wu	a director of Values Culture in the last 12 months and a substantial shareholder of our Company
Mr. Bai	a substantial shareholder of our Company
Mr. Xu	a substantial shareholder of Values Culture
Ms. Zhang Hui	an associate of Mr. Xu
Mr. Li Zhongyin	an associate of Ms. Li Fang, our executive Director
Ms. Zhu Hui	a director of YS Cultural Investment in the last 12 months
Hangzhou Baihuiquan	a substantial shareholder of Values Culture
Suiyong Holdings	a substantial shareholder of Values Culture

Values Culture

On 18 April 2016, the Core Shareholders entered into the acting in concert agreement, pursuant to which each of the Core Shareholders confirms, among others, the existence of their acting in concert arrangements regarding their control over Values Culture since its establishment and have further undertaken that they will maintain the acting-in-concert relationship for five years from the date of this agreement.

Since the Core Shareholders collectively held 34.53% of the equity interest in Values Culture and each of the Core Shareholders is a connected person of the Company as mentioned above, Values Culture is regarded as the associate of each of the Core Shareholders and is therefore a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Our Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to our Group’s legal structure and business operations and the nature of transactions contemplated under the Contractual Arrangements require a duration longer than three years. The Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group and are in line with normal business practice, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by Values Culture and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected 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.

APPLICATION FOR WAIVER

Contractual Arrangements

Pursuant to Rule 14A.105 of the Listing Rules, our Company has applied to the Stock Exchange for, [and the Stock Exchange has agreed to grant,] a waiver from strict compliance with (i) announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions:

- (1) *No change without independent non-executive Directors’ approval.* No changes to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of our independent non-executive Directors.
- (2) *No change without independent Shareholders’ approval.* Save as described in paragraph (4) below, no changes to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once our independent Shareholders’ approval of any change has been obtained, no further announcement or approval of our independent Shareholders will be required under Chapter 14A of the Listing Rules unless

CONTINUING CONNECTED TRANSACTIONS

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 (5) below) will however continue to be applicable.

- (3) *Economic benefits flexibility.* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the 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 entire equity interests in Values Culture for the minimum amount of consideration permitted by applicable PRC laws and regulations; (ii) the business structure under which the profit generated by the 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 WFOE under the Exclusive Business Co-operation Agreement; (iii) our Group’s right to control the management and operation of, as well as in substance, all of the voting rights of Values Culture.
- (4) *Renewal and reproduction.* The Contractual Arrangements 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 engaging in the same business which our Group might wish to establish, 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 these entities will, upon renewal and/or adoption of the Contractual Arrangements, be treated as the 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 relevant PRC laws, regulations and approvals.
- (5) *Ongoing reporting and approvals.* We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
 - (a) 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.
 - (b) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in the annual reports and accounts of our Company 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 Values Culture 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 Values Culture during the relevant financial period

CONTINUING CONNECTED TRANSACTIONS

under paragraph (4) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Group and its Shareholders as a whole.

- (c) Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to the Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of the Directors and have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Values Culture to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- (d) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- (e) The Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor with full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.

In addition, we have applied to the Stock Exchange 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 the 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 Agreement to three years or less under Rule 14A.52 of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

SOLE SPONSOR’S VIEW

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, have participated in the due diligence and discussion with the management and the PRC Legal Advisers and have obtained necessary representation and confirmations from our Company and the Directors.

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CONTINUING CONNECTED TRANSACTIONS

The Sole Sponsor is of the view that the Contractual Arrangement and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operations, have been entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and its Shareholders as a whole. With respect to the term of the relevant Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operation policies of the Consolidated Affiliated Entities can be effectively controlled by WFOE, (ii) WFOE can obtain the economic benefits derived from the operation of the Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of the Consolidated Affiliated Entities can be prevented on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of nine members, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our businesses. The day-to-day operations of our Group are supervised and carried out by our executive Directors with the assistance of our senior management. The table below sets out certain information in respect of our Directors.

Name	Age	Position	Date of joining our Group (Note 1)	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors or senior management members (other than that through or relating to our Group)
Liu Naiyue (劉乃岳)	54	Chairman and Executive Director	14 November 2013	19 June 2019	Overseeing the overall management, strategic and business planning of our Group and making decisions in material business operations	Spouse of Wei Xian, father of Liu Peiyao
Liu Peiyao (劉佩瑤)	26	Executive Director	20 June 2015	11 March 2019	Overseeing the financial affairs and assisting in the overall management and operations of our Group	Daughter of Liu Naiyue and Wei Xian
Wei Xian (魏賢)	53	Executive Director	14 November 2013	11 March 2019	Overseeing and managing the human resource and administrative matters of our Group	Spouse of Liu Naiyue, mother of Liu Peiyao
Li Fang (李芳)	37	Executive Director	28 February 2014	19 June 2019	Responsible for our Group’s production project planning and management	N/A
Shao Hui (邵輝)	40	Non-executive Director	25 October 2017	11 March 2019	Supervising the overall management and strategic planning of our Group	N/A
Shen Yi (沈毅)	40	Non-executive Director	25 October 2017	19 June 2019	Supervising the overall management and strategic planning	N/A
Xian Guoming (洗國明)	64	Independent Non-executive Director	[•]	[•]	The chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee (Note 2)	N/A
Zhong Mingshan (鐘明山)	67	Independent Non-executive Director	[•]	[•]	The chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee (Note 2)	N/A
Xu Zongzheng (徐宗政)	43	Independent Non-executive Director	[•]	[•]	The chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee (Note 2)	N/A

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DIRECTORS AND SENIOR MANAGEMENT

Notes:

1. The date of joining our Group in this table above includes the dates of joining members of our Group prior to the reorganisation of such members into our Group.
2. Independent non-executive Directors’ functions are to participate in meetings of our Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required; taking the lead where potential conflicts of interest arise and serving on the audit committee, remuneration committee and the nomination committee (as the case may be).

SENIOR MANAGEMENT

The table below shows certain information in respect of our senior management:

Name	Age	Position	Date of joining our Group <i>(Note)</i>	Date of appointment as senior management	Main roles and responsibilities	Relationship with other Directors or senior management members (other than that through or relating to our Group)
Wu Tao (吳濤)	47	Chief executive officer	14 November 2013	14 November 2013	Overseeing the daily management and operations of the production projects, and assisting in the business planning of our Group	N/A
Wang Haiting (王海婷)	30	Chief financial officer	21 August 2014	31 October 2017	Monitoring daily financial operation management of our Group, including internal control and company secretarial affairs of our Group	N/A
Yan Bei (閻蓓)	34	Chief publicity and marketing officer	28 February 2014	28 February 2014	Overseeing the sales and managing the publicity and marketing activities of our Group	N/A

Note: The date of joining our Group in this table above includes the dates of joining members of our Group prior to the reorganisation of such members into our Group.

DIRECTORS AND SENIOR MANAGEMENT

The biographies of our Directors are set out as follows:

Executive Directors

Mr. Liu Naiyue (劉乃岳), aged 54, was appointed as a Director in June 2019 and was appointed as the chairman of the Board and redesignated as an executive Director in the same month. He is responsible for overseeing the overall management, strategic and business planning of our Group and making decisions in material business operations. He is the father of Ms. Liu Peiyao and the spouse of Ms. Wei Xian.

From July 1985 to September 1988, Mr. Liu served as a tutor of the department of business administration at Qingdao University of Technology* (青島理工大學). His roles and responsibilities were teaching. From July 1991 to July 1994, he served as a staff member at the Qingdao branch of China Construction Bank* (中國建設銀行). His roles and responsibilities were general and promotional matters. From October 1994 to September 1997, he acted as a manager of the Qingdao branch Shandong Securities Co., Ltd.* (山東證券有限責任公司), the principal business of which was trading of securities. His roles and responsibilities were managing daily operations. From September 2000 to September 2004, he acted as a general manager at the Dongbei headquarter of Tiantong Securities Co., Ltd.* (天同證券有限公司), the principal business of which was trading of securities. His roles and responsibilities were managing the company’s operations in the northeastern region of the PRC, Mr. Liu was subsequently transferred to Capital-Bridge Securities Joint Stock Company Limited* (健橋證券股份有限公司) in September 2004. From September 2004 to June 2007, he acted as a vice president at Capital-Bridge Securities Joint Stock Company Limited* (健橋證券股份有限公司), the principal business of which was trading of securities. His roles and responsibilities were in charge of financial asset management and legal department. From November 2007 to August 2011, he acted as an investment consultant at Qingdao Fuhe, the principal business of which was investments business. His roles and responsibilities were evaluate and analyse investment projects. From September 2011 to September 2013, he acted as a vice president at Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司), the principal business of which was production and distribution of film and television series. His roles and responsibilities were providing assistance to the managing director.

Mr. Liu joined our Group and has been a director of Values Culture since November 2013 and has been responsible for overseeing the overall management, operations and business development.

Mr. Liu obtained a bachelor’s degree in management engineering from Northeastern University* (東北工學院) in Liaoning, PRC in July 1985. He also obtained a master’s degree in corporate management and a doctoral degree in global economics from Nankai University* (南開大學) in June 1991 and June 2002 respectively.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Liu Peiyao (劉佩瑤), aged 26, was appointed as a Director in March 2019 and was redesignated as an executive Director in June 2019. She is responsible for overseeing the financial affairs and assisting in the overall management and operations of our Group. Ms. Liu is the daughter of Mr. Liu Naiyue and Ms. Wei Xian.

She joined our Group as a director of Values Culture since June 2015, responsible for overseeing the financial affairs and assisting in the overall management. In addition, Ms. Liu currently holds the following directorships in the subsidiaries and operating entities of our Company:

<u>Name of entity</u>	<u>Position</u>	<u>Date of appointment</u>
YS Cultural Investment	Director	March 2019
Fanta Culture	Director	April 2019

Ms. Liu obtained a bachelor’s degree in finance from Michigan State University in the United States of America in December 2014.

Ms. Wei Xian (魏賢), aged 53, was appointed as a Director in March 2019 and was redesignated as an executive Director in June 2019. She is responsible for overseeing and managing the human resource and administrative matters of our Group. Ms. Wei is the mother of Ms. Liu Peiyao and the spouse of Mr. Liu Naiyue.

From July 1988 to May 1995, Ms. Wei served as technician at Qingdao Passenger Transport Company* (青島客運公司), the principal business of which was public transport services. Her roles and responsibilities were carry out construction work. From June 1995 to December 2011, she served as a staff member at Qingdao North Branch, China Construction Bank* (青島建設銀行市北支行), the principal business of which was banking services. Her roles and responsibilities were controlling budgets. From October 2007 to present, she acts as a director at Qingdao Fuhe, the principal business of which is investment management. Her roles and responsibilities are managing daily operations.

Ms. Wei joined our Group and has been a director of Values Culture since November 2013, responsible for overseeing the human resources and administrative matters. In addition, Ms. Wei has been a director of YS Cultural Investment since March 2019.

Ms. Wei obtained a bachelor’s degree in architectural engineering from Qingdao Institute of Architecture and Engineering* 青島建築工程學院 in Qingdao, PRC in July 1988. She has been registered as an engineer with Qingdao Municipal Bureau of Human Resource and Social Security* (青島市人事局) since October 1994.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Li Fang (李芳), aged 37, was appointed as a Director in June 2019 and was redesignated as an Executive Director in the same month. She is responsible for our Group’s production project planning and management.

From April 2007 to April 2014, Ms. Li acted as deputy general manager of the project planning centre at Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司), the principal business of which was production and distribution of film and television series. Her roles and responsibilities were project planning for the department.

Ms. Li joined our Group and has been a deputy general manager of Values Culture since February 2014 and has later been appointed as a director in June 2019, responsible for the production projects planning and management. In addition, Ms. Li has been a director of WFOE since May 2019.

Ms. Li obtained a bachelor’s degree in Chinese language and literature from Nanjing Normal University* (南京師範大學) in Nanjing, PRC in July 2004, and a master’s degree in film production from the same school in June 2007. Ms. Li is currently studying a doctoral degree in film and television studies from Nanjing Normal University* (南京師範大學).

Ms. Li was a director, supervisor and/or manager of the following companies, which were established in the PRC and had been dissolved as at the Latest Practicable Date:

<u>Name of Company</u>	<u>Position</u>	<u>Status</u>	<u>Date of dissolution</u>
Yongkang Wenxin Diaolong Film and Television Culture Studio* (永康市文心雕龍影視文化工作室)	Legal Representative	Dissolved	15 October 2018

Ms. Li confirmed that (i) the above companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on her part leading to the dissolutions of the above companies and was not aware of any actual or potential claim that had been or would be made against her as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Shao Hui (邵輝), aged 40, was appointed as a Director in March 2019 and was redesignated as a non-executive Director in June 2019. He is responsible for supervising the overall management and strategic planning of our Group.

From August 1999 to September 2004, Mr. Shao acted as deputy department head at Hangzhou Jihua Chemical Co., Ltd. (杭州吉華化工有限公司), the principal business of which was research and development, production and sales of color dye. His roles and responsibilities were managing the Company’s procurement, production and sales. From November 2004 to December 2011, he acted as a general manager at Hangzhou Jihua Trading Co., Ltd.* (杭州吉華貿易有限公司), the principal business of which was import and export of chemical products. His roles and responsibilities were managing procurement and sales of products. From December 2005 to present, he acted as a director and deputy general manager at Zhejiang Jihua Group Co., Ltd.* (浙江吉華集團股份有限公司) (603980.SS), the shares of which are listed on the Shanghai Stock Exchange and the principal business of which is production and sales of colour dye. His roles and responsibilities are managing house sales and decision making on major corporate affairs.

Mr. Shao joined our Group and has been a director of Values Culture since October 2017, responsible for supervising the overall management. In addition, Mr. Shao has been a director of YS Cultural Investment since March 2019.

Mr. Shao was a director, supervisor and/or manager of the following companies, which were established in the PRC and had been dissolved as at the Latest Practicable Date:

<u>Name of Company</u>	<u>Position</u>	<u>Status</u>	<u>Date of dissolution</u>
Hangzhou Hongbao Dyeing Co., Ltd.* (杭州紅寶染化有限公司)	Director	Dissolved	15 March 2012
Hangzhou Jihua Trading Co., Ltd.* (杭州吉華貿易有限公司)	General Manager	Dissolved	8 December 2011

Mr. Shao confirmed that (i) the above companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on her part leading to the dissolutions of the above companies and was not aware of any actual or potential claim that had been or would be made against her as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Shen Yi (沈毅), aged 40, was appointed as a Director in June 2019 and was redesignated as a non-executive Director in the same month. She is responsible for supervising the overall management and strategic planning of our Group.

From January 2005 to April 2015, Ms. Shen acted as a managing director of the investment banking department and the representative of sponsors at Golden Sun Securities Co., Ltd.* (國盛證券有限責任公司), the principal business of which was integrated securities trading services. Her roles and responsibilities were managing the department of risk management. From May 2015 to March 2017, she acted as a general manager of the internal review department and the representative of sponsors at JiuZhou Securities Co., Ltd.* (九州證券股份有限公司), the principal business of which was integrated securities trading services. Her roles and responsibilities were managing internal assessment and risk management matters. From April 2017 to present, she acted as an assistant to the chief executive officer and a general manager of the risk management department at Suiyong Holdings* (穗甬控股有限公司), the principal business of which is investment management. Her roles and responsibilities are managing investments, compliance and risk management matters.

Ms. Shen joined our Group and has been a director of Values Culture since October 2017, responsible for supervising the overall management.

Ms. Shen obtained a bachelor’s degree in economics from Sichuan University* (四川大學) in Chengdu, PRC in July 2001, and a master’s degree in law from East China University of Political Science and Law* (華東政法學院) in Shanghai, PRC in June 2004.

Independent non-executive Directors

Mr. Xian Guoming (洗國明), aged 64, was appointed as an independent non-executive Director in [•]. He is a chairman of our Nomination Committee and a member of our Audit Committee and our Remuneration Committee.

From July 1985 to present, Mr. Xian has worked in the Faculty of Economics in Nankai University* (南開大學), during which he acted as a deputy professor in the Faculty of Economics from December 1991 to December 1993 and has been a professor since December 1993; he promoted and acted as a deputy director and subsequently a director of the Institute for International Economics of Nankai University* (南開大學國際經濟研究所) from December 1993 to June 2003, responsible for overall management; from December 1999 to present, he has acted as a director of The Research Center on Multinational Corporations of Nankai University* (南開大學跨國公司研究中心), responsible for overall management; and from November 2006 to present, he has also acted as a vice president of China Society of World Economics (CSWE)* (中國世界經濟學會).

From September 2017 to present, Mr. Xian serves as an independent non-executive director of Jizhong Energy Resources Co., Ltd* (冀中能源股份有限公司) (000937), a company listed on the Shenzhen Stock Exchange. From October 2015 to January 2017, he served as an independent non-executive director of Tianjin Binhai Energy & Development Co., Ltd* (天津濱海能源發展股份有限公司) (000695), a company listed on the Shenzhen Stock Exchange. He is re-appointed as an independent non-executive director in June 2017.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xian obtained a bachelor’s degree in economics from the Nankai University* in Tianjin, PRC in January 1982. He also obtained a master’s degree and a doctorate degree in Economics from Nankai University* in July 1985 and December 1991 respectively.

Mr. Xian was a director, supervisor and/or manager of the following companies, which were established in the PRC and had been dissolved as at the Latest Practicable Date:

<u>Name of Company</u>	<u>Position</u>	<u>Status</u>	<u>Date of dissolution</u>
Tianjin Taida Dingcheng Technology Development Co., Ltd.* (天津泰達鼎成科技發展有限公司)	Legal Representative and Chairman	Dissolved	1 July 2016

Mr. Xian confirmed that (i) the above companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on her part leading to the dissolutions of the above companies and was not aware of any actual or potential claim that had been or would be made against her as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

Mr. Zhong Mingshan (鍾明山), aged 67, was appointed as an independent non-executive Director in [•]. He is a chairman of our Audit Committee and a member of our Remuneration Committee and our Nomination Committee.

From October 1972 to March 1990, Mr. Zhong acted as an accounting and financial manager at Qingdao Printing Paper Factory (青島版紙廠), the principal business of which was production of paperboard and carton. His roles and responsibilities were financial accounting and comprehensive financial management. From March 1990 to June 1995, he acted as a deputy head of Shandong Qingdao Certified Public Accountants* (山東青島會計師事務所). His roles and responsibilities were reviewing audit reports. From June 1995 to September 1999, he acted as a deputy head of the management office of the Municipal Finance Bureau of Qingdao* (青島市財政局駐廠員). His roles and responsibilities were managing accountants based in Qingdao and responsible for administrative and operational matters. From September 1999 to October 2007, he acted as a chief accountant in Shandong Desheng Certified Public Accountants Firm Co., Ltd.* (山東德盛會計師事務所). His roles and responsibilities were managing administrative and operational matters of the firm. From October 2007 to June 2014, he acted as a partner in Shinewing Certified Public Accountants LLP* (信永中和會計師事務所(特殊普通合夥)). His roles and responsibilities were managing administrative and operational matters in the Qingdao office.

Mr. Zhong obtained a professional diploma in finance and accounting from the Qingdao Institute of Architecture and Engineering* (青島建築工程學院) in Qingdao, PRC in June 1987. Mr. Zhong has been registered as a certified public accountant with the the Chinese Institute of Certified Public Accountants* (中國註冊會計師協會) since February 1992.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Zongzheng (徐宗政), aged 43, was appointed as an independent non-executive Director in [•]. He is a chairman of our Remuneration Committee and a member of our Nomination Committee and our Audit Committee.

From 2004 to present, he acts as director in various television and film productions, including the award winning production *Where have all the flower gone* (那時花開) in 2006, *Red Dawn* (紅色黎明) in 2011, *Ordinary Person Character* (凡人的品格) in 2017 and *Mr. Nanny* (月嫂先生) in 2018.

Mr. Xu obtained a diploma in performing arts from the People’s Liberation Army Arts College* (人民解放軍藝術學校) in July 1998. He has been a member of the China Television Director Committee* (中國聯合會電視劇導演委員會) since 2011.

Mr. Xu was a director, supervisor and/or manager of the following companies, which were established in the PRC and had been dissolved as at the Latest Practicable Date:

<u>Name of Company</u>	<u>Position</u>	<u>Status</u>	<u>Date of dissolution</u>
Haining Xu Zongzheng Film and Television Culture Studio* (海寧徐宗政影視文化工作室)	Legal Representative	Dissolved	18 September 2012
Shanghai Xu Zongzheng Film and Television Culture Studio* (上海徐宗政影視文化工作室)	Legal Representative	Dissolved	25 November 2016

Mr. Xu confirmed that (i) the above companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on her part leading to the dissolutions of the above companies and was not aware of any actual or potential claim that had been or would be made against her as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

General

Save as disclosed, there is no other information relating to our Directors that needs to be disclosed under the requirements of Rule 13.51(2) of the Listing Rules.

Save as disclosed, none of our Directors:

- (i) holds any other positions in our Company or other members of our Group;
- (ii) has any other relationship with any Directors, senior management or substantial shareholders of our Company; and
- (iii) he or she has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date.

Except for such interests of the Directors in the Shares which are disclosed in the paragraph headed “Substantial Shareholders” and the paragraph headed “Statutory and General Information — 3. Further information about our Directors and substantial Shareholders” in Appendix IV to this document, none of our Directors have any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a

DIRECTORS AND SENIOR MANAGEMENT

company which has an interest or short position in the Shares and underlying Shares of our Company. Save as disclosed in the section headed “Relationship with our Substantial Shareholders” in this document, each of our Directors has confirmed that none of them or their respective associates are engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business or has or may have any conflict of interests with our Group.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

Senior Management

The biographies of our senior management are set out as follows:

Mr. Wu Tao (吳濤), aged 47, is the chief executive officer of our Group. He joined our Group and Mr. Wu Tao had been a director and the general manager of Values Culture, responsible for overseeing the daily management and operations of the production projects, and assisting in the business planning. On 4 June 2019, Mr. Wu Tao resigned as director of Values Culture due to the internal personnel rearrangement within the Group but remains as general manager of Values Culture.

From October 1995 to April 1999, Mr. Wu acted as a staff member at the Shenzhen Northern Advertisement Exhibition Co., Ltd.* (深圳北方廣告展覽公司), the principal business of which is provision of exhibition and advertising services. His roles and responsibilities were managing administrative matters. From May 1999 to November 2002, Mr. Wu acted as a deputy team principal at the Shenzhen Northern Industrial Development Co., Ltd.* (深圳市北方實業發展有限公司), the principal business of which is provision of construction and building materials. His roles and responsibilities were managing administrative matters. From December 2002 to October 2008, Mr. Wu acted as a deputy general manager at the Beijing Norinco Easun Hotel Management Co., Ltd.* (北京北方易尚酒店管理公司有限責任公司), the principal business of which is hospitality and catering. His roles and responsibilities were operations management and marketing matters. From November 2008 to March 2010, Mr. Wu acted as a general manager at the Taiyuan University of Science and Technology Conference Centre* (太原科技大學學術交流中心), the principal business of which is provision of hospitality services. His roles and responsibilities were management of daily operations. From April 2010 to October 2011, Mr. Wu acted as a general manager at the Northern Staff Training Centre* (北方職工培訓中心), the principal business of which is provision of hospitality and catering services. His roles and responsibilities were management of daily operations. From November 2011 to October 2013, Mr. Wu acted as a deputy director at the Suzhou Funa Culture Science and Technology Co., Ltd.* (蘇州福納文化科技股份有限公司), the principal business of which was production and distribution of film and TV series. His roles and responsibilities were handling publicity, financial and distribution matters.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu was a director, supervisor and/or manager of the following companies, which were established in the PRC and had been dissolved as at the Latest Practicable Date:

<u>Name of Company</u>	<u>Position</u>	<u>Status</u>	<u>Date of dissolution</u>
Fujian Wu Tao Han Cheng Trading Co., Ltd.* (福建吳濤瀚理貿易有限公司)	Director	Dissolved	10 July 2017

Mr. Wu confirmed that (i) the above companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on her part leading to the dissolutions of the above companies and was not aware of any actual or potential claim that had been or would be made against her as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

Ms. Wang Haiting (王海婷), aged 30, is the chief financial officer of our Group, responsible for monitoring daily financial operation management of our Group, including internal control and company secretarial affairs of our Group.

From February 2011 to June 2012, Ms. Wang acted as an assistant to accountant at Tianjin Benefo Tejing Electric Co., Ltd.* (天津百利特精電氣股份有限公司), the principal business of which was production of electrical transmission products. Her roles and responsibilities were preparing and consolidating draft financial reports. From July 2012 to July 2014, she acted as a deputy head of the finance department at Baili Sifang Smart Grid Technology Co., Ltd.* (百利四方智能電網科技有限公司), the principal business of which was development, manufacturing and sales of smart electrical equipment. Her roles and responsibilities were organising and implementing the Company’s financial and auditing matters.

She joined our Group on August 2014 as accounting manager and has further been the financial controller of Values Culture since October 2017. In addition, Ms. Wang currently holds the following directorships and other positions in the subsidiaries and operating entities of our Company:

<u>Name of entity</u>	<u>Position</u>	<u>Date of appointment</u>
Khorgas Value	director and manager	June 2018
Xinjiang Values	director and manager	June 2018

Ms. Wang obtained a bachelor’s degree in global economy and trade from Hunan University in June 2009, and a master’s degree in global economics from Tianjin Normal University* (天津師範大學) in Tianjin, PRC in June 2012.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Yan Bei (閔蓓), aged 34, is the chief publicity and marketing officer of Values Culture. She joined our Group on February 2014 with the said position and has been responsible for overseeing the sales and managing the publicity and marketing activities of our Group.

From January 2008 to January 2014, Ms. Yan acted as deputy general manager of the distribution department at Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司), the principal business of which was production, introduction, distribution of film and television and the development of film and television culture. Her roles and responsibilities were publicity, distribution and marketing matters regarding television series.

Ms. Yan obtained a bachelor degree in media and management from Wuhan Conservatory of Music* (武漢音樂學院) in Wuhan, PRC in June 2007.

COMPANY SECRETARY

Mr. Au Yeung Ming Yin Gordon (歐陽銘賢), aged 43, was appointed as our company secretary in June 2019.

Mr. Au Yeung is the company secretary of Success Dragon International Holdings Limited (stock code: 1182) since October 2018 and Cocoon Holdings Limited (stock code: 428) since February 2019. He is the financial controller and company secretary of China Finance Investment Holdings Limited (stock code: 875) since May 2019. He was the chief financial controller and company secretary of On Real International Holdings Limited (stock code: 8245) since August 2017 to February 2019. He was the chief financial officer and company secretary of Huge China Holdings Limited (stock code: 428) since May 2015 until August 2017. He has over 20 years of experience in the areas of accounting and auditing. Since May 2000, Mr. Au Yeung held management positions in an accounting team in ASR Logistics Holdings Limited (stock code: 1803) until January 2015.

Mr. Au Yeung is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a degree in Bachelor of Business (Business Administration) from the RMIT University in Australia in September 2006 and a post graduate diploma in Professional Accounting from the Hong Kong Baptist University in November 2009.

REMUNERATION POLICY

Our Directors and senior management of our Company receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of our Directors and senior management, as well as the performance of our Group.

Our Group regularly reviews and determines the remuneration and compensation packages of our Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of our Directors and senior management and performance of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Following the [REDACTED], the Remuneration Committee will review and determine the remuneration and compensation packages of our Directors with reference to their experience, responsibilities, workload and time devoted to our Group and performance of our Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For each of FY2016, FY2017 and FY2018, the aggregate director’s fee, salaries and allowances and retirement benefits scheme contribution, other benefits in kind and/or discretionary bonuses paid by us to our Directors were approximately RMB696,000, RMB1,039,000 and RMB683,000, respectively.

