

Values Cultural Investment Limited 新石文化投資有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1740

GLOBAL OFFERING

Sole Sponsor



中泰國際
ZHONGTAI INTERNATIONAL

Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



中泰國際
ZHONGTAI INTERNATIONAL

IMPORTANT

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

Values Cultural Investment Limited

新石文化投資有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total Number of Offer Shares	: 250,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 25,000,000 Shares (subject to reallocation)
Number of International Placing Shares	: 225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	: Not more than HK\$0.74 per Offer Share and expected to be not less than HK\$0.50 per Offer Share, 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
Stock code	: 1740

Sole Sponsor



Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



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

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

The Offer Price is expected to be determined by the Price Determination Agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Thursday, 9 January 2020 or such later time as may be agreed between the parties, but in any event, no later than Monday, 13 January 2020. The Offer Price will be not more than HK\$0.74 per Offer Share and is currently expected to be not less than HK\$0.50 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.74 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is lower than HK\$0.74 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. 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.vuanshimedia.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Monday, 13 January 2020, the Global Offering 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 prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers to subscribe for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain events shall occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable state securities laws of the United States. The Offer Shares may be offered, sold or delivered outside the United States in accordance with Regulation S of the U.S. Securities Act.

30 December 2019

EXPECTED TIMETABLE^(Note 1)

If there is any change in the following expected timetable of the Global Offering, we will issue an announcement on the respective websites of our Company at www.yuanshimedia.com and the Stock Exchange at www.hkex.com.hk.

Latest time to complete electronic applications under **HK eIPO White Form** service through (1) the IPO App, which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp (2) the designated website at www.hkeipo.hk^(Note 2) 11:30 a.m. on Wednesday, 8 January 2020

Application lists open^(Note 3) 11:45 a.m. on Wednesday, 8 January 2020

Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC^(Note 4) 12:00 noon on Wednesday, 8 January 2020

Latest time to complete payments for **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s). 12:00 noon on Wednesday, 8 January 2020

Application lists of the Hong Kong Public Offering close^(Note 3) 12:00 noon on Wednesday, 8 January 2020

Expected Price Determination Date^(Note 5) Thursday, 9 January 2020

Announcement of the final Offer Price, the indications of the level of interest in the International Placing, the level of applications in respect of the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published at the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.yuanshimedia.com on or before^(Note 6) Wednesday, 15 January 2020

Results of allocations in the Hong Kong Public Offering (with successful applicants’ identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus from Wednesday, 15 January 2020

EXPECTED TIMETABLE^(Note 1)

Results of allocations in the Hong Kong Public Offering will be available at “Allotment Result” in the IPO App or at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID Number/Business Registration Number” from Wednesday, 15 January 2020

Despatch/collection of Share certificates in respect of wholly or partially successful Applications pursuant to the Hong Kong Public Offering on or before ^(Notes 7 & 8) Wednesday, 15 January 2020

Despatch/collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before ^(Notes 9 & 10) . . . Wednesday, 15 January 2020

Dealings in Shares on the Main Board of the Stock Exchange to commence at 9:00 a.m. on Thursday, 16 January 2020

The application for the Hong Kong Offer Shares will commence on Monday, 30 December 2019 through Wednesday, 8 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Wednesday, 15 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 16 January 2020.

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure and conditions of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus. If there is any change in this expected timetable, an announcement will be published on the website of our Company at www.yuanshimedia.com and the website of the Stock Exchange at www.hkexnews.hk.
- (2) You will not be permitted to submit your application through the IPO App or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

EXPECTED TIMETABLE^(Note 1)

- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 8 January 2020, the application lists will not open and close on that day. Further information is set out in the paragraph headed “How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening and the closing of the application lists”. If the application lists do not open and close on Wednesday, 8 January 2020, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “How to Apply for Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus for details.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Thursday, 9 January 2020 and, in any event, not later than Monday, 13 January 2020. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by Monday, 13 January 2020, the Global Offering will not proceed and will lapse immediately.
- (6) None of the website or any information contained on that website forms part of this prospectus.
- (7) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required in their Application Forms that they may collect Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 January 2020 or any other date notified by us as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant’s own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the paragraph headed “How to apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refund monies” in this prospectus.
- (8) Share certificates for the Hong Kong Offer Shares will become valid certificates of title at 8:00 a.m. on Thursday, 16 January 2020, provided that (i) the Hong Kong Public Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreement(s) has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates become valid certificates do so entirely at their own risk.
- (9) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

EXPECTED TIMETABLE^(Note 1)

Applicants who apply through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Services Provider, in the form of refund cheques, by ordinary post at their own risk.

- (10) Applicants who apply for Hong Kong Offer Shares via **HK eIPO White Form** should refer to the paragraph headed “How to Apply for Hong Kong Offer Shares — 13. Refund of application monies”. in this prospectus.