For each of FY2016, FY2017 and FY2018, the aggregate salaries and allowances, other benefits in kind, discretionary bonuses and retirement benefits scheme contribution paid by us to the five highest paid individuals was approximately RMB1,391,000, RMB2,504,000 and RMB1,597,000, respectively.

We did not pay to our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for each of FY2016, FY2017 and FY2018. Furthermore, none of our Directors waived any compensation for the same period.

Save as disclosed above, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of each of FY2016, FY2017 and FY2018, respectively.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary benefits or bonus or other fringe benefits) for the financial year ending December 31, 2019 will be approximately RMB1,000,000.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the paragraph headed “Statutory and General Information — 4. Share Option Scheme” in Appendix IV to this document.

BOARD COMMITTEES

Audit Committee

Our Audit Committee consists of three members, namely Mr. Zhong Mingshan, Mr. Xian Guoming and Mr. Xu Zongzheng. Mr. Zhong Mingshan is the chairman of the Audit Committee. Written terms of reference for our Audit Committee have been adopted in accordance with paragraph C.3.3 of the Corporate Governance Code.

The primary duties of our Audit Committee are to review and supervise our financial reporting process, to nominate and monitor our external auditors, and to oversee the risk management and internal control procedures of our Company.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Remuneration Committee consists of three members, namely Mr. Xu Zongzheng, Mr. Xian Guoming and Mr. Zhong Mingshan. Mr. Xu Zongzheng is the chairman of our Remuneration Committee. Written terms of reference for the Remuneration Committee were adopted in accordance with paragraph B.1.2 of the Corporate Governance Code.

The primary duties of our Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Company, and to ensure that none of our Directors determine their own remuneration.

Nomination Committee

Our Nomination Committee consists of three members, namely Mr. Xian Guoming, Mr. Zhong Mingshan and Mr. Xu Zongzheng. Mr. Xian Guoming is the chairman of our Nomination Committee. Written terms of reference for our Nomination Committee were adopted in accordance with paragraph A.5.2 of the Corporate Governance Code.

The primary duties of our Nomination Committee are to review the structure, size and composition of our Board and our board diversity policy (the “**Board Diversity Policy**”), to identify individuals suitably qualified to become members of our Board, to assess the independence of our independent non-executive Directors, and to make recommendations to our Board on relevant matters relating to appointments of Directors.

BOARD DIVERSITY POLICY

We have adopted the Board Diversity Policy which sets out the approach to achieve diversity on our Board in order to enhance the quality of its performance. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. After [REDACTED], our Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and monitor and report annually in our corporate governance report about the implementation of the Board Diversity Policy.

COMPLIANCE ADVISER

We have appointed Zhongtai International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on, among other matters, the following:

- (i) (before its publication) any regulatory announcement, circular or financial report;

DIRECTORS AND SENIOR MANAGEMENT

- (ii) a transaction, which might be a notifiable or connected transaction including share issues and share repurchases;
- (iii) where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner different from that set out in this document or where our business activities, development or results deviate from any forecast, estimate, or other information in this document; and
- (iv) where the Stock Exchange makes any inquiry of us under Rule 13.10 of the Listing Rules.

The term of appointment of our compliance adviser will commence on the [REDACTED] and will end on the date of dispatch of our annual report in respect of our financial results for the first full financial year commencing after the [REDACTED]. Such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDER

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be allotted and issued upon exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in the Shares and the underlying Shares 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, directly or indirectly, be 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 any other member of our Group:

INTERESTS IN OUR COMPANY

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of issued Shares</u>
BLW Investment (<i>Note 1</i>)	Beneficial owner	[REDACTED]	[REDACTED]%
Mr. Bai (<i>Note 1</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Xie Jinhong (<i>Note 2</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Ms. Liu (<i>Note 1</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Mr. Wu (<i>Note 1</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Chen Ying (<i>Note 3</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Mr. Liu (<i>Note 1</i>) (<i>Note 4</i>)	Interest of a controlled corporation, interest of spouse	[REDACTED]	[REDACTED]%
Ms. Wei (<i>Note 1</i>) (<i>Note 5</i>)	Interest of a controlled corporation, interest of spouse	[REDACTED]	[REDACTED]%
Suiyong Int'l (<i>Note 6</i>)	Beneficial owner	[REDACTED]	[REDACTED]%
Suiyong Holdings (<i>Note 6</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
SDJZ Investment (<i>Note 7</i>)	Beneficial owner	[REDACTED]	[REDACTED]%
Mr. Shao Hui (<i>Note 7</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Lu Min (<i>Note 8</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Mr. Dai Honggang (<i>Note 7</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Tang Xiaomei (<i>Note 9</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Mr. Jin Huiguang (<i>Note 7</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Xuan Yuanxiang (<i>Note 10</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Ms. Zhao Lijuan (<i>Note 7</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Mr. Zhang Dawei (<i>Note 11</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
JMJ Group (<i>Note 12</i>)	Beneficial owner	[REDACTED]	[REDACTED]%
Mr. Xu (<i>Note 12</i>) (<i>Note 13</i>)	Interest of a controlled corporation, interest of spouse	[REDACTED]	[REDACTED]%
Mr. Zhang Hui (<i>Note 12</i>) (<i>Note 14</i>)	Interest of a controlled corporation, interest of spouse	[REDACTED]	[REDACTED]%
SYT Investment (<i>Note 15</i>)	Beneficial owner	[REDACTED]	[REDACTED]%
Mr. Sun Xianliang (<i>Note 15</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Yu Jinmei (<i>Note 16</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Ms. Yang Yanli (<i>Note 15</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%

SUBSTANTIAL SHAREHOLDER

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Immediately following the completion of the [REDACTED]</u>	
		<u>Number of Shares</u>	<u>Approximate percentage of issued Shares</u>
Mr. Li Hongsheng (<i>Note 17</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Ms. Yu Fenghui (<i>Note 15</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Mr. Cao Tianshu (<i>Note 18</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Mr. Tan Xu (<i>Note 15</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Ms. Yin Kun (<i>Note 19</i>)	Interest of spouse	[REDACTED]	[REDACTED]%
Jinping Holding (<i>Note 20</i>)	Beneficial owner	[REDACTED]	[REDACTED]%
Ms. Jin Ping (<i>Note 20</i>)	Interest of a controlled corporation	[REDACTED]	[REDACTED]%
Mr. Yao Changhui (<i>Note 21</i>)	Interest of spouse	[REDACTED]	[REDACTED]%

Notes:

- (1) The issued shares of BLW Investment are owned as to approximately 43.44%, 23.17%, 15.44%, 9.65% and 8.3% by Mr. Bai, Ms. Liu, Mr. Wu, Mr. Liu and Ms. Wei respectively. Under the SFO, each of Mr. Bai, Ms. Liu, Mr. Wu, Mr. Liu and Ms. Wei is deemed, or taken to be interested in the Shares beneficially owned by BLW Investment Limited.
- (2) Ms. Xie Jinhong is the spouse of Mr. Bai. Under the SFO, she is taken to be interested in the Shares in which Mr. Bai is interested.
- (3) Ms. Chen Ying is the spouse of Mr. Wu. Under the SFO, she is taken to be interested in the Shares in which Mr. Wu is interested.
- (4) Mr. Liu is the spouse of Ms. Wei. Under the SFO, he is taken to be interested in the Shares in which Ms. Wei is interested.
- (5) Ms. Wei is the spouse of Mr. Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. Liu is interested.
- (6) The issued shares of Suiyong Int'l are wholly owned by Suiyong Holdings. Under the SFO, Suiyong Holdings is deemed, or taken to be interested in the Shares beneficially owned by Suiyong Int'l.
- (7) The issued shares of SDJZ Investment are owned as to approximately 91.01%, 2.02%, 3.88% and 3.10% by Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan respectively. Under the SFO, each of Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan is deemed, or taken to be interested in the Shares beneficially owned by SDJZ Investment.
- (8) Ms. Lu Min is the spouse of Mr. Shao Hui. Under the SFO, she is taken to be interested in the Shares in which Mr. Shao Hui is interested.
- (9) Ms. Tang Xiaomei is the spouse of Mr. Dai Honggang. Under the SFO, she is taken to be interested in the Shares in which Mr. Dai Honggang is interested.
- (10) Ms. Xuan Yuanxiang is the spouse of Mr. Jin Huiguang. Under the SFO, she is taken to be interested in the Shares in which Mr. Jin Huiguang is interested.
- (11) Mr. Zhang Dawei is the spouse of Ms. Zhao Lijuan. Under the SFO, he is taken to be interested in the Shares in which Ms. Zhao Lijuan is interested.

SUBSTANTIAL SHAREHOLDER

- (12) The issued shares of JMJ Group are owned as to approximately 97.84% and 2.16% by Mr. Xu and Mr. Zhang Hui respectively. Under the SFO, each of Mr. Xu and Mr. Zhang Hui is deemed, or taken to be interested in the Shares beneficially owned by JMJ Group.
- (13) Mr. Xu is the spouse of Ms. Zhang Hui. Under the SFO, he is taken to be interested in the Shares in which Ms. Zhang Hui is interested.
- (14) Ms. Zhang Hui is the spouse of Mr. Xu. Under the SFO, she is taken to be interested in the Shares in which Mr. Xu is interested.
- (15) The issued shares of SYYT Investment are owned as to approximately 40.62%, 31.25%, 18.75% and 9.38% by Mr. Sun Xianliang, Ms. Yang Yanli, Mr. Yu Fenghui and Mr. Tan Xu respectively. Under the SFO, each of Mr. Sun Xianliang, Ms. Yang Yanli, Mr. Yu Fenghui and Mr. Tan Xu is deemed, or taken to be interested in the Shares beneficially owned by SYYT Investment.
- (16) Ms. Yu Jinmei is the spouse of Mr. Sun Xianliang. Under the SFO, she is taken to be interested in the Shares in which Mr. Sun Xianliang is interested.
- (17) Mr. Li Hongsheng is the spouse of Ms. Yang Yanli. Under the SFO, he is taken to be interested in the Shares in which Ms. Yang Yanli is interested.
- (18) Mr. Cao Tianshu is the spouse of Ms. Yu Fenghui. Under the SFO, he is taken to be interested in the Shares in which Ms. Yu Fenghui is interested.
- (19) Ms. Yin Kun is the spouse of Mr. Tan Xu. Under the SFO, she is taken to be interested in the Shares in which Mr. Tan Xu is interested.
- (20) Jinping Holding is wholly owned by Ms. Jin Ping. Under the SFO, Ms. Jin Ping is deemed, or taken to be interested in the Shares beneficially owned by Jinping Holding.
- (21) Mr. Yao Changhui is the spouse of Ms. Jin Ping. Under the SFO, he is taken to be interested in the Shares in which Ms. Jin Ping is interested.

Except as disclosed in this document, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED], have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, be 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 any other member of our Group.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

SHARE CAPITAL

SHARE CAPITAL

Assuming the [REDACTED] is not exercised at all, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the authorised and issued share capital of our Company as at the date of this document and immediately after completion of the [REDACTED] and the [REDACTED] will be as follows:

	<i>Nominal Value</i> <hr style="width: 50%; margin: 0 auto;"/> <i>(US\$)</i>
<i>Authorized share capital:</i>	
[10,000,000,000] Shares of US\$[0.000005] each.	[50,000]
<i>Issued and to be issued and fully paid or credited as fully paid:</i>	
[2,000,000] Shares in issue as at the date of this document.	[10]
[REDACTED] Shares to be issued under Capitalisation Issue .	[REDACTED]
[REDACTED] Shares to be issued pursuant to the [REDACTED]	[REDACTED]
<hr style="width: 50%; margin: 0 auto;"/> <u>[200,000,000]</u> Total.	<hr style="width: 50%; margin: 0 auto;"/> <u>[1,000]</u>

Assuming the [REDACTED] is exercised in full, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the authorised and issued share capital of our Company as at the date of this document and immediately after completion of the [REDACTED] and the [REDACTED] will be as follows:

	<i>Nominal Value</i> <hr style="width: 50%; margin: 0 auto;"/> <i>(US\$)</i>
<i>Authorized share capital:</i>	
[10,000,000,000] Shares of US\$[0.000005] each.	[50,000]
<i>Issued and to be issued and fully paid or credited as fully paid:</i>	
[2,000,000] Shares in issue as at the date of this document.	[10]
[REDACTED] Shares to be issued under [REDACTED].	[REDACTED]
[REDACTED] Shares to be issued pursuant to the [REDACTED].	[REDACTED]
[REDACTED] Shares to be issued if the [REDACTED] is exercised in full	[REDACTED]
<hr style="width: 50%; margin: 0 auto;"/> <u>[REDACTED]</u> Total.	<hr style="width: 50%; margin: 0 auto;"/> <u>[REDACTED]</u>

SHARE CAPITAL

Assumptions

The above table assumes that the [REDACTED] becomes unconditional, and the issue of Shares pursuant to the [REDACTED] and the [REDACTED] are effected. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, or any Shares 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.

Minimum public float

Pursuant to Rule 8.08(1) of the Listing Rules, a minimum prescribed percentage of 25% of the total issued Shares of our Company must at all times be held by the public (as defined in the Listing Rules).

Ranking

The [REDACTED] and Shares which may be issued under the [REDACTED] or upon the exercise of any options which may be granted under the Share Option Scheme will rank equally in all respects with all the existing Shares in issue or to be issued as set out in the above table, and will qualify for all dividends or other distributions declared, made or paid on, or any other rights and benefits attaching to or accruing from, the Shares after the date of this document, except for entitlement under the [REDACTED].

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted the general unconditional mandate to allot, issue and deal in a total number of Shares of not more than the aggregate of:

- (i) 20% of the total number of Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue, but excluding any Shares which may be issued upon the exercise of the [REDACTED] and any option that may be granted under the Share Option Scheme; and
- (ii) the total number of our Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate (as mentioned below).

The general unconditional mandate does not apply to situations where our Directors allot, issue or deal in Shares by way of a rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares, or pursuant to the exercise of any options that may be granted under the Share Option Scheme, or under the [REDACTED] or the [REDACTED] or upon the exercise of the [REDACTED], or pursuant to any specific authority granted by the Shareholders in general meeting. Our Directors may, in addition to the Shares which they are authorised to issue under the general unconditional mandate, allot, issue and deal in

SHARE CAPITAL

Shares pursuant to a rights issue, the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The general unconditional mandate will expire upon the earliest occurrence of any of the following:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles, the Companies Law or any applicable Cayman Islands laws to be held; or
- when the authority given to our Director is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

Further details of the general mandate to issue shares are set out in the paragraph headed “Statutory and General Information — 1. Further information about our Group and the subsidiaries — 1.3 Resolutions in writing of our Shareholders passed on [•] 2019” in Appendix IV to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted the Repurchase Mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the [REDACTED] and the [REDACTED], but excluding any Shares that may be issued upon the exercise of the [REDACTED] and any option that may be granted under the Share Option Scheme.

The Repurchase Mandate only relates to repurchases made on the 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 Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant requirements under the Listing Rules is set out in the paragraph headed “Statutory and General Information — 1. Further information about our Group and the subsidiaries — 1.7. Repurchases by our Company of our own securities” in Appendix IV to this document.

The Repurchase Mandate will expire upon the earliest occurrence of any of the following:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles, the Companies Law or any applicable Cayman Islands laws to be held; or

SHARE CAPITAL

- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

Further details of the Repurchase Mandate are set out in the paragraph headed “Statutory and General Information — 1. Further information about our Group and the subsidiaries — 1.3 Resolutions in writing of our Shareholders passed on [•] 2019” in Appendix IV in this document.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarized in the paragraph headed “Share Option Scheme” in Appendix IV to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

As a matter of Companies Law, an exempted company is not required by law to hold any general meetings or class meetings on an annual or regular basis. The holding of a general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this document.

Our Company has only one class of Shares, namely ordinary Shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Companies Law and the terms of the Memorandum of Association and the Articles of Association, our Company may from time to time by ordinary resolutions of Shareholders (i) increase its share 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, subject to the provisions of the Companies Law, reduce the share capital or capital redemption reserve by our Shareholders passing a special resolution. Further details are set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this document.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group’s audited combined financial statements, including the notes thereto, included in the accountant’s report set out in Appendix I to this document. Our Group’s audited combined financial statements have been prepared in accordance with HKFRSs. You should read the entire accountant’s report and not merely rely on the information contained in this section.

The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by our Group in light of our Group’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group’s expectations and projections depend on a number of risks and uncertainties over which our Group does not have control. For further information, you should refer to the section headed “Risk Factors” in this document.

OVERVIEW

Our Group is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series, which is conducted through our Consolidated Affiliated Entities. During the Track Record Period, we derived revenue from (i) licensing of broadcasting rights of TV series, (ii) distribution service of TV series and (iii) income under co-financing arrangements.

For each of FY2016, FY2017 and FY2018, we generated revenue of approximately RMB102.0 million, RMB99.3 million and RMB154.1 million, respectively, of which approximately 99.5%, 93.0% and 90.0% was from licensing of broadcasting rights of TV series to our customers.

Our customers include TV stations (including their operating entities), companies which are engaged in the business of distribution of TV series, executive producers and copyright owners of the TV series.

BASIS OF PREPARATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “History, Reorganisation and Group Structure — Reorganisation” in this document, our Company became the holding company of the companies now comprising our Group subsequent to the end of the Track Record Period on 26 June 2019. 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 combined historical financial information has been presented as a continuation of the existing company using the pooling of interests method as if the Reorganisation had been completed at the beginning of the Track Record Period. Please refer to note 2.1 to the accountant’s report in Appendix I to this document for the relevant details.

FINANCIAL INFORMATION

Our Group is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. We also make Fixed Return Investment in TV series or film. Moreover, our Group has also been engaged in the business of investment in and production of films during the Track Record Period. However, since the relevant films have not been distributed during the Track Record Period, our Group did not generate any revenue from the films production business during such period. We conducted our business and investment through our Consolidated Affiliated Entities, which hold the requisite permit and approval required for our business, including the Licence to Produce and Distribute Radio or Television Programmes. 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) of TV series or any enterprise conducting the film production business. As a result, we are not able to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations.

The wholly-owned subsidiary of our Company, WFOE, has entered into the Contractual Arrangements with the Consolidated Affiliated Entities and the Relevant Shareholders. The Contractual Arrangements enable WFOE 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 historical financial information and the Consolidated Affiliated Entities are combined in the historical financial information for the Track Record Period. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in this Document. Our Group does not have any equity interests in the Consolidated Affiliated Entities.

The combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the 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, where this is a shorter period. The combined statements of financial position of our Group as of 31 December 2016, 2017 and 2018 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 recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on combination.

The historical financial information of our Group has been prepared in accordance with HKFRSs (which includes all Hong Kong Accounting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretation issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2018, including HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from*

FINANCIAL INFORMATION

Contracts with Customers together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the historical financial information throughout the Track Record Period.

The historical financial information has been prepared under the historical cost convention, except for financial instruments which have been measured at fair value.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our Directors believe that the following major factors may affect our Group’s results of operations and financial conditions:

Our financial performance is subject to the quality of our Group’s TV series and the revenue is project-based in nature

Our revenue is mainly derived from licensing of broadcasting rights of TV series to TV stations (or their operating entities) and our revenue is generated from a limited number of TV series each year. Despite our Group’s attempt to negotiate with TV stations during our course of production, the TV stations have no contractual obligation to purchase the broadcasting rights of our TV series before completing their internal review procedures and there is no assurance that our TV series could satisfy the requirement of the TV station.

Our business model is in general project-based under which we charge customers licence fee for each TV series that they purchase the broadcasting rights of. Accordingly, there is no guarantee that we will be able to continue to secure new customers or that our existing customers will continue to purchase the broadcasting rights of the TV series from us in the future under fierce competition.

In the event that our TV series could not satisfy the TV stations’ requirements for broadcasting, they will not purchase the TV series from us. Our Group may not be able to generate the projected revenue with our TV series and our financial condition and operation will be adversely affected.

Our TV series’ distribution plan is subject to changes in market trend and government policies, which may affect the length of inventory turnover and financial results

The distribution of a TV series is subject to the ever-changing market trends and government policies, which are uncertain at the stage of production or purchasing of the TV series. In the event that the market trends and/or government policies change to a level that we are not able to distribute the TV series according to our distribution plan, we may defer the distribution or distribute the relevant TV series at a lower price than we estimated. This may adversely affect our length of inventory turnover and financial results.

FINANCIAL INFORMATION

Over industry in general has a long trade receivable turnover

Our Group’s revenue is mainly generated from licensing of broadcasting rights of TV series to TV stations (or their operating entities). With reference to the F&S Report, it can generally take up to three years for customers such as TV stations to settle their payment. As a result, TV series producers like us usually take longer time to collect the trade receivables and this could negatively affect our working capital status and if we are not able to collect the trade receivables eventually, our results of operations and financial condition will be materially and adversely affected.

Overestimation of the total revenue to be generated from our TV series may result in understatement of our cost of sales and will adversely affect our financial results in subsequent financial year/period

For our business of licensing of broadcasting rights of TV series and investment in TV series as non-executive producer, we estimate the cost of sales for the relevant financial year by reference to the proportion of a TV series’ revenue recognised for that financial year to the estimated total revenue of that TV series. However, the estimated total revenue is subject to adjustment from time to time according to the actual distribution performance. If the actual total revenue generated from a TV series turns out to be lower than our estimation, it may result in an understatement of cost of sales for the previous financial periods. If this happens, adjustments need to be made to our cost of sales in subsequent financial year/period and our financial results may be adversely affected.

Our business is highly capital intensive, if we fail to procure sufficient funding in a timely manner, our production and investment plans will be interrupted and our financial results and financial condition will be adversely affected

TV series production business is capital intensive in nature. Our cost of sales relating to TV series production includes purchase costs of broadcasting rights of TV series, artists, scripts, production crew and other miscellaneous materials and services required in the process of shooting and post-production. Many of these costs need to be paid upfront before we receive any sales proceeds from our customers. Besides, our business of investment in TV series as non-executive producer also requires us to pay investment fund according to the agreed terms with the cooperative partners. Therefore, sufficient funding in a timely manner is crucial for our daily operations. During the Track Record Period, we mainly satisfy our working capital needs from cash inflows from our operations, bank and other borrowing and equity financing from our shareholders. If we fail to procure sufficient funding in the future, our production and investment plans will be interrupted and our financial results and financial condition will be adversely affected.

FINANCIAL INFORMATION

The inability to continue to enjoy preferential tax treatment by our Consolidated Affiliated Entities will adversely affect our financial results

During the Track Record Period, certain of our Consolidated Affiliated Entities has enjoyed preferential tax treatment including tax exemptions and tax refund. There is no assurance that we could continue to be granted to such tax exemption and tax refund in the future due to changes in tax policies to be adopted by the government authorities. To the extent that there is any change in, or withdrawal of, any preferential tax treatment applicable to us, or increase in the effective tax rate, our tax expenses would increase accordingly. The occurrence of these changes will adversely affect our business, results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The preparation of the historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, costs 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. Details of the significant accounting policies and the areas involving significant accounting judgements and estimates to the financial information of our Group are set out in notes 2.4 and 3 respectively to the accountant’s report in Appendix I to this document.

Some significant accounting policies applied in the preparation of the historical financial information of our Group and significant accounting judgements and estimates in applying accounting policies are set out below.

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 contract contains a financing component which provides the customer 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 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.

FINANCIAL INFORMATION

The Group is mainly involved in the licensing of broadcasting rights of TV 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 TV series

Revenue from the licensing of broadcasting rights of TV series is recognised at the point in time when the TV series are available to the licensee, generally on delivery of the TV series after the approval from NTRA or receipt of the License for Distribution of TV Series from the provincial counterpart of NRTA when a customer is provided with a right to use the TV series as it exists at the point in time at which the Licence is granted. The Group does not expect to have any contracts where the period between the transfer of the licensed TV 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) Distribution of broadcasting rights of TV series

Revenue from the distribution of broadcasting rights of TV series is recognised at the point in time when the services are rendered.

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.

Income under co-financing arrangements is 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.

Inventories

Inventories include the cost of completed TV series, TV series in production and undeveloped scripts and purchased copyright or boardcasting rights of TV series. Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

The amount of inventories recognised as cost of sales for a given period is determined using the TV 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 TV series’ revenues recognised for such period to the TV series’ estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a TV series’ life cycle).

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Accounting for co-financing arrangements

The co-financing arrangement is the sale of an interest in a TV series to an investor. The amounts received for the sale of an interest as a reduction of the costs of the TV series upon receipt of the License for Distribution of TV Series from NRTA, as the investor assumes full risk for that share of the TV series asset. The substance of these arrangements is that the third-party investors own an interest in the TV series and, therefore, the Group recognised either a charge or benefit to cost of sales to reflect the estimate of the third-party investor’s interest in the profit or loss incurred on the TV series.

The amount paid under co-financing arrangements to the third-party investors by the Group was recognised as prepayment under co-financing arrangements and reclassified to inventory upon receipt of the License for Distribution of TV Series from NRTA.

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 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:

- (a) where 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
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, 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, 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, and the carryforward of unused tax credits and

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unused tax losses can be utilised, except:

- (a) when the deferred tax asset relating to the deductible temporary difference 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
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, 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.

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, 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.

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The Group’s management performs the assessment based on the above-mentioned factors and reaches the conclusion that the Group acts as a principal in the licensing of broadcasting rights of TV series since the Group controls the broadcasting rights of TV series before they are granted to the customers and acts as an agent in the distribution of broadcasting rights of TV series since the Group’s performance obligation is to arrange for the provision of broadcasting rights of TV series by another party and was only subject to the commission income from distribution of broadcasting rights of TV series. Accordingly, the Group recognises revenue from the licensing of broadcasting rights of self-developed TV series and purchased TV series on a gross basis and the revenue of distribution of broadcasting rights of TV series on a net basis.

Provision for expected credit losses on trade receivables

Our Group uses a provision matrix to calculate expected credit losses (“ECLs”) for trade receivables. The provision rates are based on 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 observed default rates. Our 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 observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed 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 at 31 December 2016, 2017 and 2018 amounted to RMB3,987,000, RMB8,719,000 and RMB13,413,000, respectively, details of which are set out in note 15 to the accountant’s report in Appendix I to this document.

Provision for expected credit losses on other receivables

Our 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 16 to the accountant’s report in Appendix I to this document.

The amortisation of inventories

The amount of inventories recognised as costs of sales for a given period is determined using the television forecast computation method. Under this method, the amortisation of inventories and the accrual of participations and residuals is based on the proportion of the television’s revenues recognised for such period to the television’s estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a television’s life cycle).

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Management regularly reviews the basis of the amortisation and will adjust the amortisation method when the expected changes in the television’s estimated remaining ultimate revenues arise.

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth a summary of our combined statements of profit or loss and other comprehensive income for FY2016, FY2017 and FY2018, which is extracted from and should be read in conjunction with the accountant’s report set out in Appendix I to this document.