Particulars of the structure and conditions of the Global Offering, including the conditions thereto, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus. Details relating to how to apply for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Global Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Global Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

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

	<i>Page</i>
EXPECTED TIMETABLE	i
CONTENTS	v
SUMMARY	1
DEFINITIONS	22
GLOSSARY OF TECHNICAL TERMS	36
FORWARD-LOOKING STATEMENTS	37
RISK FACTORS	39
WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES	70
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING	72
DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING	76
CORPORATE INFORMATION	83
INDUSTRY OVERVIEW	85
REGULATORY OVERVIEW	97

CONTENTS

	<i>Page</i>
HISTORY, REORGANISATION AND GROUP STRUCTURE	111
CONTRACTUAL ARRANGEMENTS	140
BUSINESS	156
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	208
CONTINUING CONNECTED TRANSACTIONS	212
DIRECTORS AND SENIOR MANAGEMENT	218
SUBSTANTIAL SHAREHOLDERS	233
SHARE CAPITAL	236
FINANCIAL INFORMATION	240
FUTURE PLANS AND USE OF PROCEEDS	323
UNDERWRITING	328
STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING	338
HOW TO APPLY FOR HONG KONG OFFER SHARES	349
APPENDIX I — ACCOUNTANTS' REPORT	I-1
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
APPENDIX III — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW	III-1
APPENDIX IV — STATUTORY AND GENERAL INFORMATION	IV-1
APPENDIX V — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION	V-1

SUMMARY

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

OVERVIEW

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-investment arrangement. Under the co-investment 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(s) take(s) a passive role and mainly make(s) equity investment with limited involvement in the production and/or distribution processes 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.

SUMMARY

Investment in TV series as non-executive producer

We reach a co-investment 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 processes. By leveraging on our industry insights and extensive experience in production and distribution of TV series, 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.

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 in which 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		1H2018		1H2019	
	RMB'000	%	RMB'000	%	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	94,603	85.9	137,411	94.6
Distribution of broadcasting rights of TV series	472	0.5	—	—	12,939	8.4	12,939	11.8	—	—
Revenue from other sources										
Net licence fee received from investment in TV series/film/web series as non-executive producer .	—	—	6,916	7.0	2,528	1.6	2,528	2.3	7,892	5.4
	<u>101,975</u>	<u>100.0</u>	<u>99,266</u>	<u>100.0</u>	<u>154,085</u>	<u>100.0</u>	<u>110,070</u>	<u>100.0</u>	<u>145,303</u>	<u>100.0</u>

SUMMARY

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 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. Our revenue increased by approximately RMB35.2 million or 32.0% from approximately RMB110.1 million for 1H2018 to approximately RMB145.3 million for 1H2019, primarily due to (i) increase in contribution from rerun broadcast of TV series, primarily from our purchased TV series Mother Relative Uncle* (娘親舅大); and (ii) the higher average selling price of our self-produced TV series, namely National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春), which had their first-run broadcast in 1H2019, as compared to those broadcast in 1H2018.

For each of FY2016, FY2017, FY2018 and 1H2019, the total licence fee we earned from licensing of broadcasting rights of TV series was approximately RMB101.5 million, RMB92.4 million, RMB138.6 million and RMB137.4 million, representing approximately 99.5%, 93.0%, 90.0% and 94.6% of the total revenue, respectively.

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

	FY2016			FY2017			FY2018			1H2018			1H2019		
	Number of TV series licensed	Revenue		Number of TV series licensed	Revenue		Number of TV series licensed	Revenue		Number of TV series licensed	Revenue		Number of TV series licensed	Revenue	
		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%
<i>TV stations</i>															
— Satellite channel															
— First-run . . .	1	74,771	73.7	1	46,676	50.6	2	83,040	59.9	2	83,035	87.7	2	94,698	68.9
— Reruns . . .	1	11,321	11.1	3	30,889	33.4	4	39,219	28.3	—	—	0.0	8	27,578	20.1
— Terrestrial channel	2	9,030	8.9	3	8,192	8.9	5	8,167	5.9	4	3,834	4.1	4	6,793	4.9
Subtotal	2	95,122	93.7	4	85,757	92.9	8	130,426	94.1	5	86,869	91.8	13	129,069	93.9
<i>Other customers</i>	2	6,381	6.3	3	6,593	7.1	5	8,192	5.9	3	7,734	8.2	5	8,342	6.1
Total	2	101,503	100.0	4	92,350	100.0	10	138,618	100.0	6	94,603	100.0	14	137,411	100.0

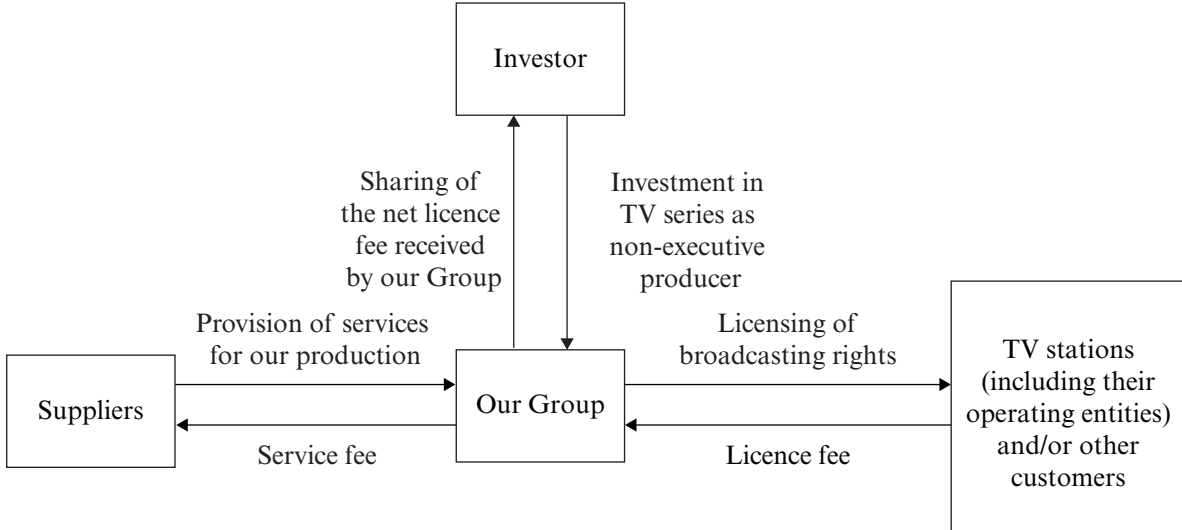
* Taking into account that some TV series were licensed to both TV stations (including different channels) and other customers in the same financial year/period, the total number of TV series licensed shown may or may not be equal to the sum of numbers of TV series licensed to different customers or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

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

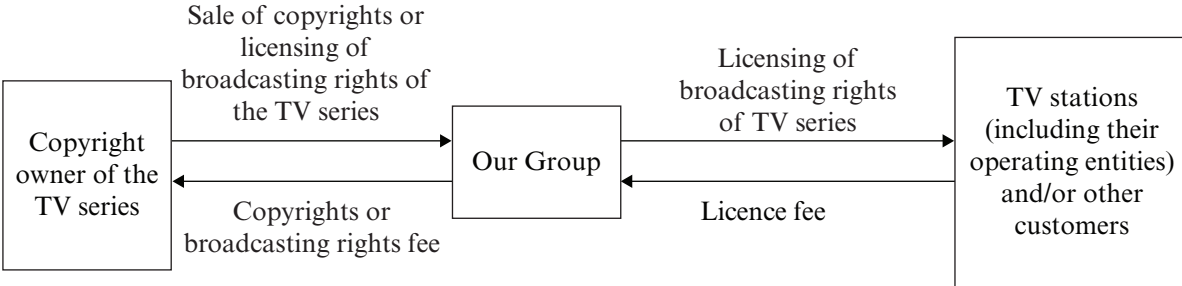
SUMMARY

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:

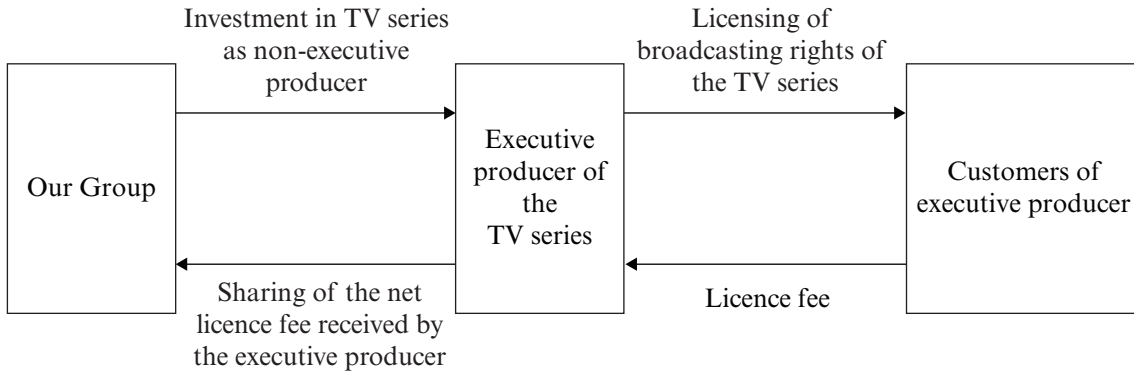


Our business of licensing of broadcasting rights of purchased TV series and its revenue model are summarised in the chart below:

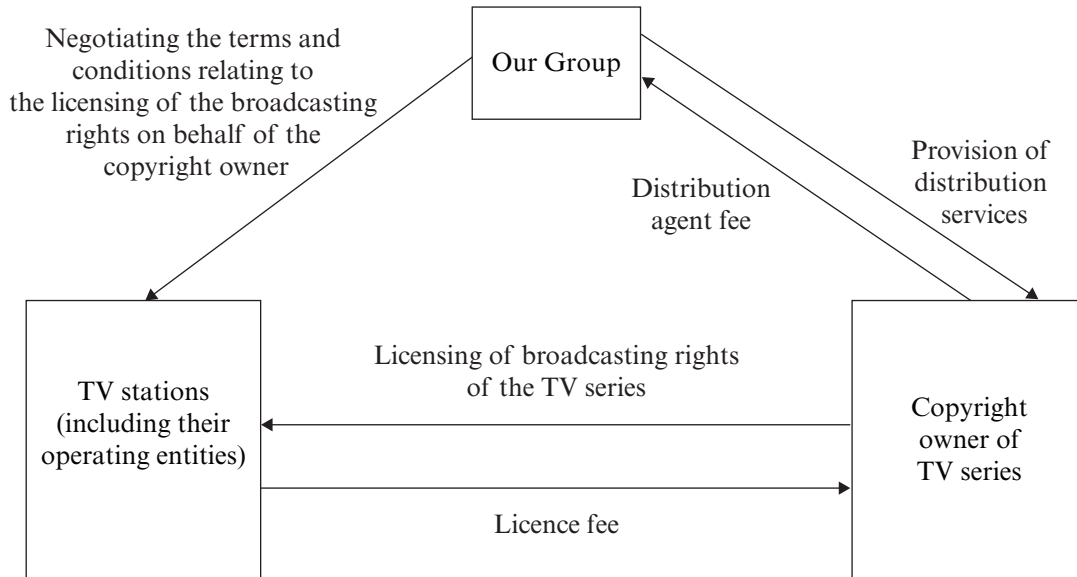


SUMMARY

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

SUMMARY

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. For each of FY2016, FY2017, FY2018 and 1H2019, our five largest customers in aggregate accounted for approximately 91.9%, 82.9%, 84.2% and 93.5% of our total revenue respectively, and our largest customers accounted for approximately 37.8%, 24.5%, 39.5% and 37.4%, respectively of our total revenue.