Summary of combined statements of profit or loss and other comprehensive income

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	101,975	99,266	154,085
Cost of Sales	<u>(42,495)</u>	<u>(81,575)</u>	<u>(73,979)</u>
Gross profit	59,480	17,691	80,106
Other income and gains.	<u>3,619</u>	<u>8,868</u>	<u>7,047</u>
Selling and distribution expense	(5,271)	2,246	(3,219)
Administrative expense	(7,569)	(9,292)	(6,886)
Impairment losses on financial assets	(3,987)	(4,732)	(6,843)
Other expenses	—	(8)	(32)
Finance costs	<u>(1,195)</u>	<u>(1,711)</u>	<u>(2,324)</u>
PROFIT BEFORE TAX	45,077	8,570	67,849
Income tax expense.	<u>(12,274)</u>	<u>(1,879)</u>	<u>(3,366)</u>
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR.	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>
Attributable to:			
Owners of the parent.	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>

DESCRIPTION OF PRINCIPAL COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we derived revenue from (i) licensing of broadcasting rights of TV series, (ii) distribution service of TV series and (iii) income under co-financing arrangements. During the Track Record Period, a substantial proportion of our revenue was derived from licensing of broadcasting rights of TV series.

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The following table sets forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2016		FY2017		FY2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue from contracts with customers						
Licensing of broadcasting rights of TV series	101,503	99.5	92,350	93.0	138,618	90.0
Distribution service of TV series	472	0.5	—	—	12,939	8.4
Revenue from other sources						
Income under co-financing arrangements	—	—	6,916	7.0	2,528	1.6
	<u>101,975</u>	<u>100.0</u>	<u>99,266</u>	<u>100.0</u>	<u>154,085</u>	<u>100.0</u>

During the Track Record Period, all of our revenue were generated from customers located in the PRC, and were denominated in RMB.

Revenue by business segments

(i) Licensing of broadcasting rights of TV series

Our licensing of broadcasting rights of TV series business involves the licensing of the broadcasting rights of the TV series produced by us as executive producer or TV series which we purchased the copyrights (or broadcasting rights) from the relevant copyright owners to customers and charge for a fixed licence fee. The licensing period is generally three years for certain specific areas.

For each of FY2016, FY2017 and FY2018, the total licence fee we earned under this business segment was approximately RMB101.5 million, RMB92.4 million and RMB138.6 million, representing approximately 99.5%, 93.0% and 90.0% of the total revenue, respectively.

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The following table sets forth a breakdown of our revenue from licensing the broadcasting rights of TV series by customers in absolute amounts and as percentages during the Track Record Period:

	FY2016			FY2017			FY2018		
	Number of TV series licensed*	Revenue		Number of TV series licensed*	Revenue		Number of TV series licensed*	Revenue	
		RMB '000	%		RMB '000	%		RMB '000	%
<i>TV stations</i>									
— Satellite channel									
— First-run	1	74,771	73.7%	1	46,676	50.5%	2	83,036	59.9%
— Reruns	1	11,321	11.2%	3	31,016	33.6%	2	41,359	29.8%
— Terrestrial television stations.	2	9,486	9.3%	3	9,790	10.6%	5	8,185	5.9%
Subtotal	2	95,578	94.2%	4	87,482	94.7%	4	132,580	95.6%
<i>Other customers</i>	1	5,925	5.8%	1	4,868	5.3%	1	6,038	4.4%
Total	2	101,503	100.0%	4	92,350	100.0%	10	138,618	100.0%

* Taking into account that some TV series were licensed to both TV stations and other customers in the same financial year, the total number of TV series licensed shown may or may not be equal to the sum of numbers of TV series licensed to different customers.

Revenue from our customers which are TV stations accounted for approximately 94.2%, 94.7% and 95.6% of our revenue from licensing of broadcasting rights of TV series for each of FY2016, FY2017 and FY2018, with the rest attributable to other customers, i.e. companies engaged in the business of distribution of TV series.

Among the revenue from licensing of broadcasting rights of TV series, approximately 73.7%, 50.5% and 59.9%, were generated from first-run broadcast by satellite channels for each of FY2016, FY2017 and FY2018. According to F&S Report, the average selling price per episode for reruns is generally lower than that for first-run broadcast of TV series. Thus, in respect of the same TV series broadcasted on satellite channel of TV stations, the licence fees generated from reruns are much lower than that from the first run.

Accordingly, the increase in the number of first-run broadcast TV series licensed in FY2018 compared to FY2016 and FY2017 improved our revenue in FY2018. As the one first-run broadcast TV series, the Furthest Distance* (遙遠的距離) licensed in FY2016 received more popularity than the TV series Jade* (女管家) in FY2017, our revenue from satellite channels decreased in FY2017 as compared to FY2016 which was compensated by the increase in revenue from terrestrial TV stations and other customers, resulting in an overall slight decrease in revenue from licensing of broadcasting rights of TV series in FY2017 as compared to FY2016.

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(ii) Distribution service of TV series

Our revenue from distribution service of TV series involves the provision of distribution services to copyright owners for distribution of the TV series to customers such as TV stations. We charge a fixed percentage of the licence fee received by the copyright owner as our distribution agent fee. Our distribution agent fee was approximately RMB0.5 million, nil and RMB12.9 million for each of FY2016, FY2017 and FY2018, representing approximately 0.5%, nil and 8.4% of our total revenue, respectively.

(iii) Income under co-financing arrangements

Our income under co-financing arrangements segment relates to our investment in TV series as non-executive producer. It involves the sharing of the net licence fee received by the executive producers of the TV series from licensing of the broadcasting rights of the TV series according to the proportion of our investment. Under this segment, we invest certain amount and may or may not participate in the production such as casting and reviewing of production budgets and/or distribution of the TV series.

We generated income under co-financing arrangement of nil, approximately RMB6.9 million and RMB2.5 million for each of FY2016, FY2017 and FY2018, representing nil, approximately 7.0% and 1.6% of our total revenue, respectively.

For detailed discussion of the fluctuations of our revenue during the Track Record Period, please refer to the paragraph headed “Year to year comparison of results of operations” in this section.

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Costs of sales

During the Track Record Period, our costs of sales were approximately RMB42.5 million, RMB81.6 million and RMB74.0 million, respectively. The following table sets forth our costs of sales by business segment and by nature during the Track Record Period:

	FY2016		FY2017		FY2018	
	RMB '000	%	RMB '000	%	RMB '000	%
Licensing of broadcasting rights of TV series						
Cast personnel costs	19,452	45.8%	33,541	41.1%	1,304	1.8%
Production costs	12,757	30.0%	21,699	26.6%	2,306	3.1%
Costs of scripts	8,026	18.9%	8,091	9.9%	389	0.5%
Post-production costs	1,416	3.3%	1,911	2.4%	253	0.4%
Cost of purchased copyrights (or broadcasting rights)	—	0.0%	5,168	6.3%	48,820	66.0%
Service fees	—	0.0%	—	0.0%	13,931	18.8%
Interest capitalized	844	2.0%	1,706	2.1%	9	0.0%
Cost of co-financing (as executive producer)	—	0.0%	544	0.7%	—	0.0%
Inventories provision	—	0.0%	—	0.0%	4,087	5.5%
Subtotal	42,495	100%	72,660	89.1%	71,099	96.1%
Investment in TV series as non-executive producer						
Cost of co-financing (as non-executive producer)	—	0.0%	8,915	10.9%	2,880	3.9%
Total cost of sales	42,495	100.0%	81,575	100.0%	73,979	100.0%

For licensing of broadcasting rights of TV series, cast personnel costs, production costs, costs of scripts, post-production costs, costs of purchased copyrights (or broadcasting rights) and service fees are the main components of direct costs in producing a TV series. Each of the above costs refers to (i) remuneration to artists, directors, producer for performing their respective duties, (ii) props purchase, accommodation, remuneration to other production crew members such as lighting engineers, art directors, cameraman and stagehand, etc. and incidental expenses, (iii) costs for development of scripts of the TV series, (iv) costs of services including editing, sound-mixing, voice dubbing, sound-tracking and processing of computer generated special effects for the TV series, (v) consideration paid to the copyright owners for the copyrights (or broadcasting rights) of TV series and (vi) fees paid to a service provider for the planning and consulting services provided in relation to the promotion and distribution of a TV series.

Interest capitalized represents interest accrued to the Fixed Return Investment made by third party investors in our TV series. For details of interest capitalized, please refer to the paragraph headed under “Description of principal components of our results of operations — Finance costs”.

We enter into collaborative arrangements with third parties to jointly finance and produce and/or distribute certain of its TV series productions, which is so called co-financing arrangements.

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Cost of co-financing (as executive producer) represented the investment return payable to third party investors under co-financing arrangements in which we are executive producer. Due to the capital intense nature of TV series production, we generally seek for funds from third party investors and make utilization of the proceeds from such funds in the production and/or distribution of our self-developed TV series. By making capital investment, the third party investors own a minority of percentage of interest in our TV series and are entitled to investment return which is based on the distribution performance of the relevant TV series while the amounts of the investment return are a component of our cost of sales as cost of co-financing (as executive producer).

Cost of co-financing (as non-executive producer) represented our investment amounts in TV series under co-financing arrangements with the executive producers of the TV series through which we act as non-executive producer. Correspondingly, we own a minority of percentage of interest in the invested TV series.

No cost of sales is presented for our distribution agent business as the revenue from provision of distribution services was presented on net basis.

For FY2016, our cost of sales principally comprised of direct costs for production of the TV series, the Furtherest Distance* (遙遠的距離), representing approximately 98.6% of the total cost of sales for FY2016. For FY2017, our cost of sales principally comprised direct costs for production of the TV series Jade* (女管家) and the amounts we invested in a TV series as non-executive producer, representing approximately 70.2% and 10.9% respectively of the total cost of sales for FY2017. For FY2018, our cost of sales principally comprised the costs of purchased broadcasting rights/copyright of several TV series, representing approximately 66.0% of the total cost of sales for FY2018. The Group also made a provision to the inventories of approximately RMB4.1 million in FY2018 with respect to several TV series which were regarded not saleable in the foreseeable future.

Our management formulates a distribution plan for each TV series with the estimation of the total revenue to be generated by the relevant TV series throughout its life cycle (the “**Total Estimated Revenue**”) based on the (i) prevailing price of TV series in the market; (ii) the negotiation or discussion with the potential customers; and (iii) the past performance of similar TV series. The distribution plan is subject to adjustment from time to time according to the actual distribution performance.

The cost of a TV series is initially accrued to inventories at the amount of the total cost of production, purchase or investment. The cost of sales is recognised based on the proportion of a TV series’ revenue recognised for the relevant financial year to the Total Estimated Revenue (the “**Revenue Proportion**”). The calculation of our cost of sales is as follows:

Cost of sales of relevant year = Revenue Proportion x Total cost accrued to inventories

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Gross profit and gross profit margin

During the Track Record Period, our gross profit was approximately RMB59.5 million, RMB17.7 million and RMB80.1 million, respectively, while our gross profit margin was approximately 58.3%, 17.8% and 52.0%, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by business segments during the Track Record Period:

	FY2016		FY2017		FY2018	
	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>
Licensing of broadcasting rights of TV series	59,008	58.1	19,690	21.3	67,519	48.7
Distribution service of TV series	472	100.0	—	—	12,939	100.0
Income under co-financing arrangements	—	—	(1,999)	(28.9)	(352)	(13.9)
Total	59,480	58.3	17,691	17.8	80,106	52.0

For our business of licensing of broadcasting rights of TV series, the lower gross profit margin in FY2017 was mainly attributable to the recognition of the majority of the production costs for our self-produced TV series Jade* (女管家) as a result of the downward adjustment of the Total Estimated Revenue to be generated from it after taking into consideration of its actual distribution performance in FY2017. Gross profit margin for our distribution agent business was 100% for FY2016 and FY2018 because revenue from provision of distribution services was recorded on a net basis. Gross profit for our business of investment in TV series as non-executive producer was negative in both FY2017 and FY2018 because our sharing of net licence fee was lower than our investment amount based on the Total Estimated Revenue and actual distribution performance of the invested TV series.

For further discussion of our gross profit and gross profit margin during the Track Record Period, please refer to the paragraph headed “Year to year comparison of results of operations” in this section.

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Other income and gains

Our other income and gains consist of (i) government grants; (ii) bank interest income; (iii) investment income from financial assets at fair value through profit or loss; (iv) interest income from loans receivables; and (v) penalty income. The following table sets forth a breakdown of our other income and gain during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other income and gains			
Government grants related to income	2,908	5,803	5,113
Bank interest income.	63	190	39
Investment income from financial assets at fair value through profit or loss	346	368	32
Interest income from loans receivables	302	2,301	1,538
Penalty income.	—	206	325
	<u>3,619</u>	<u>8,868</u>	<u>7,047</u>

Government grants primarily represented refund of value added tax and EIT as incentives awarded by the local government in Zhejiang Province, the PRC to support the film and TV industry. Bank interest income represented interest income from bank deposits. Investment income from financial assets at fair value through profit or loss represented income from short term financial instruments. Interest income from loan receivables and penalty income represented the interest and penalty for late repayment, respectively, in respect of the Fixed Return Investment we made in other TV series or films. For detailed discussion of the fluctuations of other income and gains during the Track Record Period, please refer to the paragraph headed “Year to year comparison of results of operations” in this section.

Selling and distribution expenses

Our selling and distribution expenses consist of (i) professional service fee; (ii) advertising and marketing expenses; (iii) staff costs; (iv) entertainment and travelling expenses; and (v) others. The following table sets forth a breakdown of our selling and distribution expenses during the Track Record Period:

	<u>FY2016</u>		<u>FY2017</u>		<u>FY2018</u>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Professional service fee	2,190	41.5	18	0.8	—	—
Advertising and marketing expenses	2,135	40.5	1,213	54.0	1,890	58.7
Staff costs	299	5.7	805	35.8	615	19.1
Entertainment and travelling expenses	468	8.9	185	8.2	563	17.5
Others	179	3.4	25	1.2	151	4.7
Total	<u>5,271</u>	<u>100.0</u>	<u>2,246</u>	<u>100.0</u>	<u>3,219</u>	<u>100.0</u>

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For each of FY2016, FY2017 and FY2018, our selling and distribution expenses were approximately RMB5.3 million, RMB2.2 million and RMB3.2 million, representing approximately 5.2%, 2.3% and 2.1% of our total revenue, respectively.

Professional service fee mainly represented the fee for the viewer statistics service we subscribed in FY2016. As our management considered such service not cost effective, we did not continue to procure the same service in FY2017 and FY2018.

Advertising and marketing expenses were approximately RMB2.1 million, RMB1.2 million and RMB1.9 million, respectively, representing approximately 40.5%, 54.0% and 58.7% of our selling and distribution expenses for each of FY2016, FY2017 and FY2018, respectively. The advertising and marketing expenses are costs incurred in promoting our TV series. According to the F&S Report, it is common to exert more efforts on the promotion of first-run TV series. The lower advertising expenses for FY2017 was mainly attributable to fewer promotion activities performed for Jade* (女管家) due to its being broadcasted on fewer TV stations than The Furthest Distance* (遙遠的距離) in FY2016. The higher advertising and marketing expenses for FY2018 was mainly attributable to more promotion activities performed as a result of the increase in the number of TV series licensed, which was also in line with the increase in revenue for FY2018.

Staff costs mainly included salary and other employee benefits for our sales personnel. Our staff costs amounted to approximately RMB0.3 million, RMB0.8 million and RMB0.6 million, representing approximately 5.7%, 35.8% and 19.1% of our total selling and distribution expenses for each of FY2016, FY2017 and FY2018, respectively. The increase in staff costs in FY2017 was mainly because we paid a higher year-end bonus to our sales staff in FY2017 than in FY2016 while no such bonus was paid in FY2018.

Entertainment and travelling expenses mainly included entertainment and travelling expenses incurred by our sales personnel in conducting business activities. Our entertainment and travelling expenses amounted to approximately RMB0.5 million, RMB0.2 million and RMB0.6 million, representing approximately 8.9%, 8.2% and 17.5% of our total selling and distribution expenses for each of FY2016, FY2017 and FY2018, respectively. The entertainment and travelling expenses decreased in FY2017 corresponding to the fewer promotion activities performed in FY2017 while it increased in FY2018 which was in line with the increase in revenue for FY2018.

Others mainly include office expenses and miscellaneous expenses which was not material during the Track Record Period.

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Administrative expenses

Our administrative expenses primarily consist of (i) staff costs; (ii) entertainment and travelling expenses; (iii) professional service fees; and (iv) office rental expenses. The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	2,034	26.9%	3,122	33.6%	2,853	41.4%
Entertainment and travelling expenses	1,851	24.5%	1,762	19.0%	1,845	26.8%
Professional service fees	1,654	21.9%	1,008	10.8%	439	6.4%
Office rental expenses	900	11.9%	1,367	14.7%	843	12.2%
Miscellaneous taxes.	506	6.7%	961	10.3%	197	2.9%
Office expenses.	319	4.2%	304	3.3%	234	3.4%
Depreciation and amortisation expense	30	0.4%	293	3.2%	381	5.5%
Others	275	3.6%	475	5.1%	94	1.4%
Total	<u>7,569</u>	<u>100.0%</u>	<u>9,292</u>	<u>100.0%</u>	<u>6,886</u>	<u>100.0%</u>

Our administrative expenses were approximately RMB7.6 million, RMB9.3 million and RMB6.9 million, respectively, representing approximately 7.4%, 9.4% and 4.5% of our total revenue for the respective financial year.

Staff costs were approximately RMB2.0 million, RMB3.1 million and RMB2.9 million, respectively, representing approximately 26.9%, 33.6% and 41.4% of our administrative expenses for each of FY2016, FY2017 and FY2018, respectively. Similar to the discussion above, the increase in staff costs in FY2017 was mainly because we paid a higher year-end bonus to our administrative staff in FY2017 than in FY2016 while no such bonus was paid in FY2018.

Entertainment and travelling expenses mainly included entertainment and travelling expenses incurred by our management in conducting various activities for strategic development and daily business management. Our entertainment and travelling expenses amounted to approximately RMB1.9 million, RMB1.8 million and RMB1.8 million, which remained stable for each of FY2016, FY2017 and FY2018 due to our management’s continuous dedication.

Our professional service fees were mainly related to legal consultancy services, audit services and continuing supervision fee upon listing in NEEQ. Our professional services fee amounted to approximately RMB1.7 million, RMB1.0 million and RMB0.4 million, representing approximately 21.9%, 10.8% and 6.4% of our total administrative expenses for each of FY2016, FY2017 and FY2018, respectively. We incurred higher professional services fees in FY2016 in pursuit of the listing of Values Culture in the NEEQ. As such listing was completed in FY2016, the expenses related to professional services decreased in the following years especially in FY2018 when Values Culture was delisted from the NEEQ.

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Office rental expenses relating to the leased property in the PRC were approximately RMB0.9 million, RMB1.4 million and RMB0.8 million, respectively, representing approximately 11.9%, 14.7% and 12.2% of our administrative expenses for each of FY2016, FY2017 and FY2018, respectively. The higher rental cost for FY2017 was principally due to a new office rented for business expansion. The lower rental cost for FY2018 was due to the termination of a leased office in October 2017 in consideration of operational cost effectiveness.

Other administrative expenses mainly include miscellaneous taxes, office expenses, depreciation and amortisation expense and others which were not material during the Track Record Period.

Impairment losses on financial assets

The impairment losses on financial assets represents the impairment provision on long aging trade and other receivables. For each of FY2016, FY2017 and FY2018, our impairment losses on financial assets amounted to approximated RMB4.0 million, RMB4.7 million and RMB6.8 million representing approximately 3.9%, 4.8% and 4.4% of our revenue for each year. Please refer to paragraphs headed “Critical accounting policies, judgement and estimates — Provision for expected credit losses on trade receivables” and “Provision for expected credit losses on other receivables” in this section for details.

Finance costs

Our finance costs consist of (i) interest on bank loans, (ii) interest on other borrowings, (iii) interest on borrowings from a director and related parties, (iv) interest on discounted notes receivables and (v) interest on trade receivables financing less interest capitalised. For each of FY2016, FY2017 and FY2018, our finance costs were approximately RMB1.2 million, RMB1.7 million and RMB2.3 million, respectively, which represented approximately 1.2%, 1.7% and 1.5% of our revenue, respectively. The following table sets forth a breakdown of our finance costs during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	5	424	1,231
Interest on other borrowings	3,275	845	3,062
Interest on borrowings from a director and related parties	477	—	67
Interest on discounted notes receivables	—	—	44
Interest on trade receivables financing	—	442	23
Less: Interest capitalised	<u>(2,562)</u>	<u>—</u>	<u>(2,103)</u>
	<u>1,195</u>	<u>1,711</u>	<u>2,324</u>

Interest on bank loans arises from the short term secured bank loans with floating interest rate, which are renewable on annual basis during the Track Record Period. Interest on other borrowings arises from Fixed Return Investment made by third party investors

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primarily in our Group’s self-produced TV series. The relevant investment amount is regarded as other borrowings by us from accounting perspective and the investment return is therefore regarded as interest on other borrowings accordingly.

Interest on borrowings from a director and related parties arises from loans for either intended use in production of particular TV series or general working capital use.

Interest on discounted notes receivables and trade receivables financing represent discounting charges calculated based on market interest rate.

Interest expense are capitalised to the extent the borrowings are directly for financing the production of a particular TV series. The capitalisation of interest expenses would cease when a particular TV series is substantially ready for its intended broadcast upon obtaining the Licence for Distribution of TV series.

Income tax expense

During the Track Record Period, we incurred income tax expense of approximately RMB12.3 million, RMB1.9 million and RMB3.4 million, respectively. The following table sets forth the major components of our income tax expense during the Track Record Period:

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current — Mainland China			
Charge for the year	12,975	3,004	4,089
Deferred	(701)	(1,125)	(723)
Total tax charge for the year	12,274	1,879	3,366

Our Group is 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, our Company and its subsidiary are not subject to any income tax in the Cayman Islands and the British Virgin Islands. The statutory tax rate for our subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on our subsidiary has been provided as there was no assessable profit arising in Hong Kong during the Track Record Period. 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 subsidiary of our Group as determined in accordance with the PRC Corporate Income Tax Law.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Xinjiang Kashgar/Khorgas special economic areas during the period from 2010 to 2020 could enjoy EIT exemption for five years starting from the year under which the first revenue was generated. Our Consolidated Affiliated Entity Khorgas Values and Xinjiang Values 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), which are entitled to such EIT exemption starting from FY2017 and FY2018, respectively.

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For FY2016, FY2017 and FY2018, the effective tax rates of our Group were approximately 27.2%, 21.9% and 5.0%, respectively. Our effective tax rates were lower than the PRC statutory EIT rate of 25% for FY2017 and FY2018 primarily because some of our profits were generated by Khorgas Values and Xinjiang Values, which were subject to the tax exemptions as discussed above.

Profit for the year and net profit margin

For FY2016, FY2017 and FY2018, our net profit was approximately RMB32.8 million, RMB6.7 million and RMB64.5 million, respectively. During the same period, our net profit margin was approximately 32.2%, 6.7% and 41.8%, respectively.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

FY2018 compared with FY2017

Revenue

Our revenue increased by approximately RMB54.8 million or 55.2% from approximately RMB99.3 million for FY2017 to approximately RMB154.1 million for FY2018, primarily due to (i) the growth in the number of the broadcasting rights of TV series we succeeded in licensing in FY2018, and (ii) the increase in revenue from the provision of distribution services from nil in FY2017 to approximately RMB12.9 million in FY2018. For more detailed analysis, please refer to paragraph headed “Description of principal components of our results of operations — Revenue” in this section.

Despite the market contraction in FY2018, we maintained sound momentum of development in licensing the broadcasting rights of TV series by successfully identifying and sourcing marketable TV series.

Cost of sales

Our cost of sales decreased by approximately RMB7.6 million or 9.3% from approximately RMB81.6 million in FY2017 to approximately RMB74.0 million in FY2018. Such decrease was not in line with the fluctuation in revenue for the same years, which increased by approximately 55.2% from RMB99.3 million in FY2017 to RMB154.1 million in FY2018. The comparatively high cost of sales in FY2017 was mainly attributable to the recognition of majority of the total costs of Jade* (女管家) in FY2017, as its actual distribution performance in successive broadcasting runs underperformed our management’s original estimation. The cost of sales of Jade* (女管家) in FY2017 amounted to approximately RMB57.2 million, representing approximately 70.2% of our total cost of sales in FY2017.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB62.4 million or 352.8% from approximately RMB17.7 million in FY2017 to approximately RMB80.1 million in FY2018. Our gross profit margin increased from approximately 17.8%

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in FY2017 to approximately 52.0% in FY2018, primarily due to (i) the higher gross profit of the Golden Years Of The Nursing Mother* (養母的花樣年華), being approximately 64.5% in FY2018, (ii) the recognition of majority of total costs of Jade* (女管家) in FY2017; and (iii) the increase in revenue contribution by provision of distribution service for which revenue is accounted on net basis and the gross profit margin is 100%.

Other income and gains

Our other income and gains decreased by approximately RMB1.9 million or 20.5% from approximately RMB8.9 million for FY2017 to approximately RMB7.0 million for FY2018, primarily due to the decreases in (i) tax related government grants, and (ii) interest income from loans receivables resulting from decrease in the average balance and larger proportion of return of our Fixed Return Investment being recognised in FY2017 according to the passage of investment term; partially offset by the reward granted by the local government due to the listing of Values Culture in the NEEQ.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB1.0 million or 43.3% from approximately RMB2.2 million for FY2017 to approximately RMB3.2 million for FY2018, which was generally in line with the increase in our revenue from FY2017 to FY2018. Such increase was mainly due to increases in advertising and marketing expenditures incurred in performing promotion activities for an increasing number of TV series of which we licensed the broadcasting rights and entertainment and travelling expenses incurred in the course of TV series distribution.

Administrative expenses

Our administrative expenses decreased by approximately RMB2.4 million or 25.9% from approximately RMB9.3 million for FY2017 to approximately RMB6.9 million for FY2018, principally due to the decrease in office rental fees and professional fee.

Finance costs

Our finance costs increased by approximately RMB0.6 million or 35.8% from approximately RMB1.7 million for FY2017 to approximately RMB2.3 million for FY2018, principally due to the increase in (i) the amount of bank loans, and (ii) other borrowings primarily utilised for production of TV series; partially offset by the decrease in discounting charges for financing.

Income tax expense

Our income tax expense increased by approximately RMB1.5 million or 79.1% from approximately RMB1.9 million for FY2017 to approximately RMB3.4 million for FY2018, primarily due to the increase in profit before taxation. Our income tax expenses only increased by approximately 79.1% from FY2017 to FY2018 while our profit before tax increased by approximately 6.9 times for the same years mainly because a substantial

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proportion of our profit in FY2018 was generated by Khorgas Values, which enjoys EIT exemptions. For further details, please refer to the paragraph headed “Description of principal components of our results of operations — Income tax expense” in this section.

Net profit for the year and net profit margin

As a result of the foregoing, our profit for the year increased by approximately RMB57.8 million or 863.7% from approximately RMB6.7 million for FY2017 to approximately RMB64.5 million for FY2018. Our net profit margin increased from approximately 6.7% for FY2017 to approximately 41.8% for FY2018.

FY2017 compared with FY2016

Revenue

Our revenue remained stable at approximately RMB99.3 million for FY2017 as compared to approximately RMB102.0 million for FY2016.

Cost of sales

Our cost of sales increased by approximately RMB39.1 million or 92.0% from approximately RMB42.5 million for FY2016 to approximately RMB81.6 million for FY2017. Such increase given the slight decrease in revenue for the same period was primarily attributable to the recognition of majority of the total costs incurred for Jade* (女管家) as a result of our management’s downward revision of the Total Estimated Revenue from the TV series taking into consideration of the actual distribution performance.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by approximately RMB41.8 million or 70.3% from approximately RMB59.5 million for FY2016 to approximately RMB17.7 million for FY2017. Our gross profit margin decreased from approximately 58.3% for FY2016 to approximately 17.8% for FY2017, primarily due to (i) the recognition of majority of cost of sales of Jade* (女管家) in FY2017, and (ii) the relatively higher gross profit margin of the Furtherest Distance* (遙遠的距離) whose revenue accounted for approximately 98.8% of the total revenue of FY2016.

Other income and gains

Our other income and gains increased by approximately RMB5.3 million or 145.0% from approximately RMB3.6 million for FY2016 to approximately RMB8.9 million for FY2017, primarily due to increases in (i) government grants and (ii) interest income from loans receivables as a result of increase in Fixed Return Investments made by us in new TV series in FY2017.

The increase in government grants was primarily due to (i) the large amount of tax refund collected and recognized in FY2017 in relation to satisfactory performance of the Furtherest Distance* (遙遠的距離) in FY2016.

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Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB3.1 million or 57.4% from approximately RMB5.3 million for FY2016 to approximately RMB2.2 million for FY2017, primarily due to (i) the one-off purchase of a viewer statistics service in FY2016 and (ii) fewer promotion activities carried out in FY2017. For further details, please refer to paragraph headed “Description of principal components of our results of operations — Selling and distribution expenses” in this section.

Administrative expenses

Our administrative expenses increased by approximately RMB1.7 million or 22.8% from approximately RMB7.6 million for FY2016 to approximately RMB9.3 million for FY2017, principally due to increases in office rental fees and the year-end bonus to our administrative staff which was partially offset by a decrease of professional services fee.

Finance costs

Our finance costs increased by approximately RMB0.5 million or 43.2% from approximately RMB1.2 million for FY2016 to approximately RMB1.7 million for FY2017, principally due to increases in (i) interest on bank loans resulting from most of the loan term falling in FY2017 with regard to the same loan provided at the end of FY2016; and (ii) accounts receivables discounting charges by the bank; partially offset by the decrease in the interests on the borrowings from a director and related parties resulting from the repayment of such borrowings.

Our finance costs increased in FY2017 in spite of the significant decrease in interest on other borrowings because (i) a significant proportion of our other borrowings in FY2016 were intended for production of a particular TV series and its corresponding interests were eligible for capitalisation as a deduction of the finance costs and (ii) all the interests on other borrowings in FY2017 were expensed for general working capital use.

Income tax expense

Our income tax expense decreased by approximately RMB10.4 million or 84.7% from approximately RMB12.3 million in FY2016 to RMB1.9 million in FY2017, primarily due to the significant decrease in profit before taxation.

Net profit for the year and net profit margin

As a result of the foregoing, our profit for the year decreased by approximately RMB26.1 million or 79.6% from approximately RMB32.8 million for 2016 to approximately RMB6.7 million for FY2017. Our net profit margin decreased from approximately 32.2% for FY2016 to approximately 6.7% for FY2017.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for investing in, operating and maintaining the business in production and licensing the broadcasting rights of TV series. To date, we have funded our investments and operations principally with bank loans and other borrowings, cash generated from our operations and equity contributions. We believe that our liquidity requirement will be satisfied through a combination of cash flows generated from our operating activities, bank loans and other borrowings and the [REDACTED] from the [REDACTED] after the [REDACTED]. Any significant decrease in the demand for or pricing of our products, difficulty in collection of our licence fees or a significant decrease in the availability of bank loans and other borrowings, may adversely impact our liquidity.

Cash Flow

As at 31 December 2016, 2017 and 2018, we had cash and cash equivalents of approximately RMB115.5 million, RMB30.1 million and RMB11.7 million, respectively. The following table sets forth a summary of our combined statements of cash flows during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows used in operating activities. . . .	(30,617)	(29,276)	(86,065)
Net cash flows (used in)/from			
investment activities	(7,163)	(19,490)	27,927
Net cash flows from/(used in)			
financing activities	<u>144,986</u>	<u>(36,716)</u>	<u>39,748</u>
Net increase/(decrease) in cash and			
cash equivalents.	107,206	(85,482)	(18,390)
Cash and cash equivalents at beginning of year	<u>8,331</u>	<u>115,537</u>	<u>30,055</u>
Cash and cash equivalents at end of year	<u><u>115,537</u></u>	<u><u>30,055</u></u>	<u><u>11,665</u></u>

Cash flows used in operating activities

Our cash inflows from operating activities are mainly derived from receipt of proceeds from licensing of broadcasting rights of TV series. Our cash flows used in operating activities mainly represent costs incurred in production of self-developed TV series, costs of purchased copyrights (or broadcasting rights) of TV series and cost of co-financing (as non-executive producer).

For FY2018, our net cash used in operating activities was approximately RMB86.1 million. The significant difference between the profit before tax and net cash flows used in operating activities was mainly due to (i) the increase in inventories by approximately RMB75.5 million as at 31 December 2018 as compared to 31 December 2017 as substantial costs were incurred in the production and purchase of several TV series in FY2018; (ii) the increase in prepayments, other receivables and other assets by approximately RMB56.9 million as at 31 December 2018 as compared to 31 December 2017 as a result of increased

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investment under co-financing arrangements as non-executive producer; and (iii) increase in trade and notes receivables by approximately RMB35.7 million as at 31 December 2018 as compared to 31 December 2017 as a result of our increased revenue in FY2018.

For FY2017, our net cash used in operating activities was approximately RMB29.3 million. The significant difference between the profit before tax and net cash flows used in operating activities was mainly due to the increase in inventories by approximately RMB56.1 million as at 31 December 2017 as compared to 31 December 2016 as substantial costs were incurred in the production of several TV series in FY2017; and partially offset by the increase in trade payables by approximately RMB28.5 million as at 31 December 2017 as a result of purchase of the broadcasting rights of TV series.

For FY2016, our net cash used in operating activities was approximately RMB30.6 million. The significant difference between the profit before tax and net cash flows used in operating activities was mainly due to i) the increase in trade and notes receivables by approximately RMB31.2 million during FY2016; ii) the increase in prepayments, other receivables and other assets by approximately RMB19.0 million during FY2016; and iii) the increase in inventories by approximately RMB15.5 million during FY2016 as a result of costs incurred in the production of and investment in TV series in FY2016.

Cash flows (used in)/generated from investing activities

Our cash flows generated from investing activities were primarily derived from disposal of financial assets, interest received from loans receivables and penalty income, and repayment of advances of loans to third parties, whereas our cash used in investing activities was primarily attributable to purchases of financial assets and advances of loans to third parties.

Advances of loans to third parties and the interest received from such loans generally represented the Fixed Return Investment made by us and the corresponding return, respectively. Please refer to the paragraphs headed “Description of principal components of our results of operations — Other income and gains” and “Discussion on certain financial position items — Prepayment, other receivables and other assets” in this section for details.

For FY2018, our net cash generated from investing activities was approximately RMB27.9 million, primarily reflecting the receipt of repayment of our Fixed Return Investment of approximately RMB30.2 million. Such amount was partially offset by the advance of loans to an independent third party of approximately RMB5.3 million.

For FY2017, our net cash used in investing activities was approximately RMB19.5 million, primarily reflecting our Fixed Return Investment of approximately RMB20.2 million. Such amount was partially offset by the receipt of investment return from and overdue interest as penalty income on our Fixed Return Investment.

For FY2016, our net cash used in investing activities was approximately RMB7.2 million, primarily reflecting our Fixed Return Investment of approximately RMB7.5 million.

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Cash flows generated from/(used in) financing activities

Our cash flows generated from financing activities was primarily attributable to the capital contribution from the then equity holders of a subsidiary and proceeds from bank loans and other borrowings, whereas our cash used in financing activities was primarily attributable to repayment of bank loans and other borrowings, and repayment of borrowings from related parties.

Proceeds from other borrowings represent the Fixed Return Investment made by third party investors in respect of the TV series we produce. Please refer to the paragraphs headed “Description of principal components of our results of operations — Finance costs” and “Discussion on certain financial position items — Other payables and accruals” in this section for details.

For FY2018, our net cash flows generated from financing activities was approximately RMB39.7 million, primarily reflecting (i) the proceeds from bank loan of approximately RMB25.0 million, net of repayment and (ii) the proceeds from Fixed Return Investment made by other investors of approximately RMB18.0 million, net of repayment; partially offset by interest paid of approximately RMB3.3 million.

For FY2017, our net cash flows used in financing activities was approximately RMB36.7 million, primarily reflecting (i) the repayment of bank loans of approximately RMB20.0 million and (ii) repayment of Fixed Return Investment made by third party investors of approximately RMB40.5 million; partially offset by the proceeds from Fixed Return Investment of approximately RMB25.5 million.

For FY2016, our net cash flows from financing activities was approximately RMB145.0 million, primarily reflecting the (i) capital contribution from the then equity holders of a subsidiary, which amounted to approximately RMB145.7 million, (ii) proceeds from bank loans of approximately RMB20.0 million; partially offset by (i) the repayment of the Fixed Return Investment made by third party investors of approximately RMB5.0 million, net of proceeds and (ii) the repayment of borrowings from related parties of approximately RMB11.0 million, net of proceeds.

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DISCUSSION ON CERTAIN FINANCIAL POSITION ITEMS

Net current assets

The following table sets forth details of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT ASSETS				
Inventories	74,230	130,367	203,918	169,492
Trade and notes receivables	68,058	68,253	99,291	119,302
Prepayments, other receivables and other assets	43,850	62,527	88,619	103,203
Cash and cash equivalents	115,537	30,055	11,665	6,682
Total current assets	<u>301,675</u>	<u>291,202</u>	<u>403,493</u>	<u>398,679</u>
CURRENT LIABILITIES				
Trade payables	—	28,514	34,865	23,685
Other payables and accruals	1,637	7,039	5,846	5,679
Interest-bearing bank loans and other borrowings	35,000	—	43,000	37,000
Tax payable	14,392	—	—	4,417
Total current liabilities	<u>51,029</u>	<u>35,553</u>	<u>83,711</u>	<u>70,781</u>
NET CURRENT ASSETS	<u><u>250,646</u></u>	<u><u>255,649</u></u>	<u><u>319,782</u></u>	<u><u>327,898</u></u>

As at 31 December 2016, 2017 and 2018 and 30 April 2019, we recorded net current assets of approximately RMB250.6 million, RMB255.6 million, RMB319.8 million and RMB327.9 million, respectively. Our current assets consist principally of inventories, trade and notes receivables, prepayments, other receivables and other assets and cash and cash equivalents. The components of our current liabilities are trade payables, interest-bearing bank loans and other borrowings, other payables and accruals and tax payables.

Our net current assets increased by approximately RMB5.0 million from approximately RMB250.6 million as at 31 December 2016 to approximately RMB255.6 million as at 31 December 2017. Such increase was mainly due to the net profit in FY2017 of approximately RMB6.7 million. The increase in net current assets has been mainly reflected in, among others, (i) the increase in inventories of approximately RMB56.1 million; (ii) the decrease in interest-bearing bank loans and other borrowings of approximately RMB35.0 million; and (iii) the decrease in cash and cash equivalents of approximately RMB85.5 million.

Our net current assets increased by approximately RMB64.2 million from approximately RMB255.6 million as at 31 December 2017 to approximately RMB319.8 million as at 31 December 2018. Such increase was mainly due to the net profit in FY2018 of approximately RMB64.5 million. The increase in net current assets has been mainly

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reflected in, among others, (i) the increase in inventories of approximately RMB73.6 million; (ii) the increase in trade and notes receivables of approximately RMB31.0 million; and (iii) the increase in interest-bearing bank loans and other borrowings of approximately RMB43.0 million.

Our net current assets increased by approximately RMB8.1 million from approximately RMB319.8 million as at 31 December 2018 to approximately RMB327.9 million as at 30 April 2019. Such increase was mainly due to the net profit for the period after Track Record Period till 30 April 2019. The increase in net current assets has been mainly reflected in, among others, (i) increase in trade and notes receivables of approximately RMB20.0 million, (ii) increase in prepayments, other receivables and other assets of approximately RMB14.6 million, (iii) decrease in inventories of approximately RMB34.4 million and (iv) the decrease in trade payables of approximately RMB11.2 million.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. We had inventories of approximately RMB74.2 million, RMB130.4 million and RMB203.9 million as at 31 December 2016, 2017 and 2018.

Raw materials

Raw materials mainly represent the cost of scripts for the production of our Group’s TV series. The amount is stated at cost and will be transferred to work in progress once the production process commences.

Work in progress

Work-in-progress mainly represents the costs incurred in the course of production of TV series including script writing, directors, artists, production crew, equipment, postproduction, meal and accommodations, which the TV series is yet to obtain the Licence for Distribution of TV series. The amount is recorded at cost and will be transferred to finished goods once we obtain the Licence for Distribution of TV series.

Finished goods

Finished goods represent (i) the cost recognized upon obtaining the Licence for Distribution of TV series with respect to the TV series which we produced as executive producer or non-executive producer under co-financing arrangements or (ii) the cost of purchased copyright (or broadcasting rights).

The amount is recorded at cost and will be transferred to cost of sales according to the cost recognition method as mentioned in the paragraph headed “Description of principal components of our results of operations — Cost of sales” in this section.

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The following table sets forth the breakdown of our inventories as at the respective dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,320	4,183	9,810
Work in progress	2,350	92,210	87,131
Finished goods	67,560	33,974	111,064
Less: Inventories provision	—	—	(4,087)
	74,230	130,367	203,918

The inventories increased by approximately RMB56.2 million or 75.6% from approximately RMB74.2 million as at 31 December 2016 to approximately RMB130.4 million as at 31 December 2017 and, and further increased by approximately RMB73.5 million or 56.4% to approximately RMB203.9 million as at 31 December 2018.

The increase in the inventories throughout the Track Record Period was primarily due to our continuous efforts in producing, investing in and purchasing the copyright (or the broadcasting rights) of the TV series, which we considered marketable based on our preliminary research on the market trend and understanding of the needs of our customers.

The following table sets forth our average inventories turnover days:

	As at 31 December		
	2016⁽²⁾	2017	2018
Inventories turnover days ⁽¹⁾	345.1	457.7	824.7

Note:

1. Inventories turnover days were calculated based on the average of the opening and closing inventories divided by cost of sales for the relevant year multiplied by 365 for the year.
2. The opening balance is an unaudited figure.

Our generally long inventories turnover days was mainly due to the long production and distribution life cycle of TV series. Normally, it takes us eight to fifteen months to complete the process from shooting to obtaining the Licence for Distribution of TV series before the TV series is eligible for broadcast.

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The general increase in inventories turnover days from approximately 345.1 days for FY2016, 457.7 days for FY2017 to 824.7 days for FY2018 was mainly attributable to the continuous increasing inventory level as a result of increasing costs incurred in various TV series production activities during the Track Record Period. Apart from the reason said above, the inventory level as at 31 December 2018 increased further because we purchased and invested in (as non-executive producer) an increasing number of TV series in anticipation of promising market demand in the foreseeable future, thus leading to a significant increase in the inventories turnover days for FY2018.

We closely monitor our inventory level to meet our operation requirements and avoid stocking up obsolete inventory.

As at [30 April 2019], approximately RMB[32.5] million or [15.9]% of our inventories as at 31 December 2018 were subsequently recognised as cost of sales.

Trade and notes receivables

Our trade receivables primarily consist of licence fee and distribution service fee due from customers, and the investment return due from third party investors under co-financing arrangements (as non-executive producer). For further details of the arrangements, please refer to the paragraph headed “Business — Our business and revenue model — (ii) Investment in TV series as non-executive producer” in this document. Our notes receivables consist of bank’s acceptance bills to settle trade balances due to our Group. During the Track Record Period, our trade and note receivables were dominated in RMB. Our customers generally settle payments through bank transfers.

The following table sets out the breakdown of our trade and notes receivables as at 31 December 2016, 2017 and 2018:

	31 December 2016	31 December 2017	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	68,045	76,972	112,704
Notes receivable	4,000	—	—
	<u>72,045</u>	<u>76,972</u>	<u>112,704</u>
Impairment	(3,987)	(8,719)	(13,413)
	<u>68,058</u>	<u>68,253</u>	<u>99,291</u>

As at 31 December 2016, 2017 and 2018, our trade and notes receivables were approximately RMB68.1 million, RMB68.3 million and RMB99.3 million, respectively. Our trade and notes receivable balances were all due from Independent Third Parties. Our trade and notes receivables remained stable at 31 December 2016 and 2017. Our trade and notes receivables increased by approximately RMB31.0 million or 45.5% from approximately RMB68.3 million as at 31 December 2017 to approximately RMB99.3 million as at 31 December 2018, mainly due to our increase in revenue in FY2018.

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Our trade receivables amounting to RMB17,000,000, nil and RMB16,674,000 were pledged to secure the bank loan granted to our Group as at 31 December 2016, 2017 and 2018, respectively.

During the Track Record Period, we generally granted a credit period of 90 to 365 days to our customers, depending on the specific payment terms in each contract. Our Group does not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2016, 2017 and 2018, our Group made provision for impairment of trade receivables of approximately RMB4.0 million, RMB8.7 million and RMB13.4 million, respectively. Impairment analysis is performed at the end of each reporting period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by customer type). For details, please see note 15 to the accountant’s report in Appendix I to this Document.

The following table sets forth the aging analysis of our trade and notes receivables, based on the transaction dates and net of loss allowance, as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	49,075	14,565	58,735
3 to 6 months	353	—	1,322
6 to 12 months	—	10,353	—
1 to 2 years	14,630	30,194	17,932
2 to 3 years	—	13,141	21,302
	64,058	68,253	99,291

The following table sets forth the analysis of our trade and notes receivables based on date of past due and net of loss allowance, as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	49,075	23,736	58,735
Past due			
— less than 1 year	353	1,182	1,322
— 1 to 2 years	14,630	30,194	17,932
— 2 to 3 years	—	13,141	21,302
Amounts past due	14,983	44,517	40,556
	64,058	68,253	99,291

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The following table sets forth our average trade receivables turnover days for the Track Record Period:

	<u>FY2016⁽²⁾</u>	<u>FY2017</u>	<u>FY2018</u>
Average trade receivables turnover days ^(Note)	<u>187.7</u>	<u>243.3</u>	<u>198.4</u>

Note:

- (1) Average trade receivables turnover days were calculated based on the average of beginning and ending trade receivable balances divided by revenue for the relevant year multiplied by 365 days for the year.
- (2) Opening balance is extracted from management account which is an unaudited figure.

As at 31 December 2018, approximately RMB39.2 million, representing approximately 39.5% of our net trade and notes receivables were past due over 1 year. These long aged trade receivables were mainly related to amounts due from TV stations, which have long internal procedures in settling our payments.

We have adopted stringent credit control procedures to minimise potential credit risks and established record system to monitor receivables and outstanding invoices. As a measure to strengthen our capability to collect these overdue trade receivables, our management will take appropriate follow-up actions such as active communication with the customers and legal actions, depending on the specific circumstances, after regularly reviewing the monitoring reports from the finance staff.

According to F&S Report, it is an industry norm that the accounts receivable of drama series, including TV series, from customers such as TV stations is normally within three years and the risk of failing to settle payments by customers is relatively low.

Taking into consideration of the above factors, our Directors are of the view that the default risk of our overdue trade receivables are relatively low and sufficient provision has been made to the trade and notes receivables for each of FY2016, FY2017 and FY2018.

Our average trade receivables turnover days were approximately 187.7 days, 243.3 days and 198.4 days for FY2016, FY2017 and FY2018, respectively. Our average trade receivables turnover days increased by 55.6 days for FY2017 as compared to FY2016 mainly as a result of the relatively lower beginning balance of trade receivables for FY2016. Our trade receivables turnover days decreased to 198.4 days for FY2018 despite the increase in trade receivables from approximately RMB68.3 million as at 31 December 2017 to approximately RMB99.3 million primarily due to the significant increase in revenue in FY2018. Our trade receivables turnover days were generally within the range of the credit period granted to our customers during the Track Record Period.

As at [31 May] 2019, approximately RMB[30.2] million, representing approximately [30.5]% of our trade receivable outstanding as at 31 December 2018 had been settled.

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Prepayment, other receivables and other assets

Our prepayments, other receivables and other assets primarily consist of prepayment under co-financing arrangements, prepayments, loans receivables and deposits and other receivables.

The following table sets forth the breakdown of our prepayment, other receivables and other assets as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment under co-financing arrangements	500	3,140	79,272
Prepayments.	24,189	14,785	842
Deposits and other receivables	9,311	9,993	351
Loans receivables	8,500	28,700	3,774
Prepaid REDACTED	—	—	1,106
Deductible input — VAT.	2,048	1,911	4,945
Income tax recoverable	—	3,311	717
Interest receivables	302	1,687	761
Less: Impairment allowance	(1,000)	(1,000)	(3,149)
Total	43,850	62,527	88,619

Prepayment under co-financing arrangements represents the investment we made under co-financing arrangements as non-executive producer for the sharing of the net licence fee. For further details of the arrangements, please refer to the paragraph headed “Business — Our business and revenue model — (ii) Investment in TV series as non-executive producer” in this document. Our prepayment under co-financing arrangements increased significantly from approximately RMB0.5 million as at 31 December 2016 to approximately RMB79.3 million as at 31 December 2018, mainly because we invested a total of approximately RMB88.1 million in several TV series as non-executive producer in FY2017 and FY2018. Due to the capital intensive nature of the TV series production business and in view of our experiences in both production and distribution, other TV series producers may approach us and invite us to invest for a certain percentage of interest in their TV series. Such investment increased in FY2017 and FY2018 as our management considered these TV series promising and co-financing arrangements an effective way to diversify our risk and enhance our overall profitability.

Prepayments mainly represent prepayments made to our suppliers who are either the copyright owners of the TV series or service providers in TV series production such as artists, scriptwriters, directors, cinematographers and art designers. Generally, certain proportion of the fees to the service providers in TV series production are paid upfront before their services were rendered while copyright owners usually do not require such prepayment. As we increased our purchase of TV series from copyright owners in FY2017 and FY2018, the prepayments decreased significantly from approximately RMB24.2 million as at 31 December 2016 to approximately RMB0.8 million as at 31 December 2018.

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Deposits and other receivables mainly consist of advances made to third parties and deposits for office lease. The significant decrease in deposits and other receivables from approximately RMB10.0 million as at 31 December 2017 to approximately RMB0.4 million was mainly due to the collection of the advance made to a third party in FY2018.

Loans receivables and related interest receivables represent the Fixed Return Investment we made and the corresponding investment return we are entitled to. Our loan receivables increased from approximately RMB8.5 million as at 31 December 2016 to approximately RMB28.7 million as at 31 December 2017 mainly because we made Fixed Return Investment in two additional TV series and film in FY2017 with a total investment amount of RMB20.2 million. As we recovered certain amount of the Fixed Return Investment, our loan receivables decreased to approximately RMB3.8 million as at 31 December 2018.

Trade payables

Our trade payables mainly consist of (i) amounts due to our suppliers for the purchase of copyrights (or broadcasting rights) of TV series and services for our production of TV series; and (ii) sharing of net licence fee due to third party investors under co-financing arrangements (as executive producer). Our trade payable increased from nil as at 31 December 2016 to approximately RMB28.5 million mainly due to purchase of broadcasting rights of a TV series in FY2017. Our trade payable further increased by approximately RMB6.4 million or 22.3% to approximately RMB34.9 million as at 31 December 2018 mainly attributable to the increase in amount due to suppliers as we procured more services in the course of our production of TV series to cope with our business growth.

Our trade payables are non-interest-bearing and are normally settled within 90 to 180 days. We generally settle payments by bank transfer.

The following table sets forth the aging analysis of our trade payables, as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months.	—	20,431	6,211
3 to 6 months.	—	—	12,666
6 to 12 months.	—	8,083	6,000
1 to 2 years	—	—	9,988
	—	28,514	34,865

As at 31 December 2018, we had trade payables of approximately RMB10.0 million aged over 1 year, which was mainly due to our strong capability to negotiate for a prolonged payment schedule.

As at [30 April] 2019, approximately RMB[11.5] million, representing approximately [32.9]% of our trade payables as at 31 December 2018 had been settled.

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The following table sets forth our average trade payables turnover days for the Track Record Period:

	FY2016^(Note 2)	FY2017	FY2018
Average trade payables turnover days ^(Note 1)	—	63.8	156.4

Note:

- (1) Average trade payables turnover days are calculated by dividing the average of beginning and ending balances of trade payables by cost of sales for the relevant period and multiplied by 365 days for the years ended 31 December 2016, 2017 and 2018.
- (2) Opening balance is extracted from management account, which is an unaudited figure.

For FY2017 and FY2018, we had average trade payables turnover days of around 63.8 days and 156.4 days, respectively. The higher average trade payables turnover days for FY2018 was mainly attributable to the increasing balance of trade payables as at 31 December 2017 and 2018 as discussed above.

Other payables and accruals

The following table sets out the balance of our other payables and accruals as at 31 December 2016, 2017 and 2018:

	31 December 2016	31 December 2017	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount received under co-financing arrangements (as executive producer)	—	3,500	3,000
Other tax payables	8	560	237
Interest payable	5	—	1,175
Payroll and welfare payable	932	2,464	937
Accrued expenses	141	170	—
Others	551	345	497
	1,637	7,039	5,846

Our other payables and accruals mainly comprise amounts received under co-financing arrangement, interest payables and payroll and welfare payable which were non-interest-bearing and repayable on demand.

Amount received under co-financing arrangement represents the proceeds from third party investors in our self-produced TV series. For further details of the arrangements, please refer to the paragraph headed “Business — Our business and revenue model — (i) Licensing of broadcasting rights of self-produced TV series” in this document. Interest payables are related to bank loans and Fixed Return Investments made by third party investors.

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Our other payables and accruals increased by approximately RMB5.4 million or 330.0% from approximately RMB1.6 million as at 31 December 2016 to approximately RMB7.0 million as at 31 December 2017, primarily due to the (i) increased proceeds from third party investors under co-financing arrangement (as executive producer) of RMB3.5 million; and (ii) increase in the payroll and welfare payables of approximately RMB1.5 million resulting from the increase in year-end bonus in FY2017.

Our other payables decreased by approximately RMB1.2 million or 16.9% from approximately RMB7.0 million as at 31 December 2017 to approximately RMB5.8 million as at 31 December 2018, primarily due to the decrease in payroll and welfare payables of approximately RMB1.5 million, as no year-end bonus was accrued in FY2018.

INDEBTEDNESS

The table below sets forth our indebtedness balances as of the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans —				
secured	20,000	—	25,000	19,000
Other borrowings — unsecured	15,000	—	18,000	18,000
	35,000	—	43,000	37,000

Our bank loans represent borrowings from licensed banks for operating purposes and were denominated in RMB. The effective interest rates of our bank borrowings were approximately 5.30%, nil and 5.10% to 7.92% per annum for each of FY2016, FY2017 and FY2018, respectively.

As at 30 April 2019, being the latest practicable date for the indebtedness statement, we had outstanding indebtedness of approximately RMB37.0 million. We had no unutilized banking facilities.

The bank loans are guaranteed by joint and several personal guarantees given by Core Shareholders and secured by pledged trade receivables. For the details, please refer to note 20 to the accountants’ report in Appendix I to this document. Upon REDACTED, these personal guarantees provided will be replaced by corporate guarantees to be provided by WFOE or the loans will be repaid.