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

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. For each of FY2016, FY2017, FY2018 and 1H2019, our five largest suppliers in aggregate accounted for approximately 46.3%, 60.6%, 56.8% and 84.6% of our total purchases respectively, and our largest suppliers accounted for approximately 14.5%, 17.7%, 19.5% and 39.5%, respectively of our total purchases.

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

MARKET AND COMPETITION

According to the F&S Report, the TV series market is highly fragmented in China. In 2018, the top five TV series groups accounted for a total market share of 30.6% in terms of revenue generated from investment, production, and distribution of TV series and we accounted for approximately 0.6% of the market share. According to the F&S Report, the entry barriers of the TV series market in China are relatively high in view of strict supervision by relevant administrations, large capital requirements, demand for experienced professionals and reputable brand name.

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

SUMMARY

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 different 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 developing business relationship with the online video platforms; 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 USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and an Offer Price of HK\$0.62 per Offer Share, being the mid-point of the proposed Offer Price range of HK\$0.50 to HK\$0.74 per Offer Share, the net proceeds to our Company from the issue of the Offer Shares, after deducting underwriting fees and other expenses paid and payable by us in

SUMMARY

connection with the Global Offering in the aggregate amount of approximately HK\$39.9 million (equivalent to approximately RMB35.3 million), are estimated to be approximately HK\$115.1 million. We intend to apply such proceeds from the Global Offering as follows:

- (a) approximately HK\$100.0 million (equivalent to approximately RMB88.5 million) or 86.9% of the net proceeds will be applied for production of the following TV series. As the total estimated investment amount of these TV series is approximately RMB177.0 million, we will finance the remaining investment amount of the following TV series by reaching co-investment arrangement with other investors or by utilising our internal resources:

Genre of the TV series	Estimated investment amount					Estimated investment amount from the net proceeds from the Global Offering	Current status and implementation plan as at the Latest Practicable Date	Estimated shooting period	Estimated time for first-run broadcast on satellite channel
	Cost of scripts (RMB)	Cast personnel costs (RMB)	Production costs (RMB)	Post-production costs (RMB)	Total (RMB)				
1. Revolution	3.0 million	12.8 million	17.6 million	2.0 million	35.4 million	HK\$18.0 million (equivalent to approximately RMB16.0 million)	<ul style="list-style-type: none"> — As at the Latest Practicable Date, we have spent approximately RMB1.8 million for the production of this TV series which has been used for purchasing of the script — The process of record-filing and announcing of the production of the TV series has been completed — We are in the process of revising and finalising the script and selecting the production crew — We are liaising with our potential customer regarding their preference about the relevant production crew members (e.g. the director and the artists). As the price that our potential customers may offer for our TV series depends on the members of the production crew engaged by us for the relevant TV series, we have not discussed with our potential customer regarding the price they may offer and their available broadcasting schedule for our TV series pending the determination of the relevant members of the production crew — We expect to complete the process of selecting the production crew and formulate a detailed production plan by February 2020 	February 2020 to April 2020	Second half of 2020
2. Family drama	6.0 million	20.0 million	27.4 million	4.1 million	57.5 million	HK\$31.0 million (equivalent to approximately RMB27.4 million)	<ul style="list-style-type: none"> — As at the Latest Practicable Date, we have spent approximately RMB6.0 million for the production of this TV series which has been used for purchasing of the script — The process of record-filing and announcing of the production of the TV series has been completed — We are in the process of finalising the script and selecting the production crew — We are liaising with our potential customer regarding their preference about the relevant production crew members (e.g. the director and the artists). As the price that our potential customers may offer for our TV series depends on the members of the production crew engaged by us for the relevant TV series, we have not discussed with our potential customer regarding the price they may offer and their available broadcasting schedule for our TV series pending the determination of the relevant members of the production crew — We expect to complete the process of selecting the production crew and formulate a detailed production plan between January 2020 and March 2020 	March 2020 to June 2020	First half of 2021