Our other borrowings consist of (i) Fixed Return Investment made by third party investors and (ii) borrowings from independent third parties for general working capital use. The effective interest rates of our other borrowings were approximately 18.0%, nil and 10.0% to 15.0% per annum for each of FY2016, FY2017 and FY2018, respectively. Our other borrowings as at 31 December 2016 and 2018 were unsecured.

Our bank loans and other borrowings as at 31 December 2016 and 2018 were repayable within one year.

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Our Directors confirm that there were no breach of any covenants relating to our banking facilities and other borrowings during the Track Record Period and there has not been any material adverse change in our indebtedness since 30 April 2019 and up to the date of this document.

Save as disclosed above, as at 30 April 2019, we did not have any other banking facilities, borrowings, mortgages, charges, debentures, or debt securities, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, liabilities under acceptance, acceptance credits, hire purchase commitments, contingent liabilities or guarantees.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Operating lease commitments

Our Group leases certain of our offices under operating lease arrangements. Leases for offices are negotiated for terms ranging from one to three years. At the end of each of the Track Record Period, our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	636	546	897
In the second to the third years, inclusive	3	91	95
	639	637	992

Other commitments

The Group had the following commitments at the end of each of the Relevant Periods:

	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:			
Co-financing arrangements	—	6,160	40,050

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CAPITAL EXPENDITURES

Our capital expenditures consist of purchases of electronic equipment, office equipment and leasehold improvements. The following table sets forth a breakdown of our capital expenditures incurred during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Electronic equipment	9	83	8
Office equipment	—	127	—
Leasehold improvements	—	654	—
Total	<u>9</u>	<u>864</u>	<u>8</u>

The relatively larger capital expenditures of approximately RMB864,000 for FY2017 was principally due to our moving into our existing office for business development purposes.

WORKING CAPITAL

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash flows generated from operations, bank loans, other borrowings, and equity financing. We manage our cash flow and working capital by closely monitoring and managing, among other things, (i) the level of our trade payables and receivables and (ii) our ability to obtain external financing. We also review future cash flow requirements, assess our ability to meet debt repayment schedules and adjust our investment and financing plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

We had net cash outflows in operating activities of approximately RMB30.6 million, RMB29.3 million and RMB86.1 million for each of FY2016, FY2017 and FY2018, respectively. Our cash and cash equivalents showed a decreasing trend during the Track Record Period from approximately RMB115.5 million as at 31 December 2016 and decreased to approximately RMB30.1 million and RMB11.7 million as at 31 December 2017 and 2018, respectively. The relatively higher cash balance as at 31 December 2016 was mainly due to the capital contribution from the then equity holders of Values Culture, our principal operating subsidiary, in 2016.

We had negative operating cash flow during the Track Record Period mainly due to our high capital requirement in production of and investment in TV series for licensing and slow recovery of trade receivables. Since we are principally engaged in producing the TV series and licensing of broadcasting rights of such TV series, which is capital intensive in nature, we require substantial working capital for our daily operations. For detailed analysis, please refer to the paragraph headed “Liquidity and Capital Resources — Cash Flow — Cash flows used in operating activities” in this section.

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Measures to improve our negative cashflow position

We have taken and will continue to take the following measures to improve our liquidity:

(i) Plan and monitor our cash flow situation on a regular basis

To improve our negative operating cashflow position, we would monitor our cashflow position on a regular basis. We intend to implement annual budget planning to ensure the cash flow of our Group remains healthy. 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. Monthly management accounts will be prepared for our executive Directors’ review so that necessary steps can be taken to maintain our Group’s cashflow and liquidity position. In order to have a better control of our cash flow position, our director/senior management would convene regular internal meetings with our finance department to discuss our Group’s financial performance and report to the Board periodically.

(ii) Closely monitor the collection status of our trade receivables

As our negative cash flow from operating activities status during the Track Record Period was partially resulted from the slow payment of our customers, we will continue to exercise a stringent credit control policy and closely follow up with our customers regarding our receivables and take necessary actions when they fall due. For detailed discussion, please refer to the paragraph headed “Discussion of certain financial position items — Trade and notes receivables”.

(iii) invite other parties to invest in our TV series

As TV series production business is capital intensive in nature, investment in the production in a TV series requires substantial capital. As such, we intend to invite suitable investors to invest in the TV series we produce in order to alleviate our working capital pressure and diversify our operational risk.

(iv) Maintain stable relationships with our principal banks

We will continue to maintain sound relationship with our principal banks so as to timely obtain/renew bank borrowings if so required and on acceptable terms to our Group.

Despite the fact that we had negative operating cash flows during the Track Record Period, our Directors are of the opinion, and the Sole Sponsor concurs that the Group has sufficient working capital for our present requirements for at least the next twelve months from the date of this document, taking into account the following basis:

- We have maintained stable relationships with major commercial banks and financial institutions in the PRC. During the Track Record Period, we made all interest and principal payments on our bank loans in a timely manner and we have

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been able to renew or roll over our bank loans at maturity as required. We do not foresee any immediate repayment requirement for our bank loans or withdrawal or reduction in banking facilities on short notice that could have a material adverse effect on our liquidity position.

- Our Directors confirmed that we had no material defaults in payment of trade and non-trade payables and borrowings, and/or breaches of material covenants during the Track Record Period and up to the date of this document. Under certain circumstances, we are granted prolonged repayment schedule after negotiation with the creditors.
- As at 31 May 2019, approximately RMB[30.2] million, representing approximately [30.5]% of our trade receivables as at 31 December 2018 had been settled. We consider the subsequent settlement is normal and satisfactory as a result of our stringent and effective credit control procedures which enable us to collect the due amounts and thus improve our cash level.
- By leveraging on our competitive strengths, we are able to generate continuous revenue from carrying out our existing business. Our self-produced TV series, Yan Yang Chun* (燕陽春) was arranged for first-run broadcast on satellite channel of Shandong Radio and Television* (山東廣播電視台) and Tianjin Radio & Television Station* (天津廣播電視台) in April 2019 and National Spirit* (共和國血脈) was arranged for first-run broadcast on the comprehensive channel of CCTV (CCTV-1) in June 2019.

In view of the above sales performance subsequent to the Track Record Period and in anticipation of the promising market demand, we expect our revenue for FY2019 to increase as compared to FY2018. Accordingly, our cash position will be strengthened from the strong revenue streams.

- Our cash position will be strengthened by the [REDACTED] from the [REDACTED] upon [REDACTED] on the Stock Exchange.

Our Directors are of the opinion that, taking into account the financial resources available to our Group presently including our internally generated funds, the available banking facilities and the [REDACTED] available to us from the [REDACTED], our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

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[REDACTED]

Our [REDACTED] consist of fees paid or to be paid to various professionals for audit, financial advisory, legal and other professional services in relation to the preparation of the [REDACTED]. We did not incur any [REDACTED] during the Track Record Period. We expect to incur a total of HK\$[REDACTED] million in [REDACTED] (based on the mid-point of the indicative price range for the [REDACTED]) in connection with the [REDACTED] and the [REDACTED] after the Track Record Period, of which HK\$[REDACTED] million is expected to be charged to the profit or loss of our Group for the year ending 31 December 2019 and approximately HK\$[REDACTED] million is expected to be accounted for as a deduction from equity. Our Directors would like to emphasise that such cost is a current estimate for reference only, and the final amount to be recognised to the profit or loss of our Group or to be capitalised is subject to adjustment based on audit and the subsequent changes in variables and assumptions. Our Directors expect that our financial performance for the financial year ending 31 December 2019 will be adversely affected by the [REDACTED] to be charged to our statements of profit or loss and other comprehensive income.

NO MATERIAL ADVERSE CHANGE

Save for the estimated [REDACTED] as disclosed in the paragraph headed “[REDACTED]” in this section, our Directors, after performing reasonable due diligence works which they consider appropriate, confirm that since 31 December 2018 and up to the Latest Practicable Date, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the business prospects and financial position of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in our accountant’s report in Appendix I to this document.

OFF-BALANCE SHEET ARRANGEMENT

During the Track Record Period and up to the Latest Practicable Date, we did not have any off-balance sheet arrangements.

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ANALYSIS OF OTHER KEY FINANCIAL RATIOS

The following table sets forth certain major financial ratios of our Group as at the date indicated:

	2016	2017	2018
Return on total assets ^(Note 1)	10.8%	2.3%	15.8%
Return on equity ^(Note 2)	13.1%	2.6%	20.0%
Current ratio ^(Note 3)	5.9	8.2	4.8
Quick ratio ^(Note 4)	4.5	4.5	2.4
Gearing ratio ^(Note 5)	13.9%	N/A	13.3%
Debt to equity ratio ^(Note 6)	-32.1%	-11.7%	9.7%
Interest coverage ^(Note 7)	38.7	6.0	30.2
Net profit margin ^(Note 8)	32.2%	6.7%	41.8%

Notes:

1. Return on total assets is calculated as profit/(loss) for the year/period divided by total assets multiplied by 100% as at the date indicated.
2. Return on equity is calculated as profit/(loss) for the year/period divided by total equity multiplied by 100% as at the date indicated.
3. Current ratio is calculated as total current assets divided by total current liabilities as at the date indicated.
4. Quick ratio is calculated as current assets (net of inventories) divided by total current liabilities as at the date indicated.
5. Gearing ratio is calculated as total debt (of which debt is defined to include interest-bearing payables) divided by total equity multiplied by 100% as at the date indicated.
6. Debt to equity ratio is calculated as total debt net of cash and cash equivalents divided by total equity multiplied by 100% as at the date indicated.
7. Interest coverage is calculated as profit before income tax and finance costs divided by finance costs.
8. Net profit margin is calculated by the profit for the year divided by the revenue for the respective year multiplied by 100.0% as at the date indicated.

Return on total assets

For FY2016, FY2017 and FY2018, our return on total assets was approximately 10.8%, 2.3% and 15.8%, respectively. The decrease in the return on total assets for FY2017 and increase in the return on total assets in FY2018 are primarily attributable to the fluctuations in net profit as discussed above.

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Return on equity

For FY2016, FY2017 and FY2018, our return on equity was approximately 13.1%, 2.6% and 20.0%, respectively. The fluctuation during the Track Record Period was mainly due to the similar reason under the explanation of “Return on total assets” above.

Current ratio

As at 31 December 2016, 2017 and 2018, our current ratio was approximately 5.9, 8.2 and 4.8, respectively. The increase in current ratio as at 31 December 2017 compared to 31 December 2016 was due to our current liabilities decreasing at a faster pace than our current assets as a result of repayment of bank loans and other borrowings in FY2017.

The decrease in current ratio as at 31 December 2018 compared to 31 December 2017 was due to our current liabilities increasing at a faster pace than our current assets as a result of increased bank loans and other borrowings to finance our production and purchase of TV series.

Quick ratio

As at 31 December 2016, 2017 and 2018, our quick ratio was approximately 4.5, 4.5 and 2.4, respectively. The quick ratio remained stable as at 31 December 2016 and 2017 as the current assets net of inventories decreased at a similar pace with the total current liabilities. The decrease of quick ratio as at 31 December 2018 was mainly due to (i) increase in inventories and (ii) increase in bank loans in FY2018.

Gearing ratio

As at 31 December 2016, 2017 and 2018, our gearing ratio was approximately 13.9%, N/A and 13.3%, respectively. The gearing ratios as at 31 December 2016 and 31 December 2018 remained stable because of the bank loans and other borrowings utilized for production of TV series increased roughly in proportion to the total equity which increased by accumulation of profit for the relevant years.

Debt to equity ratio

As at 31 December 2016, 2017 and 2018, our debt to equity ratio was approximately -32.1%, -11.7% and 9.7%, respectively. The negative debt to equity ratio resulted from our higher level of cash and cash equivalents mainly from the increased equity contribution in FY2016. With the increasing utilization of the cash and cash equivalent in carrying out our business activities, the cash position narrowed down during the Track Record Period, leading to an increasing debt to equity ratio for the subsequent financial years.

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Interest coverage

For FY2016, FY2017 and FY2018, our interest coverage was approximately 38.7, 6.0 and 30.2, respectively. The interest coverage remained stable for FY2016 and FY2018, while the significant decrease of interest coverage in FY2017 was due to the decrease in profit before tax in FY2017.

RELATED PARTIES TRANSACTIONS

The following table sets forth the major transactions with related parties during the Track Record Period:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Borrowings from a director			
Mr. Liu Naiyue	3,000	—	—
Borrowings from related parties			
Mr. Yan Bei	250	—	—
Qingdao Fuhe	10,000	—	—
Suiyong Ronghui Holdings Company Limited (“ Suiyong Ronghui ”).	—	—	10,000
	<u>10,250</u>	<u>—</u>	<u>10,000</u>
Interest expenses to:			
Mr. Liu Naiyue	65	—	—
Ms. Yan Bei	5	—	—
Qingdao Fuhe	407	—	—
Suiyong Ronghui	—	—	67
	<u>477</u>	<u>—</u>	<u>67</u>
Purchases of goods from:			
Yongkang City Wenxin Diaolong Film and Television Culture Studio (“ Wenxin Diaolong ”).	4,689	—	—

The borrowings from a director and related parties were utilized in either production and/distribution of our TV series or business operations as working capital. Amounts due to the related parties have been fully repaid as at the Latest Practicable Date.

Wenxin Diaolong was controlled by Ms. Li Fang, one of our executive Directors. During FY2016, we purchased services from Wenxin Diaolong such as procurement of cast personnel, costume and post-production service during the course of production of a TV series.

For further details, please refer to note 28 to the accountant’s report in Appendix I to this document. Our Directors confirm that these transactions were conducted on normal commercial terms and on arm’s length basis and did not distort our financial results during the Track Record Period or make our financial results during the Track Record Period to be unreflective of our future performance.

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DISTRIBUTABLE RESERVES

Our Company was incorporated on 11 March 2019. As at 30 April 2019, being the latest practicable date and up to the Latest Practicable Date, our Company had no distributable reserves available for distribution to our Shareholders.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries. PRC laws require a foreign-invested enterprise to make up for its accumulative losses out of its after-tax profits and allocate at least 10% of its remaining after-tax profits, if any, to fund its statutory reserves until the aggregate amount of its statutory reserves exceeds 50% of its registered capital. Any amount of dividend we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. With the sanction of an ordinary resolution of our Shareholders, dividends may also be declared and paid out of the share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law. No dividends have been paid by our Company or our subsidiaries during the Track Record Period. There can be no assurance that we will be able to declare or distribute any dividend at all. Currently, we do not have dividend policy or intention to declare or pay any dividends in the near future.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

The Group’s principal financial instruments comprise financial assets included in prepayments, other receivables and other assets, interest-bearing bank loans 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 receivables, and trade payables, which arise directly from its operations. The main risks arising from the Group’s financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. Our Group has not used any interest rate swap to hedge its exposure to interest rate risk.

Our Group’s policy is to manage interest cost using a mix of fixed and floating rate debts.

FINANCIAL INFORMATION

Credit risk

Our Group mainly trades with recognised and creditworthy third parties. It is our 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 on-going basis.

Maximum exposure and year-end staging as at 31 December 2016, 2017 and 2018

The table below shows the credit quality and the maximum exposure to credit risk based on our credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification at the end of each of the Track Record Period. The amounts presented are gross carrying amounts for financial assets.

<u>As at 31 December 2016</u>	<u>12-month ECLs</u>		<u>Lifetime ECLs</u>		
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Simplified approach</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables*	—	—	—	64,058	64,058
Notes receivables**	4,000	—	—	—	4,000
Financial assets included in prepayments, other receivables and other assets					
— Normal**	17,113	—	—	—	17,113
Cash and cash equivalents					
— Not yet past due.	115,537	—	—	—	115,537
	<u>136,650</u>	<u>—</u>	<u>—</u>	<u>64,058</u>	<u>200,708</u>
<u>As at 31 December 2017</u>	<u>12-month ECLs</u>		<u>Lifetime ECLs</u>		
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Simplified approach</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables*	—	—	—	68,253	68,253
Financial assets included in prepayments, other receivables and other assets					
— Normal**	31,440	—	—	—	31,440
— Doubtful**	—	7,940	—	—	7,940
Cash and cash equivalents					
— Not yet past due.	30,055	—	—	—	30,055
	<u>61,495</u>	<u>7,940</u>	<u>—</u>	<u>68,253</u>	<u>137,688</u>

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FINANCIAL INFORMATION

As at 31 December 2018	12-month ECLs		Lifetime ECLs			Total RMB'000
	Stage 1	Stage 2	Stage 3	Simplified approach		
	RMB'000	RMB'000	RMB'000	RMB'000		
Trade receivables*	—	—	—	99,291	99,291	
Financial assets included in prepayments, other receivables and other assets						
— Normal**	351	—	—	—	351	
— Doubtful**	—	1,386	—	—	1,386	
Cash and cash equivalents						
— Not yet past due.	11,665	—	—	—	11,665	
	<u>12,016</u>	<u>1,386</u>	<u>—</u>	<u>99,291</u>	<u>112,693</u>	

* For trade receivables to which our Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 15 to the accountant’s report in Appendix I to this document.

** 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”.

Liquidity risk

In the management of liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of our Group to finance the operations and mitigate the effects of fluctuations in cash flows. The maturity profile of our Group’s financial liabilities as at the end of each of the Track Record Period, based on the contractual undiscounted payments, is as follows:

	31 December 2016					
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans and other borrowings.	—	10,531	25,852	—	—	36,383
Financial liabilities included in other payables and accruals .	556	—	—	—	—	556
	<u>556</u>	<u>10,531</u>	<u>25,852</u>	<u>—</u>	<u>—</u>	<u>36,939</u>
	31 December 2017					
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables.	8,083	20,431	—	—	—	28,514
Financial liabilities included in other payables and accruals .	345	—	—	—	—	345
	<u>8,428</u>	<u>20,431</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,859</u>

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FINANCIAL INFORMATION

	31 December 2018					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	
	<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 loans and other borrowings	—	43,223	—	—	—	43,223
Trade payables	28,654	6,211	—	—	—	34,865
Financial liabilities included in other payables and accruals .	1,672	—	—	—	—	1,672
	30,326	49,434	—	—	—	79,760

Capital management

The primary objectives of our Group’s capital management are to safeguard our 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.

We manage our capital structure and make 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, our Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Our 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 Track Record Period.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

[REDACTED]

Please refer to the paragraph headed “A. [REDACTED]” in Appendix II to this document for our [REDACTED].

FUTURE PLANS AND [REDACTED]

FUTURE PLANS

Please refer to the paragraph headed “Business — Business strategies” in this document for detailed description of our future plans.

[REDACTED]

Assuming the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED], the [REDACTED] to our Company from the issue of the [REDACTED], after deducting [REDACTED] fees and other professional expenses in the aggregate amount of approximately HK\$[REDACTED] million paid and payable by our Company, in connection thereto, are estimated to be approximately HK\$[REDACTED] million. We intend to apply such [REDACTED] from the [REDACTED] as follows:

- (a) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) or [REDACTED]% of the [REDACTED] will be applied for production of the following TV series:

<u>Genre of the TV series</u>	<u>Estimated total investment amount</u>	<u>Estimated investment amount from the [REDACTED] from the [REDACTED]</u>	<u>Estimated production commencement time</u>
1. Revolution	HK\$[40.0] million (equivalent to approximately RMB[35.4] million)	HK\$[REDACTED] (equivalent to approximately RMB[REDACTED])	December 2019
2. Family drama	HK\$[65.0] million (equivalent to approximately RMB[57.5] million)	HK\$[REDACTED] (equivalent to approximately RMB[REDACTED])	March 2020
3. Revolution	HK\$[60.0] million (equivalent to approximately RMB[53.1] million)	HK\$[REDACTED] (equivalent to approximately RMB[REDACTED])	September 2020
4. Legend	HK\$[35.0] million (equivalent to approximately RMB[31.0] million)	HK\$[REDACTED] (equivalent to approximately RMB[REDACTED])	December 2020

As at the Latest Practicable Date, we have arranged for record-filing and announcing of the production of three of the above TV series through the website of NRTA.

- (b) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) or [REDACTED]% of the [REDACTED] will be applied for purchasing of copyrights (or broadcasting rights) associated with the TV series;

FUTURE PLANS AND [REDACTED]

- (c) the balance of approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) or [REDACTED]% of the net proceeds will be applied as general working capital of our Group.

If the [REDACTED] is set at the high-end or low-end of the proposed [REDACTED] range, assuming the [REDACTED] is not exercised, the [REDACTED] to our Company from the [REDACTED] will increase or decrease by approximately HK\$[REDACTED]. We will adjust the allocation of the [REDACTED] for the abovementioned purposes on a pro rata basis.

If the [REDACTED] is exercised in full, the additional [REDACTED] received from the [REDACTED] of the additional Shares [REDACTED] and [REDACTED] will be allocated in accordance with the above allocations on a pro rata basis. For details of the [REDACTED], please refer to the section headed “Structure and Conditions of the [REDACTED]” in this document.

To the extent that the [REDACTED] of the [REDACTED] are not immediately applied to the above purposes due to whatever reasons, and to the extent permitted by applicable laws and regulations, it is our present intention that such [REDACTED] will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

REASONS FOR THE [REDACTED]

Our Directors consider that the [REDACTED] may act as a [REDACTED] platform for our Group. Given that our business is capital intensive, our Directors believe that we have need for [REDACTED]. The [REDACTED] will enhance capital base of our Group and provide our Group with additional working capital to implement the future plans set out in the paragraph headed “Business — Business strategies” in this document. Our Directors believe that this way of financing is beneficial to the overall business development and financial performance of our Group, which in turn will maximise Shareholders’ return.

The [REDACTED] will enhance the liquidity of the Shares by achieving the [REDACTED] status of the Shares which will be [REDACTED] on the Stock Exchange when compared to the limited liquidity of the Shares that are privately held before the [REDACTED].

The [REDACTED] will enable our Company to enhance its corporate profile, thereby increasing our ability to attract strategic investors for investment in and forming strategic partnerships directly with our Company.

BASES AND KEY ASSUMPTIONS

In light of the business objectives and future plans of our Group, we will seek to attain the milestones contained in this section. Investors should note that the milestones and their scheduled times for attainment are formulated on the bases and assumptions referred to in this paragraph. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk Factors” in this document. Our Group’s actual course of business may vary

FUTURE PLANS AND [REDACTED]

from the business objectives set out in this document. There is no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objectives of our Group will be accomplished at all. In the event of any material modifications to the [REDACTED] as described in this document, we will issue announcement in accordance with the Listing Rules and disclose in our annual report for the relevant year as required by the Stock Exchange.

We have adopted the following principal assumptions in the preparation of the above future plans:

- there will be no material adverse change/disaster in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC and Hong Kong;
- there will be no material changes in legislation or regulations or rules in the operating regions which will adversely affect our business;
- there will be no material change in the bases (such as inflation, interest rate and foreign exchange rate) or rates of taxation and duties in the PRC and Hong Kong or in any other places in which any member of our Group operates or will operate or is incorporated;
- we will have sufficient financial resources to meet the planned capital and business development requirements during the period to which our business objective relates;
- the respective offering financial institutions will not withdraw any of the existing available facilities;
- there will be no material change in the interest rate of our bank borrowings;
- there will be no change to the existing accounting policies from those stated in the combined audited financial statements of our Group for the Track Record Period;
- the [REDACTED] will be completed in accordance with and as described in the section headed “Structure and Conditions of the [REDACTED]” in this document;
- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our key management personnel;
- there will be no change in the effectiveness of the certifications, licences, permits or approvals obtained by us;
- there will be no change in the funding requirement for the business strategies described in this document from the amount as estimated by our Directors;
- we will not be materially and adversely affected by the risk factors as set out in the section headed “Risk Factors” in this document;

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FUTURE PLANS AND [REDACTED]

- there be no disasters, natural, political or otherwise, which would materially disrupt our business or operations or cause substantial loss, damage or destruction to our properties or facilities;
- there will not be material changes in the market demand and the competitive landscape of TV series market;
- we will be able to continue our operations in substantially the same manner as we have been operating during the Track Record Period.

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[REDACTED]

[REDACTED]

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[REDACTED]

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APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report received from the Company’s reporting accountants, Ernst & Young, for the purpose of incorporation in this document.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

THE DIRECTORS VALUES CULTURAL INVESTMENT LIMITED ZHONGTAI INTERNATIONAL CAPITAL LIMITED

Dear Sirs,

We report on the historical financial information of Values Cultural Investment Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-53, which comprises the combined 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 2016, 2017 and 2018 (the “**Relevant Periods**”), and the combined statements of financial position of the Group as at 31 December 2016, 2017 and 2018 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-53 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [Date] (the “**Document**”) in connection with the initial [REDACTED] of the shares of the Company on the [REDACTED] 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.

APPENDIX I**ACCOUNTANT’S REPORT**

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 2016, 2017 and 2018 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.

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.

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APPENDIX I**ACCOUNTANT'S REPORT**

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,

[•]

Certified Public Accountants

Hong Kong

[Date]

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APPENDIX I**ACCOUNTANT’S REPORT**

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.