SUMMARY

Genre of the TV series	Estimated investment amount					Estimated investment amount from the net proceeds from the Global Offering	Current status and implementation plan as at the Latest Practicable Date	Estimated shooting period	Estimated time for first-run broadcast on satellite channel
	Cost of scripts (RMB)	Cast personnel costs (RMB)	Production costs (RMB)	Post-production costs (RMB)	Total (RMB)				
3. Revolution	6.0 million	18.1 million	24.9 million	4.1 million	53.1 million	HK\$26.0 million (equivalent to approximately RMB23.0 million)	<ul style="list-style-type: none"> — The process of record-filing and announcing of the production of the TV series has been completed — We are in the process of revising and finalising the script and will commence selecting the production crew in May 2020 — We expect to complete the process of selecting the production crew and formulate a detailed production plan between July 2020 and September 2020 — Since this TV series is still at an early development stage, we have not approached any potential customers for licensing of this TV series 	September 2020 to December 2020	Second half of 2021
4. Legend	3.0 million	11.0 million	15.0 million	2.0 million	31.0 million	HK\$25.0 million (equivalent to approximately RMB22.1 million)	<ul style="list-style-type: none"> — As at the Latest Practicable Date, we have spent approximately RMB1.8 million for the production of this TV series which has been used for purchasing of the script — We have engaged scriptwriter to develop the script, which is expected to be finished by June 2020 — We will arrange for record-filing and announcing of the production of the TV series in June 2020 — We will commence selecting the production crew in July 2020 and expect to complete the selection process and formulate a detailed production plan between October 2020 to December 2020 — Since this TV series is still at an early development stage, we have not approached any potential customers for licensing of this TV series 	December 2020 to February 2021	Second half of 2021

- (b) approximately HK\$15.1 million (equivalent to approximately RMB13.4 million) or 13.1% of the net proceeds will be applied for purchasing of copyrights (or broadcasting rights) associated with the TV series. As at the Latest Practicable Date, our Group does not have any target TV series. We are in the process of searching for suitable TV series and we intend to select TV series with high audience rating in their first-run broadcast on TV stations.

Please refer to the paragraph headed “Future Plans and Use of Proceeds — Use of proceeds” for further details.

SUMMARY

SHAREHOLDER INFORMATION

Following the completion of the Reorganisation but prior to the completion of the Global Offering, our Company will be owned as to approximately 31.87% 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 (i.e. the Core Shareholders), respectively. 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. The Core Shareholders have also decided to restrict their ability to exercise direct control over our Company by holding their interest through BLW Investment. As such, the Core Shareholders together with BLW Investment are regarded as a group of Controlling Shareholders of our Company under the Listing Rules.

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

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 co-operating with online video platforms and we may not be able to successfully implement our strategy of developing business relationship with them.
- We recorded negative cash flows from our operating activities for each of the three years ended 31 December 2018 and are subject to liquidity risk arising from cash flow mismatch and long cash conversion cycle.
- Revisions made to the estimation of the total revenue to be generated from our TV series may result in understatement or overstatement of our cost of sales and adversely affect our financial results in relevant financial year/period(s).
- We are subject to credit risk in collecting trade receivables from our customers.
- 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 executive Directors and senior management members and our ability to recruit and retain competent and dedicated personnel.

SUMMARY

- Failure to obtain or renew the permits, licences and other approvals required for our business operations may have material adverse impact on our business, financial condition and results of operations.

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 prospectus before you decide to invest in the Shares.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our consolidated statements of profit or loss for the Track Record Period which is extracted from and should be read in conjunction with the Accountants’ Report set out in Appendix I to this prospectus.

Summary of consolidated statements of profit or loss

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	101,975	99,266	154,085	110,070	145,303
Cost of Sales	<u>(42,495)</u>	<u>(81,575)</u>	<u>(73,979)</u>	<u>(47,590)</u>	<u>(108,115)</u>
Gross profit	59,480	17,691	80,106	62,480	37,188
Other income and gains	3,619	8,868	7,047	2,442	15
Selling and distribution expenses	(5,271)	(2,246)	(3,219)	(1,031)	(3,809)
Administrative expense	(7,505)	(9,207)	(6,832)	(2,580)	(14,692)
Reversal of impairment loss/ (impairment losses) on financial assets	(3,987)	(4,732)	(6,843)	(1,437)	3,595
Other expenses	—	(8)	(32)	—	(85)
Finance costs	<u>(1,259)</u>	<u>(1,796)</u>	<u>(2,378)</u>	<u>(899)</u>	<u>(1,506)</u>
PROFIT BEFORE TAX	45,077	8,570	67,849	58,975	20,706
Income tax expense	<u>(12,274)</u>	<u>(1,879)</u>	<u>(3,366)</u>	<u>(4,047)</u>	<u>(5,561)</u>
PROFIT FOR THE YEAR/ PERIOD	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>	<u>54,928</u>	<u>15,145</u>
Attributable to:					
Owners of the parent	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>	<u>54,928</u>	<u>15,145</u>

SUMMARY

For each of FY2016, FY2017, FY2018 and 1H2019, our gross profit was approximately RMB59.5 million, RMB17.7 million, RMB80.1 million and RMB37.2 million, respectively while our gross profit margin was approximately 58.3%, 17.8%, 52.0% and 25.6%, respectively. The lower gross profit and gross profit margin in FY2017 was mainly attributable to the low gross profit margin of our self-produced TV series Jade* (女管家) of approximately 5.1% in FY2017, which we did not succeed in securing the suitable broadcasting schedules for its rerun broadcast on satellite channels. The low gross profit margin for 1H2019 was mainly attributable to the low gross profit margin of our self-produced TV series National Spirit* (共和國血脈), which was due to (i) the adjustment of the total number of episodes broadcast by our customer, CCTV, in accordance with its policy and broadcasting schedule; and (ii) the high production costs incurred in National Spirit* (共和國血脈) to satisfy CCTV's quality standard.

For our licensing of broadcasting rights of TV series business, our costs of sales mainly included cast personnel costs, production costs, costs of scripts, post-production costs, costs of purchased copyrights or broadcasting rights and service fees. Fluctuations in the structure of costs of sales during the Track Record Period were mainly attributable to the change in composition of self-produced and purchased TV series we licensed in each year/period. Please refer to the paragraph headed "Financial Information — Description of principal components of our results of operations — Costs of sales" in this prospectus for further details.

Our profit attributable to owners of the parent was approximately RMB32.8 million, RMB6.7 million, RMB64.5 million and RMB15.1 million, respectively and our net profit margin was approximately 32.2%, 6.7%, 41.8% and 10.4% for each of FY2016, FY2017, FY2018 and 1H2019, respectively. The lower profit attributable to owners of the parent and net profit margin for FY2017 was mainly due to the lower gross profit margin as discussed above. The higher profit attributable to owners of the parent and net profit margin for FY2018 was mainly due to the higher revenue as a result of the increase in the number of first-run broadcast TV series as compared to FY2016 and FY2017. The lower profit attributable to owners of the parent and net profit margin for 1H2019 was mainly due to (i) the lower gross profit margin as discussed above; (ii) the listing expenses incurred during 1H2019 of approximately RMB10.3 million; and (iii) the higher selling and distribution expenses in 1H2019 as compared to 1H2018 due to more advertising and marketing activities required for promoting our self-produced TV series National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) in 1H2019. Please refer to the paragraph headed "Financial Information — Period to period comparison of results of operations" in this prospectus for further details.

For each of FY2016, FY2017, FY2018 and 1H2019, the effective tax rate of our Group was approximately 27.2%, 21.9%, 5.0% and 26.9%, 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 two of our Consolidated Affiliated Entities, namely, Khorgas Values and Xinjiang Values, which enjoyed the preferential tax treatment under the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) for the years starting from FY2017 and FY2018, respectively. For details of the impact

SUMMARY

of the preferential tax treatment on our income tax expense, please refer to the paragraph headed “Financial Information — Description of principal components of our results of operations — Income tax expense” in this prospectus.

Under the Contractual Arrangements, WFOE is entitled to receive the total consolidated profit of Values Culture as service fees, subject to adjustments made by WFOE at its sole discretion. Such service fees payments to WFOE are subject to VAT at the tax rate of 6% in the PRC. In addition, WFOE is subject to enterprise income tax of 25% while certain of our Consolidated Affiliated Entities are entitled to preferential tax treatment as mentioned above. Accordingly, any payment of service fees by the Consolidated Affiliated Entities to WFOE under the Contractual Arrangements may increase our tax expenses and decrease our net profit and net profit margin due to the different income tax rates applicable to WFOE and certain of our Consolidated Affiliated Entities and the VAT as mentioned above. Please refer to the paragraph headed “Risk Factors — Risks relating to the Contractual Arrangements — 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 further details.

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 30 June 2019	As at 31 October 2019
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
CURRENT ASSETS					
Inventories	74,230	130,367	203,918	121,159	117,092
Trade and notes receivables	68,058	68,253	99,291	209,727	188,844
Prepayments, other receivables and other assets	43,850	62,527	88,619	107,589	111,931
Cash and cash equivalents	115,537	30,055	11,665	3,165	8,411
Total current assets	<u>301,675</u>	<u>291,202</u>	<u>403,493</u>	<u>441,640</u>	<u>426,278</u>
CURRENT LIABILITIES					
Trade payables	—	28,514	34,865	55,935	50,531
Other payables and accruals	1,637	7,039	5,846	14,859	7,379
Lease liabilities	561	448	444	198	80
Interest-bearing bank loans and other borrowings	35,000	—	43,000	32,000	19,000
Tax payable	14,392	—	—	3,497	3,965
Total current liabilities	<u>51,590</u>	<u>36,001</u>	<u>84,155</u>	<u>106,489</u>	<u>80,955</u>
NET CURRENT ASSETS	<u>250,085</u>	<u>255,201</u>	<u>319,338</u>	<u>335,151</u>	<u>345,323</u>

SUMMARY

Our trade and notes receivables continued to increase during the Track Record Period, which was mainly attributable to the increase in revenue and the generally slow recovery of trade receivables. Our inventories continued to increase from FY2016 to FY2018, which was mainly attributable to the cost of production incurred in our TV series. Our decrease in inventories in 1H2019 was primarily due to the successful licensing of our self-produced TV series National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春). Our prepayments, other receivables and other assets also increased during the Track Record Period as a result of the increase in prepayments under the co-investment arrangement in TV series as non-executive producer. As a result of the above, our cash and cash equivalents decreased from approximately RMB115.5 million as at 31 December 2016 to approximately RMB8.4 million as at 31 October 2019. Please refer to the paragraph headed “Financial Information — Discussion on certain financial position items” in this prospectus for further details.