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APPENDIX I

ACCOUNTANT’S REPORT

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	5	101,975	99,266	154,085
Cost of sales	6	<u>(42,495)</u>	<u>(81,575)</u>	<u>(73,979)</u>
Gross profit		59,480	17,691	80,106
Other income and gains	5	3,619	8,868	7,047
Selling and distribution expenses		(5,271)	(2,246)	(3,219)
Administrative expenses		(7,569)	(9,292)	(6,886)
Impairment losses on financial assets		(3,987)	(4,732)	(6,843)
Other expenses		—	(8)	(32)
Finance costs	7	<u>(1,195)</u>	<u>(1,711)</u>	<u>(2,324)</u>
PROFIT BEFORE TAX	6	45,077	8,570	67,849
Income tax expense	10	<u>(12,274)</u>	<u>(1,879)</u>	<u>(3,366)</u>
PROFIT FOR THE YEAR		<u>32,803</u>	<u>6,691</u>	<u>64,483</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>32,803</u>	<u>6,691</u>	<u>64,483</u>
Attributable to:				
Owners of the parent		<u>32,803</u>	<u>6,691</u>	<u>64,483</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

APPENDIX I

ACCOUNTANT’S REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	Year ended 31 December 2016 <i>RMB’000</i>	Year ended 31 December 2017 <i>RMB’000</i>	Year ended 31 December 2018 <i>RMB’000</i>
NON-CURRENT ASSETS				
Property, plant and equipment . . .	13	19	582	209
Deferred tax assets	21	997	2,180	3,486
Total non-current assets		<u>1,016</u>	<u>2,762</u>	<u>3,695</u>
CURRENT ASSETS				
Inventories	14	74,230	130,367	203,918
Trade and notes receivables	15	68,058	68,253	99,291
Prepayments, other receivables and other assets	16	43,850	62,527	88,619
Cash and cash equivalents	17	115,537	30,055	11,665
Total current assets		<u>301,675</u>	<u>291,202</u>	<u>403,493</u>
CURRENT LIABILITIES				
Trade payables	18	—	28,514	34,865
Other payables and accruals	19	1,637	7,039	5,846
Interest-bearing bank loans and other borrowings	20	35,000	—	43,000
Tax payable		14,392	—	—
Total current liabilities		<u>51,029</u>	<u>35,553</u>	<u>83,711</u>
NET CURRENT ASSETS		<u>250,646</u>	<u>255,649</u>	<u>319,782</u>
TOTAL ASSETS LESS				
CURRENT LIABILITIES		<u>251,662</u>	<u>258,411</u>	<u>323,477</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities	21	415	473	1,056
Total non-current liabilities		415	473	1,056
Net assets		<u>251,247</u>	<u>257,938</u>	<u>322,421</u>
EQUITY				
Equity attributable to owners of the parent				
Share capital	22	—	—	—
Reserves	23	251,247	257,938	322,421
Total equity		<u>251,247</u>	<u>257,938</u>	<u>322,421</u>

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ACCOUNTANT’S REPORT

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent				
	Share capital	Capital reserve*	Statutory surplus reserve*	Retained profits*	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2016					
At 1 January 2016	—	60,000	935	11,825	72,760
Total comprehensive income for the year.	—	—	—	32,803	32,803
Transfer from retained profits	—	—	3,508	(3,508)	—
Capital contributions from the then equity holders of a subsidiary	—	145,684	—	—	145,684
At 31 December 2016	<u>—</u>	<u>205,684</u>	<u>4,443</u>	<u>41,120</u>	<u>251,247</u>
Year ended 31 December 2017					
At 1 January 2017	—	205,684	4,443	41,120	251,247
Total comprehensive income for the year.	—	—	—	6,691	6,691
Transfer from retained profits	—	—	960	(960)	—
At 31 December 2017	<u>—</u>	<u>205,684</u>	<u>5,403</u>	<u>46,851</u>	<u>257,938</u>
Year ended 31 December 2018					
At 1 January 2018	—	205,684	5,403	46,851	257,938
Total comprehensive income for the year.	—	—	—	64,483	64,483
Transfer from retained profits	—	—	6,806	(6,806)	—
At 31 December 2018	<u>—</u>	<u>205,684</u>	<u>12,209</u>	<u>104,528</u>	<u>322,421</u>

* *These reserve accounts comprise the combined reserves of RMB251,247,000, RMB257,938,000 and RMB322,421,000 in the combined statements of financial position as at 31 December 2016, 2017 and 2018, respectively.*

APPENDIX I

ACCOUNTANT’S REPORT

COMBINED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		45,077	8,570	67,849
Adjustments for:				
Depreciation	13	30	293	381
Finance costs	7	1,195	1,711	2,324
Interest income from loans receivable	5	(302)	(2,301)	(1,538)
Penalty income	5	—	(206)	(325)
Investment income from financial assets at fair value through profit or loss	5	(346)	(368)	(32)
Loss on disposal of items of property, plant and equipment	6	—	8	—
Write-down of inventories to net realisable value	6	—	—	4,087
Impairment of trade receivables	15	3,987	4,732	4,694
Impairment of other receivables	16	—	—	2,149
		<u>49,641</u>	<u>12,439</u>	<u>79,589</u>
Increase in inventories		(15,450)	(56,137)	(75,535)
Increase in trade and notes receivables		(31,203)	(4,927)	(35,732)
(Increase)/decrease in prepayments, other receivables and other assets		(18,978)	6,135	(56,875)
Increase in trade payables		—	28,514	6,351
(Decrease)/increase in other payables and accruals		(11,251)	5,407	(2,368)
Cash used in operations		(27,241)	(8,569)	(84,570)
Income tax paid		(3,376)	(20,707)	(1,495)
Net cash flows used in operating activities		<u>(30,617)</u>	<u>(29,276)</u>	<u>(86,065)</u>

APPENDIX I

ACCOUNTANT’S REPORT

<i>Notes</i>	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM			
INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(9)	(864)	(8)
Advances of loans to third parties	(7,500)	(20,200)	(5,291)
Purchases of financial assets at fair value through profit or loss . . .	(125,000)	(83,500)	(11,500)
Disposal of financial assets at fair value through profit or loss . . .	125,000	83,500	11,500
Investment income received from financial assets at fair value through profit or loss	346	368	32
Interest received from loans receivable and penalty income . .	—	1,206	2,977
Repayment of advances of loans to third parties	—	—	30,217
Net cash flows from/(used in) investing activities	<u>(7,163)</u>	<u>(19,490)</u>	<u>27,927</u>
CASH FLOWS FROM			
FINANCING ACTIVITIES			
Capital contribution from the then equity holders of a subsidiary . .	145,684	—	—
Proceeds from bank loans	20,000	—	35,000
Proceeds from other borrowings . .	22,650	25,508	30,868
Repayment of bank loans	—	(20,000)	(10,000)
Repayment of other borrowings . .	(27,650)	(40,508)	(12,868)
Interest paid	(4,698)	(1,716)	(3,252)
Borrowings from a director	3,000	—	—
Borrowings from related parties . .	10,250	—	10,000
Repayment of borrowings from a director	(3,000)	—	—
Repayment of borrowings from related parties	<u>(21,250)</u>	<u>—</u>	<u>(10,000)</u>
Net cash flows from/(used in) financing activities	<u>144,986</u>	<u>(36,716)</u>	<u>39,748</u>

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ACCOUNTANT’S REPORT

	<i>Notes</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		107,206	(85,482)	(18,390)
Cash and cash equivalents at beginning of year		8,331	115,537	30,055
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>115,537</u>	<u>30,055</u>	<u>11,665</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	17	<u>115,537</u>	<u>30,055</u>	<u>11,665</u>
Cash and cash equivalents as stated in the statements of cash flows and statements of financial position		<u>115,537</u>	<u>30,055</u>	<u>11,665</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 11 March 2019. The registered office of the Company is Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman KY1-1209, 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 television series (“TV 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 Structure” in the Document. 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:

<u>Name</u>	<u>Place and date of incorporation/ registration and place of operations</u>	<u>Nominal value of issued ordinary/ registered share capital</u>	<u>Percentage of equity attributable to the Company</u>		<u>Principal activities</u>
			<u>Direct</u>	<u>Indirect</u>	
YS Cultural Investment Limited (“ YS Cultural Investment ”) (<i>note (a)</i>) . . .	British Virgin Islands 20 March 2019	US\$1	100%	—	Investment holding
Fanta Culture Co., Limited (“ Fanta Culture ”) (泛泰文化有限公司) (<i>note (b)</i>)	Hong Kong 17 April 2019	HK\$1	—	100%	Investment holding
Haining Fanning Television Planning Company Limited (“ WFOE ”) (海寧泛寧影視策劃有限公司)* (<i>note (e)</i>)	People’s Republic of China (“ PRC ”)/ Mainland China 27 May 2019	HK\$150,000,000	—	100%	Investment holding
Values Culture Media Co., Ltd. (“ Values Culture ”) (海寧原石文化傳媒股份有限公司)* (<i>note (c)</i>) . . .	PRC/Mainland China 14 November 2013	RMB150,000,000	—	100%	Investments in, production, distribution and licensing of TV series
Beijing Values Culture Media Co., Ltd. (“ Beijing Values ”) (北京原石文化傳媒有限公司)* (<i>note (d)</i>)	PRC/Mainland China 3 April 2014	RMB3,000,000	—	100%	Investments in, production, distribution and licensing of TV series

APPENDIX I

ACCOUNTANT’S REPORT

<u>Name</u>	<u>Place and date of incorporation/ registration and place of operations</u>	<u>Nominal value of issued ordinary/ registered share capital</u>	<u>Percentage of equity attributable to the Company</u>		<u>Principal activities</u>
			<u>Direct</u>	<u>Indirect</u>	
Khorgas Values Culture Media Co., Ltd. (“ Khorgas Values ”) (霍爾果斯原石文化傳媒有限公司)* (note (d)) . . .	PRC/Mainland China 29 December 2016	RMB6,000,000	—	100%	Investments in, production, distribution and licensing of TV series
Xinjiang Values Culture Media Co., Ltd. (“ Xinjiang Values ”) (新疆原石文化傳媒有限公司)* (note (d))	PRC/Mainland China 22 June 2018	RMB10,000,000	—	100%	Investments in, production, distribution and licensing of TV series
Haining Values Television Culture Co., Ltd. (“ Haining Values Television ”) (海寧原石影視文化有限公司)* (note (d))	PRC/Mainland China 29 December 2017	RMB1,000,000	—	100%	Dormant

Notes:

- (a) No audited financial statements have been prepared for the entity since its date of incorporation, as this entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.
- (b) No audited financial statements have been prepared for this entity as it was incorporated in 2019.
- (c) The entity is a limited liability enterprise established under PRC law. The statutory financial statements of Values Culture for the years ended 31 December 2016 and 2017 prepared under PRC Generally Accepted Accounting Principles were audited by BDO Certified Public Accountants Special LLP (立信會計師事務所(特殊普通合夥)) and Zhongxi Certified Public Accountants Special LLP (中喜會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC, respectively. No audited financial statements have been prepared for the year ended 31 December 2018.
- (d) These entities are limited liability enterprises established under PRC law. No audited financial statements have been prepared for these entities since their dates of incorporation, as these enterprises were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. Haining Values Television was voluntarily dissolved by deregistration on 20 May 2019.
- (e) This entity is registered as a wholly-foreign-owned enterprise under PRC law.

* *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.*

APPENDIX I

ACCOUNTANT’S REPORT

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 Structure” in the Document, the Company became the holding company of the companies now comprising the Group subsequent to the end of the Relevant Periods on 26 June 2019. 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 Reorganisation had been completed at the beginning of the Relevant Periods.

Due to regulatory prohibitions on foreign ownership in the production, distribution and licensing of TV series business in the PRC, the principal business carried out by Values Culture, Beijing Values, Khorgas Values and Xinjiang Values (the “**Consolidated Affiliated Entities**”) was prohibited or restricted from foreign ownership. The wholly-owned subsidiary of the Company, WFOE, 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 WFOE 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 combined in the Historical Financial Information for the Relevant Periods. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in the Document. The Group does not have any equity interests in the Consolidated Affiliated Entities.

The combined 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, where this is a shorter period. The combined statements of financial position of the Group as of 31 December 2016, 2017 and 2018 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 combination.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with 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 2018, including HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for financial instruments which have been measured at fair value.

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ACCOUNTANT’S REPORT

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>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
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
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about these HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining Whether an Arrangement Contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases.

APPENDIX I

ACCOUNTANT’S REPORT

HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The directors of the Company do not expect that the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group’s results.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group’s financial statements.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant 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

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- (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.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at fair value 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.

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 financial statements 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 financial statements 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 reporting period.

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 and financial 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

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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 profit or loss 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 profit or loss in the period in which it arises.

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 contract contains a financing component which provides the customer 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 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 TV 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 TV series

Revenue from the licensing of broadcasting rights of TV series is recognised at the point in time when the TV series are available to the licensee, generally on delivery of the TV series after the approval from the National Radio and Television Administration of the PRC (“NRTA”) or receipt of the license for distribution of TV series from provincial counterpart of NRTA when a customer is provided with a right to use the TV series as it exists at the point in time at which the license is granted. The Group does not expect to have any contracts where the period between the transfer of the licensed TV 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.

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(b) Distribution of broadcasting rights of TV series

Revenue from the distribution of broadcasting rights of TV series is recognised at the point in time when the services are rendered.

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.

Income under co-financing arrangements is 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.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays the consideration before the Group transfers the goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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 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:

- (a) where 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
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, 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.

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Deferred tax assets are recognised for all deductible temporary differences, 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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (a) when the deferred tax asset relating to the deductible temporary difference 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
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, 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.

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.

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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” above.

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.

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.

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)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Debt instruments that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the combined statement of profit or loss and other comprehensive income within other income and gains in the period in which it arises. Interest income from these financial assets is included in other income and gains.

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 combined statement 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.

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The Group has types of financial assets subject to the new ECL model under HKFRS 9: trade receivables, financial assets included in prepayments, other receivables and other assets and cash and cash equivalents.

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 and contract assets 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, 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.

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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 payables, other payables and accruals and interest-bearing bank loans and other borrowings.

Loans and borrowings

After initial recognition, interest-bearing bank loans and other 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.

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 statement 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.

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.

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Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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 profit or loss 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 estimated useful lives of property, plant and equipment are as follows:

Electronic equipment	3 years
Office equipment	5 years
Leasehold improvements	2 years

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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. 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.

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Inventories

Inventories include the cost of completed TV series, TV series in production and undeveloped scripts and purchased copyright or broadcasting rights of TV series. Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

The amount of inventories recognised as cost of sales for a given period is determined using the TV 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 TV series’ revenues recognised for such period to the TV series’s estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a TV series’ life cycle).

Accounting for co-financing arrangements

The co-financing arrangement is the sale of an interest in a TV series to an investor. The amounts received for the sale of an interest as a reduction of the costs of the TV series upon receipt of the license for distribution of TV series from NRTA, as the investor assumes full risk for that share of the TV series asset. The substance of these arrangements is that the third-party investors own an interest in the TV series and, therefore, the Group recognised either a charge or benefit to cost of sales to reflect the estimate of the third-party investor’s interest in the profit or loss incurred on the TV series.

The amount paid under co-financing arrangements to the third-party investors by the Group was recognised as prepayment under co-financing arrangements and reclassified to inventory upon receipt of the license for distribution of TV series from NRTA.

Cash and cash equivalents

For the purpose of the combined 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 combined 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.

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;

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- (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; and the sponsoring employers of the post-employment benefit plan;
- (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.

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 because the Group’s principal operations are carried out in Mainland China. 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 profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 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 financial statements:

Contractual Arrangements

The Consolidated Affiliated Entities are engaged in the production, distribution and licensing of TV series business. Under the scope of “Catalogue for Guidance of Foreign Investment Industries (2017 version)”, 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 combined the financial positions 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, 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.

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The Group’s management performs the assessment based on the above-mentioned factors and reaches the conclusion that the Group acts as a principal in the licensing of broadcasting rights of TV series since the Group controls the broadcasting rights of TV series before they are granted to the customers and acts as an agent in the distribution of broadcasting rights of TV series since the Group’s performance obligation is to arrange for the provision of broadcasting rights of TV series by another party and was only subject to the commission income from distribution of broadcasting rights of TV series. Accordingly, the Group recognises revenue from the licensing of broadcasting rights of self-developed TV series and purchased TV series on a gross basis and the revenue of distribution of broadcasting rights of TV series on a net basis.

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.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial 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 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 observed 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 observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed 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 customer’s actual default in the future. The provision for impairment of trade receivables at 31 December 2016, 2017 and 2018 amounted to RMB3,987,000, RMB8,719,000 and RMB13,413,000, respectively, details of which are set out in note 15 to the Historical Financial Information.

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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 16 to the Historical Financial Information.

The amortisation of inventories

The amount of inventories recognised as costs of sales for a given period is determined using the television forecast computation method. Under this method, the amortisation of inventories and the accrual of participations and residuals is based on the proportion of the television’s revenues recognised for such period to the television’s estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a television’s life cycle).

Management regularly reviews the basis of the amortisation and will adjust the amortisation method when the expected changes in the television’s estimated remaining ultimate revenues arise.

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, 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 is set out below:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Customer 1	36,249	24,344	60,858
Customer 2	38,522	N/A *	N/A *
Customer 3	N/A *	N/A *	27,295
Customer 4	N/A *	23,622	N/A *
Customer 5	N/A *	N/A *	22,182
Customer 6	N/A *	19,270	N/A *
Customer 7	11,321	N/A *	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.*

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5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Revenue from contracts with customers			
Licensing of broadcasting rights of TV series	101,503	92,350	138,618
Distribution of broadcasting rights of TV series	472	—	12,939
Revenue from other sources			
Income under co-financing arrangements. . .	—	6,916	2,528
	<u>101,975</u>	<u>99,266</u>	<u>154,085</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

Geographical markets

All of the Group’s revenue was generated from customers located in Mainland China during the Relevant Periods.

Timing of revenue recognition

All of the Group’s revenue was recognised at a point in time in during the Relevant Periods.

(ii) Performance obligations

Licensing of broadcasting rights of TV series

The performance obligation of licensing of broadcasting rights of TV series is satisfied upon granting of the broadcasting rights of TV series to customers after the approval from NRTA or receipt of the license for distribution of TV series from NRTA.

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Distribution of broadcasting rights of TV series

The performance obligation of distribution of broadcasting rights of TV series is satisfied upon services are rendered.

The following table shows the unsatisfied performance obligations as at 31 December 2016, 2017 and 2018.

	<u>31 December 2016</u> <i>RMB'000</i>	<u>31 December 2017</u> <i>RMB'000</i>	<u>31 December 2018</u> <i>RMB'000</i>
Within one year	—	—	1,439

All the remaining performance obligations are expected to be recognised 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:

	<u>Year ended</u> <u>31 December 2016</u> <i>RMB'000</i>	<u>Year ended</u> <u>31 December 2017</u> <i>RMB'000</i>	<u>Year ended</u> <u>31 December 2018</u> <i>RMB'000</i>
Other income and gains			
Government grants-related to income <i>(note a)</i>	2,908	5,803	5,113
Bank interest income	63	190	39
Investment income from financial assets at fair value through profit or loss	346	368	32
Interest income from loans receivable	302	2,301	1,538
Penalty income	—	206	325
	<u>3,619</u>	<u>8,868</u>	<u>7,047</u>

Note:

- (a) 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.

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6. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost of inventories sold		42,495	81,575	73,979
Depreciation	13	30	293	381
Minimum lease payments under operating leases		900	1,367	843
Auditor’s remuneration		377	170	—
Government grants	5	(2,908)	(5,803)	(5,113)
Interest income from loans receivable	5	(302)	(2,301)	(1,538)
Bank interest income	5	(63)	(190)	(39)
Investment income from financial assets at fair value through profit or loss	5	(346)	(368)	(32)
Employee benefit expense (excluding directors’ and chief executive’s remuneration (<i>note 8</i>)):				
Wages and salaries		1,391	2,555	2,301
Pension scheme contributions . . .		132	203	270
Staff welfare expense		114	130	214
		<u>1,637</u>	<u>2,888</u>	<u>2,785</u>
Loss on disposal of items of property, plant and equipment . .		—	8	—
Write-down of inventories to net realisable value*		—	—	4,087
Impairment of trade receivables . . .	15	3,987	4,732	4,694
Impairment of other receivables . . .	16	—	—	2,149
		<u>1,637</u>	<u>2,888</u>	<u>2,785</u>

* Write-down of inventories to net realisable value is included in “Cost of sales” in the combined statements of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Interest on bank loans	5	424	1,231
Interest on other borrowings	3,275	845	3,062
Interest on borrowings from a director and related parties	477	—	67
Interest on discounted notes receivable	—	—	44
Interest on trade receivable financing	—	442	23
Less: Interest capitalised	(2,562)	—	(2,103)
	<u>1,195</u>	<u>1,711</u>	<u>2,324</u>

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8. DIRECTORS’ AND CHIEF EXECUTIVE’S REMUNERATION

Mr. Liu Naiyue and Ms. Li Fang were appointed as executive directors of the Company on 19 June 2019. Ms. Liu Peiyao and Ms. Wei Xian were appointed as executive directors of the Company on 11 March 2019. Mr. Liu Naiyue was appointed as the chief executive of the Company in on 19 June 2019.

Mr. Shao Hui and Ms. Shen Yi were appointed as non-executive directors of the Company on 11 March 2019 and 19 June 2019, respectively. Mr. Xian Guoming, Mr. Zhong Mingshan and Mr. Xu Zongzheng were appointed as independent non-executive directors of the Company on [•].

Certain of the directors received remuneration from the subsidiary now comprising the Group for their appointment as directors of this subsidiary. The remuneration of these directors as recorded in the financial statements of the subsidiary is set out below:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Fees	—	—	—
Other emoluments:			
Salaries, bonuses and benefits in kind	655	973	606
Pension scheme contributions	41	66	77
	<u>696</u>	<u>1,039</u>	<u>683</u>

Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive directors during the Relevant Periods.

Executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Year ended 31 December 2016				
Executive directors:				
Mr. Liu Naiyue	—	477	23	500
Ms. Li Fang	—	178	18	196
Ms. Liu Peiyao	—	—	—	—
Ms. Wei Xian	—	—	—	—
	<u>—</u>	<u>655</u>	<u>41</u>	<u>696</u>

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<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 Naiyue	—	616	33	649
Ms. Li Fang	—	288	23	311
Ms. Liu Peiyao	—	69	10	79
Ms. Wei Xian	—	—	—	—
	<u>—</u>	<u>973</u>	<u>66</u>	<u>1,039</u>

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	<u>Fees</u> <i>RMB'000</i>	<u>Salaries, bonuses, allowances and benefits in kind</u> <i>RMB'000</i>	<u>Pension scheme contributions</u> <i>RMB'000</i>	<u>Total remuneration</u> <i>RMB'000</i>
Year ended 31 December 2018				
Executive directors:				
Mr. Liu Naiyue	—	319	44	363
Ms. Li Fang	—	202	21	223
Ms. Liu Peiyao	—	85	12	97
Ms. Wei Xian	—	—	—	—
	<u>—</u>	<u>606</u>	<u>77</u>	<u>683</u>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods. During the Relevant Periods, 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 included two, two and two directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining three, three and three highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods are as follows:

	<u>Year ended 31 December 2016</u> <i>RMB'000</i>	<u>Year ended 31 December 2017</u> <i>RMB'000</i>	<u>Year ended 31 December 2018</u> <i>RMB'000</i>
Salaries, bonuses, allowances and benefits in kind	639	1,477	896
Pension scheme contributions	56	68	114
	<u>695</u>	<u>1,545</u>	<u>1,010</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	<u>Number of employees</u>		
	<u>Year ended 31 December 2016</u>	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2018</u>
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>

During the Relevant Periods, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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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.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Xin Jiang Kashgar/Khorgas special economic areas during the period from 2010 to 2020 could enjoy Enterprise Income Tax (“EIT”) exemption for five years starting from the year under which the first revenue was generated. Khorgas Values and Xinjiang Values 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》，which are entitled to such EIT exemption for the years ended 31 December 2017 and 2018. According to Preferential Filing Record of EIT 《企業所得稅優惠事項備案表》，Khorgas Values obtained the approval from the PRC tax bureau for entitlement of EIT exemption from 1 January 2017 to 31 December 2020, and Xinjiang Values registered with the PRC tax bureau for entitlement of EIT exemption from 1 July 2018 to 31 December 2020.

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.

- (a) The major components of the income tax expense of the Group during the Relevant Periods are analysed as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Current — Mainland China			
Charge for the year	12,975	3,004	4,089
Deferred (<i>note 21</i>)	<u>(701)</u>	<u>(1,125)</u>	<u>(723)</u>
Total tax charge for the year	<u><u>12,274</u></u>	<u><u>1,879</u></u>	<u><u>3,366</u></u>

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(b) Reconciliation between the tax expense and the accounting profit at applicable tax rates

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 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	45,077	8,570	67,849
Tax at the statutory tax rate of 25% in Mainland China	11,269	2,143	16,963
Tax effect of tax exemption granted to subsidiaries	—	(1,188)	(15,149)
Expenses not deductible for tax	240	187	253
Effect of withholding tax at 10% on the distributable profits of the Group’s PRC subsidiaries (<i>note 21</i>)	296	58	583
Effect of tax losses not recognised	469	679	716
Tax charge at the Group’s effective rate . . .	12,274	1,879	3,366

11. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation.

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 Historical Financial Information, 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 as disclosed in note 2.1 to the Historical Financial Information.

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13. PROPERTY, PLANT AND EQUIPMENT

	<u>Electronic equipment</u> <i>RMB'000</i>	<u>Office equipment</u> <i>RMB'000</i>	<u>Leasehold improvements</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
31 December 2016				
At 1 January 2016:				
Cost	82	12	—	94
Accumulated depreciation	<u>(49)</u>	<u>(5)</u>	<u>—</u>	<u>(54)</u>
Net carrying amount	<u>33</u>	<u>7</u>	<u>—</u>	<u>40</u>
At 1 January 2016, net of accumulated depreciation				
	33	7	—	40
Additions	9	—	—	9
Depreciation provided during the year (note 6)	<u>(28)</u>	<u>(2)</u>	<u>—</u>	<u>(30)</u>
At 31 December 2016, net of accumulated depreciation	<u>14</u>	<u>5</u>	<u>—</u>	<u>19</u>
At 31 December 2016:				
Cost	91	12	—	103
Accumulated depreciation	<u>(77)</u>	<u>(7)</u>	<u>—</u>	<u>(84)</u>
Net carrying amount	<u>14</u>	<u>5</u>	<u>—</u>	<u>19</u>
31 December 2017				
At 1 January 2017:				
Cost	91	12	—	103
Accumulated depreciation	<u>(77)</u>	<u>(7)</u>	<u>—</u>	<u>(84)</u>
Net carrying amount	<u>14</u>	<u>5</u>	<u>—</u>	<u>19</u>
At 1 January 2017, net of accumulated depreciation				
	14	5	—	19
Additions	83	127	654	864
Disposal	(5)	(3)	—	(8)
Depreciation provided during the year (note 6)	<u>(17)</u>	<u>(4)</u>	<u>(272)</u>	<u>(293)</u>
At 31 December 2017, net of accumulated depreciation	<u>75</u>	<u>125</u>	<u>382</u>	<u>582</u>
At 31 December 2017:				
Cost	169	136	654	959
Accumulated depreciation	<u>(94)</u>	<u>(11)</u>	<u>(272)</u>	<u>(377)</u>
Net carrying amount	<u>75</u>	<u>125</u>	<u>382</u>	<u>582</u>
31 December 2018				
At 1 January 2018:				
Cost	169	136	654	959
Accumulated depreciation	<u>(94)</u>	<u>(11)</u>	<u>(272)</u>	<u>(377)</u>
Net carrying amount	<u>75</u>	<u>125</u>	<u>382</u>	<u>582</u>
At 1 January 2018, net of accumulated depreciation				
	75	125	382	582
Additions	8	—	—	8
Depreciation provided during the year (note 6)	<u>(29)</u>	<u>(24)</u>	<u>(328)</u>	<u>(381)</u>
At 31 December 2018, net of accumulated depreciation	<u>54</u>	<u>101</u>	<u>54</u>	<u>209</u>
At 31 December 2018:				
Cost	177	136	654	967
Accumulated depreciation	<u>(123)</u>	<u>(35)</u>	<u>(600)</u>	<u>(758)</u>
Net carrying amount	<u>54</u>	<u>101</u>	<u>54</u>	<u>209</u>

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14. INVENTORIES

	31 December 2016	31 December 2017	31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Raw materials	4,320	4,183	9,810
Work in progress	2,350	92,210	87,131
Finished goods	<u>67,560</u>	<u>33,974</u>	<u>106,977</u>
	<u><u>74,230</u></u>	<u><u>130,367</u></u>	<u><u>203,918</u></u>

15. TRADE AND NOTES RECEIVABLES

	31 December 2016	31 December 2017	31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables	68,045	76,972	112,704
Notes receivable	<u>4,000</u>	<u>—</u>	<u>—</u>
	72,045	76,972	112,704
Impairment	<u>(3,987)</u>	<u>(8,719)</u>	<u>(13,413)</u>
	<u><u>68,058</u></u>	<u><u>68,253</u></u>	<u><u>99,291</u></u>

The Group’s trade receivables, amounting to RMB17,000,000, nil and RMB16,674,000 were pledged to secure the bank loan granted to the Group as at 31 December 2016, 2017 and 2018 (note 20), respectively.

The Group’s trading terms with its customers are mainly on credit. The credit period is generally 90 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:

	31 December 2016	31 December 2017	31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 3 months	49,075	14,565	58,735
3 to 6 months	353	—	1,322
6 to 12 months	—	10,353	—
1 to 2 years	14,630	30,194	17,932
2 to 3 years	<u>—</u>	<u>13,141</u>	<u>21,302</u>
	<u><u>64,058</u></u>	<u><u>68,253</u></u>	<u><u>99,291</u></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 days 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 reporting date about past events, current conditions and forecasts of future economic conditions.

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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 2016

	Current	Trade receivables ageing:				Total
		Past due less than 1 year	Past due 1 to 2 years	Past due 2 to 3 years	Past due more than 3 years	
Expected credit loss rate	note	9.67%	21.26%	—	—	5.86%
Gross carrying amount						
<i>RMB’000</i>	49,075	391	18,579	—	—	68,045
Expected credit losses						
<i>RMB’000</i>	—	38	3,949	—	—	3,987

As at 31 December 2017

	Current	Trade receivables ageing:				Total
		Past due less than 1 year	Past due 1 to 2 years	Past due 2 to 3 years	Past due more than 3 years	
Expected credit loss rate	note	9.42%	13.37%	23.06%	—	11.33%
Gross carrying amount						
<i>RMB’000</i>	23,736	1,305	34,852	17,079	—	76,972
Expected credit losses						
<i>RMB’000</i>	—	123	4,658	3,938	—	8,719

As at 31 December 2018

	Current	Trade receivables ageing:				Total
		Past due less than 1 year	Past due 1 to 2 years	Past due 2 to 3 years	Past due more than 3 years	
Expected credit loss rate	note	10.13%	14.35%	23.08%	100.00%	11.81%
Gross carrying amount						
<i>RMB’000</i>	58,735	1,471	20,936	27,694	3,868	112,704
Expected credit losses						
<i>RMB’000</i>	—	149	3,004	6,392	3,868	13,413

Note: The Group estimated the expected credit loss rate of close to zero on current trade receivables.

The movements in the loss allowance for impairment of trade receivables were as follows:

	31 December 2016	31 December 2017	31 December 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At beginning of year	—	3,987	8,719
Impairment losses (<i>note 6</i>)	3,987	4,732	4,694
At end of year	3,987	8,719	13,413

The Group’s notes receivable were all aged within one year and were neither past due nor impaired.

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16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment under co-financing arrangements	500	3,140	79,272
Prepayments	24,189	14,785	842
Prepaid [REDACTED]	—	—	[REDACTED]
Deductible input-VAT	2,048	1,911	4,945
Income tax recoverable	—	3,311	717
Deposits and other receivables	9,311	9,993	351
Loans receivable (<i>note a</i>)	8,500	28,700	3,774
Interest receivables (<i>note a</i>)	302	1,687	761
Impairment allowance	<u>(1,000)</u>	<u>(1,000)</u>	<u>(3,149)</u>
	<u>43,850</u>	<u>62,527</u>	<u>88,619</u>

The movements in the loss allowance for impairment of other receivables were as follows:

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	1,000	1,000	1,000
Impairment losses (<i>note 6</i>)	<u>—</u>	<u>—</u>	<u>2,149</u>
At end of year	<u>1,000</u>	<u>1,000</u>	<u>3,149</u>

Note (a):

Loans receivable represent the loans provided to third parties. Interest receivables represent interest derived from the aforementioned loans to third parties.

	<u>Effective interest rate</u>	<u>Maturity</u>	<u>RMB'000</u>
Denominated in RMB	15%	On demand	1,000*
Denominated in RMB	15%	28 September 2017	7,500*
Denominated in RMB	10%	13 June 2018	17,200*
Denominated in RMB	7.5%	30 June 2018	774*
Denominated in RMB	15%	7 October 2018	3,000*

* *RMB1,000,000, RMB8,940,000 and RMB4,535,000 of the loans receivable and the corresponding interest receivables have been past due as at 31 December 2016, 2017 and 2018, respectively.*

An impairment analysis is 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 considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate.

As at 31 December 2016, 2017 and 2018, the Group estimated the expected losses for loans receivable and interest receivables to be RMB1,000,000, RMB1,000,000 and RMB3,149,000, respectively. As at 31 December 2016, 2017 and 2018, the Group estimated the expected loss rate for deposits and other receivables is minimal under the 12-month expected loss method.

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17. CASH AND CASH EQUIVALENTS

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cash and bank balances	115,537	30,055	11,665
Cash and cash equivalents	<u>115,537</u>	<u>30,055</u>	<u>11,665</u>

At 31 December 2016, 2017 and 2018, 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. The bank balances are deposited with creditworthy banks with no recent history of default.

18. TRADE PAYABLES

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	—	28,514	34,865

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:

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 3 months	—	20,431	6,211
3 to 6 months	—	—	12,666
6 to 12 months	—	8,083	6,000
1 to 2 years	—	—	9,988
	<u>—</u>	<u>28,514</u>	<u>34,865</u>

The trade payables are non-interest-bearing and are normally settled on 90 to 180 days’ terms.

19. OTHER PAYABLES AND ACCRUALS

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Amount received under co-financing arrangements	—	3,500	3,000
Other tax payables	8	560	237
Interest payable	5	—	1,175
Payroll and welfare payable	932	2,464	937
Accrued expenses	141	170	—
Others	551	345	497
	<u>1,637</u>	<u>7,039</u>	<u>5,846</u>

Other payables are non-interest-bearing and repayable on demand.

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20. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<u>Effective interest rate</u> (%)	<u>Maturity</u>	<u>31 December 2016</u> RMB'000
Current			
Bank loans — secured	5.30	2017	20,000
Other borrowings — unsecured	18.00	2017	<u>15,000</u>
			<u><u>35,000</u></u>
	<u>Effective interest rate</u> (%)	<u>Maturity</u>	<u>31 December 2018</u> RMB'000
Current			
Bank loans — secured	5.10–7.92	2019	25,000
Other borrowings — unsecured	10.00–15.00	2019	<u>18,000</u>
			<u><u>43,000</u></u>
	<u>31 December 2016</u> RMB'000	<u>31 December 2017</u> RMB'000	<u>31 December 2018</u> RMB'000
Analysed into:			
Bank loans repayable:			
Within one year	<u>20,000</u>	<u>—</u>	<u>25,000</u>
Other borrowings repayable:			
Within one year	<u>15,000</u>	<u>—</u>	<u>18,000</u>

Notes:

(a) As at 31 December 2016, the Group’s trade receivables, which had an aggregate net carrying value of approximately RMB17,000,000 were pledged to secure the bank loans granted to the Group (note 15).

In addition, shareholders, namely Mr. Bai Yang, Mr. Wu Tao, Ms. Liu Peiyao, Mr. Liu Naiyue and Ms. Wei Xian, have guaranteed certain of the Group’s bank loans up to RMB20,000,000 as at 31 December 2016.

(b) As at 31 December 2018, the Group’s trade receivables, which had an aggregate net carrying value of approximately RMB16,674,000 were pledged to secure the bank loans granted to the Group (note 15).

In addition, shareholders, namely Mr. Bai Yang, Mr. Wu Tao, Ms. Liu Peiyao, Mr. Liu Naiyue and Ms. Wei Xian, have guaranteed certain of the Group’s bank loans up to RMB20,000,000 as at 31 December 2018.

(c) The Group’s other borrowings as at 31 December 2016 and 2018 were unsecured and repayable within one year.

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21. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	<u>Impairment of trade receivables</u> <i>RMB'000</i>	<u>Impairment of other receivables</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
At 1 January 2016	—	—	—
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	<u>997</u>	<u>—</u>	<u>997</u>
At 31 December 2016 and 1 January 2017 . .	997	—	997
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	<u>1,183</u>	<u>—</u>	<u>1,183</u>
At 31 December 2017 and 1 January 2018 . .	2,180	—	2,180
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	<u>769</u>	<u>537</u>	<u>1,306</u>
At 31 December 2018	<u><u>2,949</u></u>	<u><u>537</u></u>	<u><u>3,486</u></u>

Deferred tax liabilities — withholding taxes

	<u>31 December 2016</u> <i>RMB'000</i>	<u>31 December 2017</u> <i>RMB'000</i>	<u>31 December 2018</u> <i>RMB'000</i>
At beginning of year	119	415	473
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	<u>296</u>	<u>58</u>	<u>583</u>
At end of year	<u><u>415</u></u>	<u><u>473</u></u>	<u><u>1,056</u></u>

The aggregate amount of temporary differences associated with accumulated losses in Mainland China for which deferred tax assets have not been recognised totalled approximately RMB1,982,000, RMB4,696,000 and RMB7,561,000 as at 31 December 2016, 2017 and 2018, respectively. 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 distributable by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As of 31 December 2016, 2017 and 2018, deferred taxes of RMB415,000, RMB473,000 and RMB1,056,000 have been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries established in Mainland China.

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 RMB37,382,000, RMB42,592,000 and RMB95,026,000 as at 31 December 2016, 2017 and 2018, respectively. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings to foreign entities in the foreseeable future.

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22. SHARE CAPITAL

There was no authorised and issued capital presented as at 31 December 2016, 2017 and 2018 since the Company was not yet incorporated as at those dates.

23. RESERVES

The amounts of the Group’s reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital and share premium of the companies comprising the Group prior to the incorporation of the Company, details of the movements in the capital reserve are set out in the combined statements of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve reaches 50% of its 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.

24. CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018, the Group had no significant contingent liabilities.

25. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Amounts due to related parties	Amount due to a director	Interest payables
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	20,000	11,567	—	379
Changes from financing cash flows	15,000	(11,000)	—	—
Interest accrued	—	412	65	3,280
Interest paid	—	(979)	(65)	(3,654)
At 31 December 2016	<u>35,000</u>	<u>—</u>	<u>—</u>	<u>5</u>
At 1 January 2017	35,000	—	—	5
Changes from financing cash flows	(35,000)	—	—	—
Interest accrued	—	—	—	1,711
Interest paid	—	—	—	(1,716)
At 31 December 2017	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 1 January 2018	—	—	—	—
Changes from financing cash flows	43,000	—	—	—
Interest accrued	—	67	—	4,360
Interest paid	—	(67)	—	(3,185)
At 31 December 2018	<u><u>43,000</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>1,175</u></u>

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26. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its offices under operating lease arrangements. Leases for offices are negotiated for terms ranging from one to three years. At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	636	546	897
In the second to the third years, inclusive	<u>3</u>	<u>91</u>	<u>95</u>
	<u>639</u>	<u>637</u>	<u>992</u>

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had the following commitments at the end of each of the Relevant Periods:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:			
Co-financing arrangements	<u>—</u>	<u>6,160</u>	<u>40,050</u>

28. RELATED PARTY TRANSACTIONS

Details of the Company’s related parties are as follows:

<u>Name</u>	<u>Relationship with the Company</u>
Mr. Bai Yang	Shareholder
Mr. Wu Tao	Key management and shareholder
Ms. Yan Bei	Key management
Ms. Liu Peiyao	Director and shareholder
Mr. Liu Naiyue	Director and shareholder
Ms. Wei Xian	Director and shareholder
Ms. Li Fang	Director
Qingdao Fuhe Investment Company Limited (“ Qingdao Fuhe ”)	An entity controlled by a director
Yongkang City Wenxin Diaolong Film and Television Culture Studio (“ Wenxin Diaolong ”)	An entity controlled by a director
Suiyong Ronghui Holdings Company Limited (“ Suiyong Ronghui ”)	An entity controlled by a shareholder of a subsidiary

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(a) The Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Borrowings from a director			
Mr. Liu Naiyue*	3,000	—	—
Borrowings from related parties			
Ms. Yan Bei*	250	—	—
Qingdao Fuhe*	10,000	—	—
Suiyong Ronghui**	—	—	10,000
	<u>10,250</u>	<u>—</u>	<u>10,000</u>
Interest expenses to:			
Mr. Liu Naiyue	65	—	—
Ms. Yan Bei	5	—	—
Qingdao Fuhe	407	—	—
Suiyong Ronghui	—	—	67
	<u>477</u>	<u>—</u>	<u>67</u>
Purchases of goods from:			
Wenxin Diaolong***	4,689	—	—

* The borrowings from Mr. Liu Naiyue, Ms. Yan Bei and Qingdao Fuhe were unsecured, which bore interest rate at 6% per annum.

** The borrowings from Suiyong Ronghui were secured by pledge of trade receivables of RMB21,674,000, which bore interest rate at 8% per annum.

*** The purchases of goods from the related party were made according to the published prices and conditions offered by the related party to its major customers.

(b) Other transactions with related parties

As at 31 December 2016, 2017 and 2018, the shareholders, namely Mr. Bai Yang, Mr. Wu Tao, Ms. Liu Peiyao, Mr. Liu Naiyue and Ms. Wei Xian have guaranteed certain of the Group’s bank loans up to RMB20,000,000, nil and RMB20,000,000, respectively.

(c) Compensation of key management personnel

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind . . .	498	1,068	692
Pension scheme contributions	43	56	84
Total compensation paid to key management personnel	<u>541</u>	<u>1,124</u>	<u>776</u>

Further details of directors’ emoluments are included in note 8 to the Historical Financial Information.

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29. 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:

Financial assets — at amortised cost

	As at <u>31 December 2016</u> <i>RMB'000</i>	As at <u>31 December 2017</u> <i>RMB'000</i>	As at <u>31 December 2018</u> <i>RMB'000</i>
Trade and notes receivables	68,058	68,253	99,291
Financial assets included in prepayments, other receivables and other assets	17,113	39,380	1,737
Cash and cash equivalents	<u>115,537</u>	<u>30,055</u>	<u>11,665</u>
	<u>200,708</u>	<u>137,688</u>	<u>112,693</u>

Financial liabilities — at amortised cost

	As at <u>31 December 2016</u> <i>RMB'000</i>	As at <u>31 December 2017</u> <i>RMB'000</i>	As at <u>31 December 2018</u> <i>RMB'000</i>
Interest-bearing bank loans and other borrowings	35,000	—	43,000
Trade payables	—	28,514	34,865
Financial liabilities included in other payables and accruals	556	345	1,672
	<u>35,556</u>	<u>28,859</u>	<u>79,537</u>

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and interest-bearing bank loans and other borrowings 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.

31. 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 loans 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 interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

The Group’s policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact on floating rate borrowings) and the Group’s equity.

	<u>Increase/(decrease) in basis points</u>	<u>Increase/(decrease) in profit before tax</u> <i>RMB’000</i>
31 December 2016		
RMB	50	(46)
RMB	(50)	46
31 December 2017		
RMB	50	—
RMB	(50)	—
31 December 2018		
RMB	50	(8)
RMB	(50)	8

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 on-going basis.

Maximum exposure and year-end staging as at 31 December 2016, 2017 and 2018

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-end staging classification at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2016	12-month ECLs		Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables*	—	—	—	64,058	64,058
Notes receivable**	4,000	—	—	—	4,000
Financial assets included in prepayments, other receivables and other assets					
— Normal**	17,113	—	—	—	17,113
Cash and cash equivalents					
— Not yet past due.	115,537	—	—	—	115,537
	<u>136,650</u>	<u>—</u>	<u>—</u>	<u>64,058</u>	<u>200,708</u>

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	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
As at 31 December 2017	Stage 1	Stage 2	Stage 3			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables*	—	—	—	—	68,253	68,253
Financial assets included in prepayments, other receivables and other assets						
— Normal**	31,440	—	—	—	—	31,440
— Doubtful**	—	7,940	—	—	—	7,940
Cash and cash equivalents						
— Not yet past due.	30,055	—	—	—	—	30,055
	<u>61,495</u>	<u>7,940</u>	<u>—</u>	<u>—</u>	<u>68,253</u>	<u>137,688</u>

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
As at 31 December 2018	Stage 1	Stage 2	Stage 3			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables*	—	—	—	—	99,291	99,291
Financial assets included in prepayments, other receivables and other assets						
— Normal**	351	—	—	—	—	351
— Doubtful**	—	1,386	—	—	—	1,386
Cash and cash equivalents						
— Not yet past due.	11,665	—	—	—	—	11,665
	<u>12,016</u>	<u>1,386</u>	<u>—</u>	<u>—</u>	<u>99,291</u>	<u>112,693</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 15 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”.

APPENDIX I

ACCOUNTANT’S REPORT

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 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 2016						
	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 loans and other borrowings . . .	—	10,531	25,852	—	—	36,383
Financial liabilities included in other payables and accruals	556	—	—	—	—	556
	<u>556</u>	<u>10,531</u>	<u>25,852</u>	<u>—</u>	<u>—</u>	<u>36,939</u>
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>
Trade payables	8,083	20,431	—	—	—	28,514
Financial liabilities included in other payables and accruals	345	—	—	—	—	345
	<u>8,428</u>	<u>20,431</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,859</u>
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 loans and other borrowings . . .	—	43,223	—	—	—	43,223
Trade payables	28,654	6,211	—	—	—	34,865
Financial liabilities included in other payables and accruals	1,672	—	—	—	—	1,672
	<u>30,326</u>	<u>49,434</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>79,760</u>

APPENDIX I

ACCOUNTANT’S REPORT

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 gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes trade payables, other payables and accruals, interest-bearing bank loans and other borrowings less cash and cash equivalents. Total capital represents equity attributable to owners of the parent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2018</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	—	28,514	34,865
Other payables and accruals	1,637	7,039	5,846
Interest-bearing bank loans and other borrowings	35,000	—	43,000
Less: Cash and cash equivalents	<u>(115,537)</u>	<u>(30,055)</u>	<u>(11,665)</u>
Net debt	<u>(78,900)</u>	<u>5,498</u>	<u>72,046</u>
Equity attributable to owners of the parent	<u>251,247</u>	<u>257,938</u>	<u>322,421</u>
Total capital and net debt	<u>172,347</u>	<u>263,436</u>	<u>394,467</u>
Gearing ratio	<u>(46%)</u>	<u>2%</u>	<u>18%</u>

32. EVENTS AFTER THE REPORTING PERIOD

The Company and its subsidiaries now comprising the Group underwent the Reorganisation. Pursuant to the Reorganisation, as more fully explained in the section headed “History, Reorganisation and Corporate Structure” in the Document, the Company became the holding company of the companies now comprising the Group on 26 June 2019.

33. 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 31 December 2018.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED "WARNING" ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 March 2019 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its [Amended and Restated] Memorandum of Association (the “**Memorandum**”) and its [Amended and Restated] Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that 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.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were [conditionally] adopted on [•] [with effect from the [REDACTED]]. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, 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 the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general

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meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

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Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

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(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to 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 requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls 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). A call may be made payable either in one lump 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof 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 monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, 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

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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, notwithstanding, remain liable to pay to the Company all monies which, at 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

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The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of

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shares, all unissued shares in the Company are 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, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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 Companies Law to be exercised or done by the Company in general meeting.

(iv) 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 assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, 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.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

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Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making 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 past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the

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Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any 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 entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, 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 thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in

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any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or 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;
- (dd) 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 or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

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(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and the Company’s name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) 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, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that 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.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at 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 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 2 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/herself (themselves) may do so

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in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the board shall be reimbursed to the requisitioner(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

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(v) 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, but the absence of a quorum shall not preclude the appointment of a chairman.

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 authorised 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.

(vi) 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 is 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 is 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 as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) 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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid

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up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their 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 moneys 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of 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 or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

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(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) 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:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator

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may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is 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 authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (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) the redemption and repurchase of shares (subject to the provisions of section 37 of the

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Companies Law); (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.

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.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) 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 authorised 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 shareholder and the Companies Law expressly provides that 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 authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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.

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Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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 to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

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In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from [•].

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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law 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.

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(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are [REDACTED] on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

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The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company’s affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days’ notice to each contributory in any manner authorised by the company’s articles of association and published in the Gazette.

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(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands (“**ES Law**”) that came into force on 1 January 2019, a “relevant entity” is required to satisfy the economic substance test set out in the ES Law. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

4. GENERAL

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents available for inspection” in Appendix V to this document. Any person wishing to have a detailed summary of Cayman Islands company law 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.

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

1. FURTHER INFORMATION ABOUT OUR GROUP AND THE SUBSIDIARIES**1.1 Incorporation of our Company in the Cayman Islands and registration of our Company under Part 16 of the Companies Ordinance**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11 March 2019 with our registered office located at Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman KY1-1209, Cayman Islands. Our Company has established a place of business in Hong Kong at Room 16, 28/F One Midtown, 11 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 20 June 2019. In connection with such registration, Mr. Au Yeung Ming Yin Gordon has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution, which comprises the Memorandum and the Articles. A summary of the relevant aspect of the Companies Law and certain provisions of the Articles is set out in Appendix III to this document.

1.2 Changes in the share capital of our Company

Our Company was incorporated on 11 March 2019 with an authorised share capital of US\$50,000 divided into 500,000,000 shares of US\$0.0001 each.

On 11 March 2019, one share of US\$0.0001 was allotted and issued, nil paid, to Osiris International Cayman Limited (the provider of the registered office of our Company), which was transferred to BLW Investment on the same date. On 11 March 2019, our Company further allotted and issued 3,286 Shares, 1,233 Shares, 233 Shares, 200 Shares, 1,075 Shares, 1,158 Shares, 133 Shares, 400 Shares, 733 Shares, 213 Shares, all nil paid, to BLW Investment, SYYT Investment, ZLLL Investment, Xieting Holding, SDJZ Investment, JMJ Group, SLZW Investment, LHW Investment, Jinping Holding and LWQ Investment respectively.

On 14 June 2019, our Company further allotted and issued 31,246 Shares, 9,434 Shares, 2,100 Shares, 1,800 Shares, 9,675 Shares, 10,425 Shares, 1,200 Shares, 3,600 Shares, 6,600 Shares, 1,920 Shares, 13,335 Shares, all fully paid at par, to BLW Investment, SYYT Investment, ZLLL Investment, Xieting Holding, SDJZ Investment, JMJ Group, SLZW Investment, LHW Investment, Jinping Holding, LWQ Investment and Suiyong Int'l respectively.

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Pursuant to the written resolutions of our Shareholders passed on [•] 2019, all the shares of our Company at a par value of US\$0.0001 each will be subdivided into 20 Shares at a par value of US\$0.000005 each such that the authorised share capital of the Company shall be US\$50,000 divided into 10,000,000,000 Shares at a par value of US\$0.000005 each and the issued share capital shall be US\$10 divided into 2,000,000 Shares at a par value of US\$0.000005 each.

Immediately following the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Share which may be issued pursuant to the Share Option Scheme), the total issued share capital of our Company immediately after the completion of the [REDACTED] and the [REDACTED] will be US\$[1,000] divided into [200,000,000] Shares of HK\$0.01 each, fully-paid or credited as fully-paid, with [99,800,000,000] Shares which our Company is authorised to issue, remaining unissued.

Other than pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme and the exercise of the general mandate to issue Shares referred to in the paragraph headed “1.3 Resolutions in writing of our Shareholders passed on [•] 2019” in this Appendix, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this document, there has been no alteration in our Company’s share capital since its incorporation.

1.3 Resolutions in writing of our Shareholders passed on [•] 2019

Pursuant to the written resolutions passed by all of our Shareholders on [•] 2019 among others:

- (a) the Memorandum and the Articles were conditionally approved and adopted to take effect from the [REDACTED];

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- (b) conditional on (A) the Listing Division of the Stock Exchange granting [REDACTED] of, and [REDACTED] in, the Shares in issue and to be issued pursuant to the [REDACTED]; (B) the [REDACTED] having been determined; (C) the execution and delivery of the [REDACTED] on or before the date as mentioned in this document; (D) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of the [REDACTED], in each case on or before the dates and times specified in such [REDACTED] (unless and to the extent such conditions are waived on or before such dates and times) and in any event not beyond the 30th day after the date of this document:
- (i) the [REDACTED] and the grant of the [REDACTED] were approved and the Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] and such number of Shares as may be required to be allotted and issued upon the exercise of the [REDACTED];
 - (ii) the rules of the Share Option Scheme (the principal terms of which are set forth in the paragraph headed “4. Share Option Scheme” of this Appendix) were approved and adopted and the Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the issue of [REDACTED] under the [REDACTED], the Directors were authorised to capitalise [REDACTED] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [REDACTED] Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on [•] 2019 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation;

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- (iv) a general unconditional mandate (“**Issuing Mandate**”) was given to the Directors to exercise all powers of our Company to allot, issue and deal in, otherwise than by way of rights issue, or scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the [REDACTED] or the [REDACTED], or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, a total number of Shares of not more than the aggregate of (a) 20% of the total number of Shares in issue and to be issued immediately following completion of the [REDACTED] and the [REDACTED], but excluding (where applicable) any Shares which may be issued upon the exercise of the [REDACTED] and any option that may be granted under the Share Option Scheme and (b) the total number of our Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate (as mentioned below), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
- (v) a general unconditional mandate (“**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to repurchase Shares with an aggregate number of Shares of not exceeding 10% of the aggregate number of Shares in issue and to be issued immediately following the completion of the [REDACTED] and the [REDACTED], but excluding (where applicable) any Shares which may be issued upon the exercise of the [REDACTED] and any option that may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to sub-paragraph (iv) above by the addition of such Shares repurchased by our Company pursuant to sub-paragraph (v) above.

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1.4 Further information about our Group’s subsidiaries and Consolidated Affiliated Entities

Our Group has three wholly-owned subsidiaries, one incorporated in the BVI, one incorporated in Hong Kong and one established in PRC. Our Group has four Consolidated Affiliated Entities, all of them are established in PRC. A summary of the corporate information of these seven companies as at the Latest Practicable Date is set out as follows:

(a) Subsidiary incorporated in the BVI

Full name of company	YS Cultural Investment Limited
Date of incorporation	20 March 2019
Registered office	Start Chambers, Wickham’s Cay II, P.O. Box 2221, Road Town Tortola, British Virgin Islands
Issued share capital	US\$1
Number of issued shares	1
Shareholder	Values Cultural Investment Limited (1 share)
Principal business activity	Investment holdings

(b) Subsidiaries incorporated in Hong Kong

Full name of company	Fanta Culture Co., Limited
Date of incorporation	17 April 2019
Registered office	Flat/Rm A 12/F Kiu Fu Commercial Bldg, 300 Lockhart Road, Wan Chai, Hong Kong
Issued share capital	HK\$1.00
Number of issued shares	1
Shareholder	YS Cultural Investment Limited (1 share)
Principal business activity	Investment holdings

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(c) Subsidiaries incorporated in PRC

Full name of company	Haining Fanning Television Planning (海寧泛寧影視策劃有限公司)
Date of incorporation	27 May 2019
Registered office	Room 1702, 17/F, Science and Innovative Center, 128 Shuanglian Lu, Haining Economic Development Zone, Haining, Zhejiang, PRC* (浙江省嘉興市海寧市海寧經濟開發區雙聯路128號科創中心17樓1702室)
Registered Capital	HK\$150,000,000
Shareholder	Fanta Culture Co., Limited (100%)
Principal business activity	investment holding

(d) Consolidated Affiliated Entities

(i) Full name of company	Values Culture Media Co., Ltd. (海寧原石文化傳媒股份有限公司)
Date of establishment	14 November 2013
Registered office	Room 1612-15, 16th Floor, Film and Television Science and Innovative Center, Haining Film and Television Industry International Cooperation Experimental Zone, Zhejiang, PRC* (中國浙江影視產業國際合作實驗區基地海寧市影視科創中心16樓1612-15室)
Registered Capital	RMB150,000,000
Shareholder	Relevant Shareholders
Principal business activity	investment in production, distribution and licensing of TV series
(ii) Full name of company	Beijing Values Culture Media Co., Ltd. (北京原石文化傳媒有限公司)
Date of establishment	3 April 2014
Registered office	Room 601, 5th Floor, Building 3, No. 4 Guanghua Lu, Chaoyang District, Beijing, PRC* (北京市朝陽區光華路4號園3號樓5層601室)

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Registered Capital	RMB3,000,000
Shareholder	Values Culture Media Co., Ltd. (100%)
Principal business activity	investment in production, distribution and licensing of TV series
(iii) Full name of company	Khorgas Values Culture Media Co., Ltd. (霍爾果斯原石文化傳媒有限公司)
Date of establishment	29 December 2016
Registered office	Room 812, 814, 815, Oriental Apartment, Block B4, Zhongha International Border Cooperation Center, Khorgos, Ili, Xinjiang, PRC* (新疆伊犁州霍爾果斯中哈國際邊境合作中心區B4地塊東方公寓812, 814, 815室)
Registered Capital	RMB6,000,000
Shareholder	Values Culture Media Co., Ltd. (100%)
Principal business activity	investment in production, distribution and licensing of TV series
(iv) Full name of company	Xinjiang Values Culture Media Co., Ltd. (新疆原石文化傳媒有限公司)
Date of establishment	22 June 2018
Registered office	Room 915, Area B, Divisional Headquarters, Economic Zone, Shenka Avenue, Kashgar Economic Development Zone, Kashgar, Xinjiang* (新疆喀什地區喀什經濟開發區深喀大道總部經濟區兵團分區總部大廈B區915室)
Registered Capital	RMB10,000,000
Shareholder	Values Culture Media Co., Ltd. (100%)
Principal business activity	investment in production, distribution and licensing of TV series

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1.5 Reorganisation

In preparing for [REDACTED], the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. For further details, please refer to the paragraph headed “History, Reorganisation and Group Structure — Reorganisation” in this document.