Cash flow

As at 31 December 2016, 2017 and 2018 and 30 June 2019, we had cash and cash equivalents of approximately RMB115.5 million, RMB30.1 million, RMB11.7 million and RMB3.2 million, respectively. The following table sets forth a summary of our consolidated 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>	<u>1H2018</u> <i>RMB'000</i>	<u>1H2019</u> <i>RMB'000</i>
Net cash flows from operating activities before movements in working capital	50,374	13,469	80,108	64,118	22,917
Net cash flows (used in)/from operating activities	(29,884)	(28,246)	(85,546)	(61,989)	4,862
Net cash flows (used in)/from investment activities	(7,163)	(19,490)	27,927	5,257	—
Net cash flows from/(used in) financing activities	<u>144,253</u>	<u>(37,746)</u>	<u>39,229</u>	<u>42,163</u>	<u>(13,240)</u>
Net increase/(decrease) in cash and cash equivalents	107,206	(85,482)	(18,390)	(14,569)	(8,378)
Cash and cash equivalents at beginning of year/period	8,331	115,537	30,055	30,055	11,665
Effect of foreign exchange rate changes, net	—	—	—	—	(122)
Cash and cash equivalents at end of year/period	<u><u>115,537</u></u>	<u><u>30,055</u></u>	<u><u>11,665</u></u>	<u><u>15,486</u></u>	<u><u>3,165</u></u>

SUMMARY

We recorded net cash outflows in operation activities of approximately RMB29.9 million, RMB28.2 million and RMB85.5 million for each of FY2016, FY2017 and FY2018, which was mainly due to our high capital requirement in production of and investment in TV series for licensing, the slow recovery of trade receivables and long inventories turnover days. The increase in net cash outflow in FY2018 was mainly due to the significant costs incurred in the production of our TV series and investment made in TV series as a non-executive producer. Our cash flow from operation activities turned to positive for 1H2019 mainly due to the settlement of our long aged trade receivables by our customers.

Our net cash flows from financing activities was particularly high in FY2016 mainly due to the capital contribution by the then equity holders of Values Culture, our major operating subsidiaries, of approximately RMB145.7 million.

Our Group has taken and will continue to take various measures to improve our liquidity by (i) planning and monitoring our cash flow situation on a regular basis; (ii) closely monitoring the collection status of our trade receivables and developing business relationships with TV stations operating first-tier satellite channels; (iii) requesting for longer credit period from our suppliers; (iv) inviting other parties (including our potential customers) to invest in our TV series; and (v) maintaining stable relationships with our principal banks. Please refer to the paragraph headed “Financial Information — Working capital” in this prospectus for further details.

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			As at/ for the six months ended
	31 December			30 June
	2016	2017	2018	2019
Return on total assets ^(Note 1)	15.4%	2.2%	18.4%	7.1%
Return on equity ^(Note 2)	20.2%	2.6%	22.2%	9.2%
Current ratio ^(Note 3)	5.9	8.1	4.8	4.2
Quick ratio ^(Note 4)	4.4	4.5	2.4	3.0
Gearing ratio ^(Note 5)	13.9%	N/A	13.3%	9.5%
Debt to equity ratio ^(Note 6)	-32.1%	-11.7%	9.7%	8.5%
Interest coverage ^(Note 7)	36.8	5.8	29.5	14.7
Net profit margin ^(Note 8)	32.2%	6.7%	41.8%	10.4%

SUMMARY

Notes:

1. Return on total assets is calculated based on our (i) net profit for the year attributable to the owners of the parent for FY2016, FY2017 and FY2018; or (ii) annualised net profit for the period attributable to the owners of the parent for 1H2019 divided by our average total assets as at the beginning and the end of the corresponding periods and multiplied by 100%.
2. Return on equity is calculated based on our (i) net profit for the year attributable to the owners of the parent for FY2016, FY2017 and FY2018; or (ii) annualised net profit for the period attributable to the owners of the parent for 1H2019 divided by our average total equity attributable to owners of the parent as at the beginning and the end of the corresponding periods and multiplied by 100%.
3. Current ratio is calculated as total current assets divided by total current liabilities as at the end of the corresponding period.
4. Quick ratio is calculated as current assets (net of inventories) divided by total current liabilities as at the end of the corresponding period.
5. Gearing ratio is calculated as total debt (of which debt is defined as interest-bearing bank loans and other borrowings) divided by total equity multiplied by 100% as at the end of the corresponding period.
6. Debt to equity ratio is calculated as total debt (of which debt is defined as interest-bearing bank loans and other borrowings) net of cash and cash equivalents divided by total equity multiplied by 100% as at the end of the corresponding period.
7. Interest coverage is calculated as profit for the year before income tax expenses and interest expenses, divided by interest expenses, multiplied by 100%.
8. Net profit margin is calculated by the net profit for the year/period divided by the revenue for the respective year/period multiplied by 100%.