1.6 Changes in share capital of the subsidiaries

The subsidiaries are listed in the accountants’ report set out in Appendix I to this document.

Save as disclosed in the paragraph headed “History, Reorganisation and Group Structure — Reorganisation” in this document, there has been no alteration in the share capital of any of the subsidiaries of our Company within the three years immediately preceding the date of this document.

1.7 Repurchases by our Company of our own securities

This section sets out information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

(a) Provisions of the Main Board Listing Rules

The Main Board Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders’ approval

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(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 of our Company and the Main Board Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, under the Companies Laws any repurchases by our Company may be made out of our Company’s profits, out of our Company’s

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share premium account, out of the proceeds of a new issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Laws, out of capital. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits or from sums standing to the credit of our Company's share premium account or, if authorised by the Articles, and subject to the Companies Laws, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A 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 our Company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the 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 Stock Exchange. The Main Board Listing Rules also prohibit a listed company from repurchasing its securities which would result in the number of the listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of repurchase

A listed company shall not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is 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 Stock Exchange in accordance with the Main Board 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 Main Board Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Main Board Listing Rules, or

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quarterly or any other interim period (whether or not required under the Main Board Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Main Board Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the 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, 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 purchase, where relevant, and the aggregate prices paid.

(vii) Core connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or Substantial Shareholder of our Company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to our Company.

(b) Reasons for repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors have sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining.

(c) Funding of repurchases and impact on working capital or gearing position

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with its Memorandum and Articles of Association, the Main Board Listing Rules and the applicable laws of the Cayman Islands.

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There could be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this document) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period.

However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 200 million Shares in issue immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any option that may be granted under the Share Option Scheme), could accordingly result in up to approximately 10% Shares being repurchased by our Company during the period prior to the earliest occurrence of any of the following:

- (i) the conclusion of our next annual general meeting; or
- (ii) the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Main Board Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code.

Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in

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issue could only be implemented if the Stock Exchange agreed to waive the Main Board Listing Rules requirements regarding the public shareholding. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

2.1 Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) an exclusive business co-operation agreement dated 26 June 2019 entered into among Values Culture and WFOE pursuant to which Values Culture agreed to engage WFOE as its exclusive provider of technical support, consultation and other services;
- (b) an exclusive option agreement dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders pursuant to which the Relevant Shareholders jointly and severally granted irrevocably to WFOE the rights to require the Relevant Shareholders to transfer any or all their equity interests and/or assets in Values Culture to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations;
- (c) an equity pledge agreement dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders pursuant to which each of the Relevant Shareholders agreed to pledge all of their respective equity interests in Values Culture to WFOE as a security interest to guarantee (i) the payment of service fee and interest under the Contractual Arrangements; (ii) performance of all the contractual obligations and the payment of outstanding debts arising from the Contractual Arrangements; and (iii) other payment obligations arising from the Contractual Arrangements, including but not limited to liquidated damages and compensations;
- (d) a shareholders rights proxy agreement dated 26 June 2019 entered into among Values Culture, the Relevant Shareholders and WFOE, pursuant to which, each Relevant Shareholder irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder’s rights in Values Culture;
- (e) the Deed of Indemnity; and
- (f) the [REDACTED].

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2.2 Intellectual property rights of our Group

As at the Latest Practicable Date, we had the following intellectual property rights which are material in relation to our business.

(a) Domain names

As at the Latest Practicable Date, a member of our Group had owned the following domain names which is material to our business:

No.	Domain name	Owner	Expiry date
1.	www.yuanshimedia.com	Values Culture	2 March 2023
2.	www.yuanshiwenhua168.com	Values Culture	26 May 2021

(b) Copyrights

As at the Latest Practicable Date, a member of our Group had owned the following copyrights which is material to our business:

(i) TV series copyrights

No.	Name of copyright	Ownership	Owner
1	The Eagle Corps* (野山鷹)	Wholly-owned copyright	Values Culture
2	The Furthest Distance* (遙遠的距離)	Wholly-owned copyright	Values Culture
3	Jade* (女管家)	Proportionally owned copyright	Values Culture
4	National Spirit* (共和國血脈)	Proportionally owned copyright	Values Culture
5	Yan Yang Chun* (燕陽春)	Wholly-owned copyright	Values Culture
6	Magnificent Sword With Beauty* (美人如玉劍如虹)	Proportionally owned copyright	Values Culture
7	Step Forward Is Happiness* (向前一步是幸福)	Proportionally owned copyright	Values Culture
8	Scrambling For Gold* (奪金戰)	Wholly-owned copyright	Values Culture
9	The Taoist of Mount Lao* (嶗山道士)	Proportionally owned copyright	Beijing Values
10	Super Father-In-Law & Son-In-Law* (超級翁婿)	Wholly-owned copyright	Xinjiang Values

(ii) Movies copyrights

No.	Name of Copyright	Ownership	Owner
1	Little Rain Boots* (小雨靴)	Shared copyright	Values Culture
2	True Or Dare* (真心話太冒險即你好壞先生)	Proportionally owned copyright	Values Culture
3	Pear Blossom* (又是一春梨花白)	The right of authorship	Values Culture

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(iii) Web series copyright

<u>No.</u>	<u>Name of Copyright</u>	<u>Ownership</u>	<u>Owner</u>
1	Evil Nights* (罪夜無間)	Proportionally owned copyright	Khorgas Values

(iv) Artistic works copyright

<u>No.</u>	<u>Name of Copyright</u>	<u>Ownership</u>	<u>Owner</u>
1	原石文化	Wholly-owned copyright	Values Culture

(v) Licensed rights of literary works

<u>No.</u>	<u>Name of Copyright</u>	<u>Licensor</u>	<u>Licensee</u>	<u>Rights</u>	<u>Period</u>	<u>Commencement Date</u>
1	South Anhui Incident* (皖南事變)	Shanghai Miao Film & TV and Culture Studio* (上海妙造影視文化工作室)	Values Culture	Adaptation right (Movie and TV series)	10 years	25 January 2018
2	The Battle of Xiangjiang* (湘江之戰)	Shanghai Miao Film & TV and Culture Studio* (上海妙造影視文化工作室)	Values Culture	Adaptation right (Movie and TV series)	10 years	25 January 2018
3	Blood and Sand* (碧血黃沙)	Shanghai Miao Film & TV and Culture Studio* (上海妙造影視文化工作室)	Values Culture	Adaptation right (Movie and TV series)	10 years	25 January 2018
4	A Thousand Hills Crimsoned Through* (萬山紅遍)	Shanghai Miao Film & TV and Culture Studio* (上海妙造影視文化工作室)	Values Culture	Adaptation right (Movie and TV series)	10 years	25 January 2018

(vi) Licensed rights of TV Series

<u>No.</u>	<u>Name of Copyright</u>	<u>Licensor</u>	<u>Licensee</u>	<u>Permitted Areas</u>	<u>Period</u>
1	All is well* (都挺好)	Dongyang Noon Sunlight Film and Television Co., Ltd* (東陽正午陽光影視有限公司)	Khorgas Values	PRC	3 years from first broadcast
2	Drawing sword* (亮劍)	Blackberry Film and Television Production (Inner Mongolia) Co., Ltd* (黑莓影視製作(內蒙古)有限公司)	Khorgas Values	Tianjin	3 years from first broadcast and no later than 40 months from 28 April 2019
3	Mother Relative Uncle (娘親舅大)	Xiangshan Yibasuo Film Industry Co., Ltd* (象山一把鎖影業有限公司)	Khorgas Values	Tianjin	3 years from first broadcast
4	Behind enemy lines* (武工隊傳奇)	Zhejiang Hairun Film and Television Production Co., Ltd* (浙江海潤影視製作有限公司)	Khorgas Values	Tianjin	3 years from first broadcast and no later than 40 months from 28 April 2019
5	The Predator Soldiers* (鐵血武工隊傳奇)	Zhejiang Hairun Film and Television Production Co., Ltd* (浙江海潤影視製作有限公司)	Khorgas Values	Tianjin	3 years from first broadcast and no later than 40 months from 28 April 2019
6	The VI Group of Fatal Case III* (重案六組第三部)	Hairun Film and Television Production Co., Ltd* (海潤影視製作有限公司)	Khorgas Values	Tianjin	3 years from first broadcast and no later than 40 months from 28 April 2019

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No.	Name of Copyright	Licensor	Licensee	Permitted Areas	Period
7	The VI Group of Fatal Case IV* (重案六組第四部)	Zhejiang Hairun Film and Television Production Co., Ltd* (浙江海潤影視製作有限公司)	Khorgas Values	Tianjin	3 years from first broadcast and no later than 40 months from 28 April 2019
8	The Sharp knife* (鐵血尖刀)	Beijing Jintiandi Film and Culture Co., Ltd* (北京金天地影視文化股份有限公司)	Khorgas Values	Tianjin	10 May 2019 to 9 May 2022
9	The Golden Years Of The Nursing Mother* (養母的花樣年華)	Supplier E	Khorgas Values	Shandong Province and Tianjin	3 years from first broadcast
10	The Way We Were* (歸去來)	Beijing Hualu Baina Film & TV Inc. (北京華錄百納影視股份有限公司)	Khorgas Values	United States and Canada	3 years from first broadcast
11	Red Rose* (紅薔薇)	Supplier J	Khorgas Values	PRC (Except Jiangsu, Zhejiang, Shanghai, Hunan, Beijing, Guangdong, Anhui, Liaoning Provinces)	5 years from first broadcast
12	Happy Home* (幸福滿院)	Litian Movies Company Limited * (浙江力天影視有限公司)	Khorgas Values	Hebei Province	3 years from first broadcast
13	Vanilla Beauty* (香草美人)	Beijing Changjiang Culture Company Limited* (北京長江文化股份有限公司)	Khorgas Values	PRC	3 years from 25 May 2017
14	A Married Couple* (結髮夫妻)	Beijing Changjiang Culture Company Limited* (北京長江文化股份有限公司)	Khorgas Values	PRC	3 years from 25 May 2017
15	Ming De Embroidery* (明德繡莊)	Beijing Changjiang Culture Company Limited* (北京長江文化股份有限公司)	Khorgas Values	PRC	3 years from 25 May 2017
16	Love In Qingdao* (青城之戀)	Beijing Changjiang Culture Company Limited* (北京長江文化股份有限公司)	Khorgas Values	PRC	3 years from 25 May 2017
17	I want to go home* (好想回家)	Beijing Changjiang Culture Company Limited* (北京長江文化股份有限公司)	Khorgas Values	PRC	3 years from 25 May 2017

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

3.1 Disclosure of Interests

(a) Interests and short position of our Directors and the chief executive in the shares, underlying shares or debentures of our Company and the associated corporations

Immediately following the completion of the [REDACTED] and the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] and the Share Option

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Scheme, the interests or short positions of the Directors and the chief executive 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 interests 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 into in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are [REDACTED] will be as follows:

<u>Name of Director</u>	<u>Nature of interest/Capacity</u>	<u>Number of shares held</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu	Interest of a controlled corporation (<i>Note 1</i>)	[REDACTED]	[REDACTED]%
Ms. Liu	Interest of a controlled corporation (<i>Note 1</i>)	[REDACTED]	[REDACTED]%
Ms. Wei	Interest of a controlled corporation (<i>Note 1</i>)	[REDACTED]	[REDACTED]%
Mr. Shao Hui	Interest of a controlled corporation (<i>Note 2</i>)	[REDACTED]	[REDACTED]%

Notes:

1. The issued shares of BLW Investment are owned as to approximately 43.44%, 23.17%, 15.44%, 9.65% and 8.3% by Mr. Bai, Ms. Liu, Mr. Wu, Mr. Liu and Ms. Wei respectively. Under the SFO, each of Mr. Bai, Ms. Liu, Mr. Wu, Mr. Liu and Ms. Wei is deemed, or taken to be interested in the Shares beneficially owned by BLW Investment.
2. The issued shares of SDJZ Investment are owned as to approximately 91.01%, 2.02%, 3.88% and 3.10% by Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan respectively. Under the SFO, each of Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan is deemed, or taken to be interested in the Shares beneficially owned by SDJZ Investment.

Save as disclosed in the sections headed “History, Reorganisation and Group Structure”, “Relationship with Substantial Shareholders” and the paragraph headed “Further information about our Directors and Substantial Shareholders — 3.2. Directors’ service contracts and letters of appointment” in this Appendix in this document, none of our Directors or their close associates was engaged in any dealings with our Group during the two years preceding the date of this document.

(b) *Interests of Substantial Shareholders*

For the information on the persons, so far as our Directors are aware, who immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme), will have an interest or short position in the Shares or the underlying Shares 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, directly or indirectly, be interested in 10% or more of the

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nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company, please see the section headed “Substantial Shareholders” in this document.

3.2 Directors’ service contracts and letters of appointment

Executive Directors

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the [REDACTED] which may be terminated by either party giving not less than three months’ prior notice in writing and is subject to termination provisions therein and retirement and re-election at the annual general meetings of our Company in accordance with the Articles or any other applicable laws from time to time whereby he shall vacate his office.

Each of our executive Directors shall be entitled to the annual basic salary as follows:

Executive Directors	Annual salary (RMB)
Mr. Liu Naiyue	391,978
Ms. Liu Peiyao	121,200
Ms. Wei Xian	300,000
Ms. Li Fang	248,775

The annual basic salary payable by our Company to the relevant executive Director is subject to annual review by our Board and our Remuneration Committee. In addition, our executive Directors may be entitled to a discretionary bonus from time to time, if so recommended by the Remuneration Committee and approved by our Board at its absolute discretion, the amount of which is determined with reference to the financial performance of our Group and the individual performance of the relevant executive Director, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution approving the amount of annual salary, discretionary bonus and other benefits payable to him.

Non-executive Directors and Independent non-executive Directors

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company for an initial term of three years. Under the respective letters of appointment, the non-executive Directors are not entitled to any director’s fee and each of the Independent non-executive Directors, namely Mr. Zhong Mingshan, Mr. Xu Zongzheng and Mr. Xian Guoming is entitled to a fixed director’s fee of HK\$120,000, HK\$120,000 and HK\$60,000 respectively. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

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3.3 Directors’ and senior management’s remuneration

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect of FY2016, FY2017 and FY2018 were approximately RMB0.7 million, RMB1.0 million and RMB0.7 million respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our Independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2019 are expected to be approximately HK\$0.2 million.
- (iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for each of FY2016, FY2017 and FY2018 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of FY2016, FY2017 and FY2018.

3.4 Disclaimers

- (a) Save as disclosed in the paragraph headed “3.1 Disclosure of interests — (a) Interests and short positions of our Directors and the chief executive in the shares, underlying shares or debentures of our Company and the associated corporations” in this Appendix, none of the Directors or chief executive of our Company has any interests or short positions 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 interests and short positions which he is 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 in that section; or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, in each case once our Shares are [REDACTED] on the Stock Exchange;
- (b) save as disclosed in the paragraph headed “3. Further information about our Directors and substantial Shareholders — 3.1 Disclosure of interests — (b) Interests of our Substantial Shareholders” in this Appendix and in the section headed “Substantial Shareholders” in this document, so far as is known to any Director or chief executive of our Company, no person (other than a Director or chief executive of our Company) has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3

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- of Part XV of the SFO, or is, 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 any other member of our Group once the Shares are [REDACTED] on the Stock Exchange;
- (c) save as disclosed in the sections headed “History, Reorganisation and Group Structure” and “Relationship with Substantial Shareholders” in this document, none of our Directors or the experts named in the paragraph headed “6. Other information — 6.6. Qualification of experts” in this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, 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;
 - (d) save as disclosed in sections headed “History, Reorganisation and Group Structure” and “Relationship with Substantial Shareholders” in this document, none of our Directors is materially interested in any contract or arrangement with our Group subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to the business of our Group;
 - (e) save in connection with [REDACTED], none of our Directors or the experts named in the paragraph headed “6. Other information — 6.6 Qualification of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
 - (f) save for the [REDACTED], none of our Directors or the experts named in the paragraph headed “6. Other information — 6.6 Qualification of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
 - (g) save as disclosed in the paragraph headed “3. Further information about our Directors and substantial Shareholders — 3.2 Directors’ service contracts and letters of appointment” in this Appendix, none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
 - (h) so far as is known to our Directors, none of our Directors or their close associates or any Shareholder (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group during the Track Record Period; and

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- (i) none of our Directors is interested in any business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with the business of our Group.

4. SHARE OPTION SCHEME

4.1 Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by our then Shareholders on [•] 2019:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, the Directors and other selected participants for their contributions to our Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Main Board Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

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(ii) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (“**Invested Entity**”) in which any member of our Group holds an equity interest;
- (b) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of our Group or any Invested Entity;
- (d) any customer of any member of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity;
- (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

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The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors’ opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of the Shares

- (a) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (b) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the [REDACTED] (“**General Scheme Limit**”).
- (c) Subject to (a) above but without prejudice to (d) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Main Board Listing Rules and the disclaimer required under Rule 17.02(4) of the Main Board Listing Rules.
- (d) Subject to (a) above and without prejudice to (c) above, our Company may seek separate Shareholders’ approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (c) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such

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purpose and such other information required under Rule 17.02(2)(d) of the Main Board Listing Rules and the disclaimer required under Rule 17.02(4) of the Main Board Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (“**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates abstaining from voting. Our Company must send a circular to the Shareholders and the circular must disclose the identity of the participant, the number and terms of the options to be granted (and options previously granted to such participant), the information required under Rule 17.02(2)(d) of the Main Board Listing Rules and the disclaimer required under Rule 17.02(4) of the Main Board Listing Rules. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Main Board Listing Rules.

(v) Grant of options to the Directors, chief executive or Substantial Shareholders of our Company or their respective close associates

- (a) Any grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of our Company or any of their respective close associates must be approved by independent non-executive Directors (excluding the independent non-executive Director who or whose close associates is the proposed grantee of the options).
- (b) Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective close associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (pp) representing in aggregate over 0.1% of the Shares in issue; and
 - (qq) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

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such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective close associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of 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 thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange’s daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

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(ix) Ranking of the Shares

- (a) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised 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 (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.
- (b) Unless the context otherwise requires, references to “Shares” in this 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.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company’s knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Main Board Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Main Board Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year, or quarterly or any other interim period (whether or not required under the Main Board Listing Rules) and ending on the date of the results announcement, no option for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Main Board Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

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(xii) 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, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

“Eligible Employee” means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

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(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (a) (1) the grantee of any option (other than an Eligible Employee) or his close associate has committed any breach of any contract entered into between the grantee or his close associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (b) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme or arrangement is formally proposed to Shareholders of our Company, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be

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considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (a) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fail to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (b) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the options so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iv) notwithstanding (i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, [REDACTED] or capitalisation issue, should be based on a scrip factor similar to the one used in the accounting standards in adjusting the earnings per share figures and any such adjustment shall comply with the supplementary guidance on Rule 17.03(13) of the Main Board Listing Rules as set out in the letter issued by the Stock Exchange dated 5 September 2005; and (v) any adjustment must be made in compliance with the Main Board Listing Rules and such rules, codes and guidance notes of the

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Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii)(c) and (d) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreements so to do.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period in respect of such option;
- (b) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and

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- (c) the date on which the Directors exercise our Company’s right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

- (a) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (b) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Main Board Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (c) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (d) The terms of the Share Option Scheme and any amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Main Board Listing Rules.
- (e) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

4.2 Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

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(iii) Grant of options

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(v) Compliance with Main Board Listing Rules

The Share Option Scheme complies with Chapter 17 of the Main Board Listing Rules.

5. ESTATE DUTY, TAX AND OTHER INDEMNITIES

Our substantial shareholders (the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (f) referred to in the paragraph headed “2. Further information about our business — 2.1 Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the [REDACTED]; and
- (b) tax liabilities (including all actual fines, penalties, liabilities, costs, charges, expenses and interest relation to taxation) which might be payable by any member of our Group in respect of any income, profits, gains earned, accrued, received on or before the [REDACTED], or any transactions, events, matters or things entered into or occurring on or before the [REDACTED], whether alone or in conjunction with any other circumstances whenever occurring and whether or not the tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

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The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2018;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of their accounting periods commencing on 1 January 2019 and ending on the [REDACTED], where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2018 or pursuant to any statement of intention made in the document; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department, or any other relevant authority (whether in Hong Kong or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such taxation claim or liability for such taxation arises or is increased by an increase in rates of taxation or claim after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2018 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, each of the Indemnifiers has also undertaken to us that she/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

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Pursuant to the deed of indemnity, the Indemnifiers have on a joint and several basis undertaken to indemnify each member of our Group, among other indemnities against:

- (a) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings which such member of our Group may incur, suffer, accrue, directly or indirectly, from any act of such company arising from or in connection with any non-compliance of such company on or before the date of [REDACTED], including not having paid all requisite tax or obtained all relevant or necessary approvals, permits, licences and/or certificates for conducting its businesses, including but not limited to the non-compliances as disclosed in this document or all litigation, arbitration, claims, counter-claims, actions, complaints, demands, judgments and/or legal proceedings by or against any of the members of our Group which was issued, accrued and/or arising from any act of any of such members at any time on or before the date of [REDACTED]; and
- (b) any penalty which may be imposed on any member of our Group, or any costs, expenses and losses which such company may suffer in connection with such penalty, due to such company’s failure to duly make all relevant filings or reports and supply all other information required to be supplied to any relevant governmental authority, including but not limited to the relevant tax bureau and relevant administration of industry and commerce, or to observe any laws, regulations or rules in this regard;
- (c) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings arising from the relocation by such member arising from or in connection with the lessors’ lack of relevant title certificates or documents or the lessors’ registration default in relation to the lease agreements to the extent that damages, if any, recovered from the relevant lessor are inadequate to cover the related costs of such member.

The provisions contained in the deed of indemnity are conditional on the conditions stated in the paragraph headed “Structure and Conditions of the [REDACTED] — Conditions of the [REDACTED]” in this document being fulfilled or, to the extent permitted, waived by the relevant party. If such conditions are not fulfilled or, to the extent permitted, waived on or before the date falling 30 days from the date of this document, or such later date as the parties under the deed of indemnity may agree, the deed of indemnity shall become null and void and cease to have effect.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the BVI is likely to fall on our Group members.

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6. OTHER INFORMATION**6.1 Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the [REDACTED] of, and [REDACTED] in, the Shares in issue and to be issued pursuant to the [REDACTED] and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and the [REDACTED]. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Main Board Listing Rules. The sponsor’s fees payable by us in respect of Zhongtai International Capital Limited services as Sole Sponsor for the [REDACTED] is [REDACTED] (excluding any disbursements).

6.2 Litigation

Save as disclosed in the paragraph headed “Business — Legal Proceedings” of this document, as of the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group member, that would have a material adverse effect on our results of operations or financial condition of our Group.

6.3 Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately RMB22,000 and are payable by our Company.

6.4 Promoters

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

6.5 Agency fees or commissions received

Except as disclosed in the paragraph headed “[REDACTED] — [REDACTED]” in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

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6.6 Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this document are as follows:

<u>Name</u>	<u>Qualification</u>
Zhongtai International Capital Limited	a licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Ernst & Young	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Legal advisers as to PRC law
Frost & Sullivan	Independent industry consultants

6.7 Consents of experts

Each of the experts referred to in “6.6 Qualifications of experts” above, has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

6.8 Binding effect

This document 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 insofar as applicable.

6.9 Taxation of holders of Shares***(a) Hong Kong***

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the 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.

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(b) Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, the Directors or the other parties involved in the [REDACTED] can 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 Shares or exercising any rights attaching to them.

6.10 Miscellaneous

- (a) Within the two years immediately preceding the date of this document:
- (i) no share or loan capital of our Company or any of the subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash, save as disclosed in the section headed “History, Reorganisation and Group Structure” in this document;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) neither our Company nor any of the subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) no commission has been paid or payable (except commissions to the [REDACTED]) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares;
 - (v) none of the equity and debt securities of our Company is [REDACTED] or dealt with in any other stock exchange nor is any [REDACTED] or [REDACTED] being or proposed to be sought; and
 - (vi) our Company has no outstanding convertible debt securities.
- (b) Our principal register of members will be maintained by our principal registrar in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar in Hong Kong, [REDACTED]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and

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registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

- (c) Our Directors confirm that up to the date of this document, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2018 (being the date to which the latest audited combined financial statements of our Group were made up).
- (d) None of the equity and debt securities of our Company is [REDACTED] or dealt with on any other stock exchange nor is any [REDACTED] or [REDACTED] being or proposed to be sought.
- (e) Our Directors have been advised that, under the Companies Law, the use of a Chinese name by our Company does not contravene the Companies Law.
- (f) 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 document.
- (g) There is no arrangement under which future dividends are waived or agreed to be waived.

6.11 Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (A) copies of the [REDACTED];
- (B) the written consents referred to under the paragraph headed “6. Other information — 6.7 Consents of experts” in Appendix IV to this document; and
- (C) copies of the material contracts referred to under the paragraph headed “2. Further information about our business — 2.1 Summary of material contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. up to 5:00 p.m. at the office of Li & Partners at 22/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong up to and including the date which falls on 14 days from the date of this document:

- (a) our Memorandum and Articles of Association;
- (b) the Accountant’s Report from Ernst & Young, in respect of the historical financial information of our Group FY2016, FY2017 and FY2018, the text of which is set out in Appendix I to this document;
- (c) the audited combined financial statements of our Group for FY2016, FY2017 and FY2018;
- (d) the report on the unaudited [REDACTED] financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix II to this document;
- (e) the Companies Law;
- (f) the letter of advice prepared by Conyers Dill & Pearman, summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this document;
- (g) the material contracts referred to under the paragraph headed “2. Further information about our business — 2.1 Summary of material contracts” in Appendix IV to this document;

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE. THE INFORMATION IN THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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- (h) the written consents referred to under the paragraph headed “6. Other information — 6.7 Consents of experts” in “Appendix IV to this document;
- (i) the rules of the Share Option Scheme;
- (j) the service contracts and appointment letters referred to under the paragraph headed “3. Further information about our Directors and substantial Shareholders — 3.2 Directors’ service contracts and letters of appointment” in Appendix IV to this document;
- (k) the F&S Report.