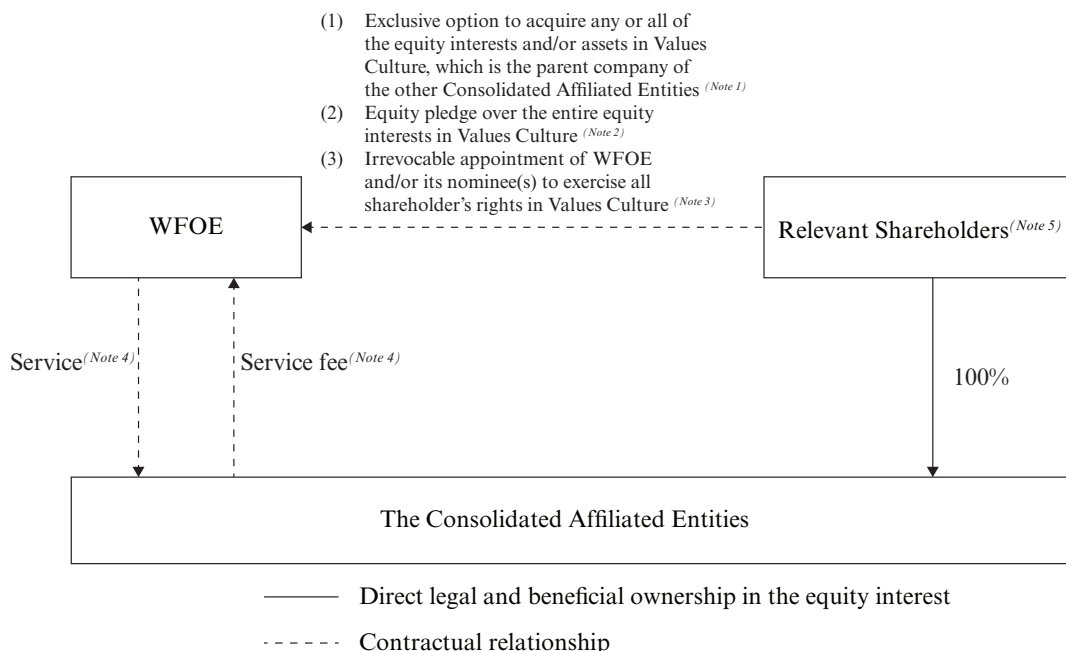
Our return on total assets and return on equity were lower for FY2017 and 1H2019 mainly because we recorded low net profits in FY2017 and 1H2019, which were in turn attributable to the low gross profit margin of our self-produced TV series Jade* (女管家) and National Spirit* (共和國血脈), respectively. Our current ratio was relatively higher as at 31 December 2017 mainly because our current liabilities decreased at a faster pace than our current assets as a result of the repayment of bank loans and other borrowings in FY2017. The lower current ratio and quick ratio as at 31 December 2018 and 30 June 2019 were mainly due to the increase in bank loans and other borrowings as at 31 December 2018 and 30 June 2019 as compared to 31 December 2017. Our gearing ratio and debt to equity ratio maintained at a relatively low level during the Track Record Period as we were mainly equity financed. Our negative debt to equity ratio resulted from our high cash level mainly from the equity contribution from the then equity holders of Values Culture in FY2016. Our interest coverage was lower in FY2017 and 1H2019 because our net profits for such financial year/period were relatively lower as compared to FY2016 and FY2018 as discussed above.

SUMMARY

CONTRACTUAL ARRANGEMENTS

We are 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 film and engage in the business of co-investment in and production of films and web series. 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. 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 consolidated 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:



SUMMARY

Notes:

1. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Option Agreement” in this prospectus for details.
2. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Equity Pledge Agreement” in this prospectus for details.
3. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement” in this prospectus for details.
4. Please refer to the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this prospectus for details.
5. The Relevant Shareholders are Bai Yang (白陽), Suiyong Holdings Company Limited* (穗甬控股有限公司), Xu Jun (許軍), 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)), Liu Peiyao (劉佩瑤), Jin Ping (金萍), Wu Tao (吳濤), Sun Xianliang (孫賢亮), Liu Naiyue (劉乃岳), Yang Yanli (楊豔麗), Wei Xian (魏賢), Liu Wenqing (劉文清), Xie Ting (謝婷), Yu Fenghui (于鳳輝), Lin Xin (林欣), Hu Wangdong (胡望東), Wang Jianlin (王建林), Zhang Dongying (張東影), Tan Xu (譚栩), Li Yan (李岩), Sun Fuqiu (孫福秋), Liu Jinglei (劉驚雷), Li Zhongyin (李忠銀), Zhu Hui (朱卉), Lu Ying (魯瑩), Zhang Hui (張輝) and Wang Haiting (王海婷).

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

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 Listing. For details, please see the sections headed “Continuing Connected Transactions” and “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

RECENT DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model has remained unchanged and we continue to focus on the business of licensing of broadcasting rights of TV series in the PRC.

SUMMARY

Subsequent to the Track Record Period, our purchased TV series All Is Well* (都挺好), The Thunder* (破冰行動) and Wild Roses* (紅薔薇) had their rerun broadcast on satellite channels of different TV stations. All Is Well* (都挺好) had its rerun broadcast on satellite channel of Tianjin Radio & Television Station* (天津廣播電視台) in July 2019, The Thunder* (破冰行動) had its rerun broadcast on satellite channels of Tianjin Radio & Television Station* (天津廣播電視台) and Jilin Radio & Television Station* (吉林廣播電視台) in August 2019, and Wild Roses* (紅薔薇) had its rerun broadcast on satellite channel of Tianjin Radio & Television Station* (天津廣播電視台) in December 2019. Moreover, our self-produced TV series National Spirit* (共和國血脈) also had its rerun broadcast on satellite channel of Heilongjiang Broadcast TV Station* (黑龍江廣播電視台) in November 2019.

We expect to record a decline in net profit in the year ending 31 December 2019 as a result of (i) an expected decrease in gross profit margin for the year ending 31 December 2019 mainly attributable to the low profit margin of National Spirit* (共和國血脈); (ii) the expected decrease in other income as a result of the policy uncertainty; (iii) the listing expenses incurred during 1H2019 and expected to be incurred in the six months ending 31 December 2019, details of which is disclosed in the paragraph headed “Financial Information — Listing expenses” in this prospectus; and (iv) the expected increase in administrative expenses principally due to the Listing.

Our Directors confirm that, up to the date of this prospectus and save as disclosed above, there has been no material adverse change in our finance and trading position or prospects since 30 June 2019, and there is no event since 30 June 2019 which would materially affect the information shown in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

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.

APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Monday, 30 December 2019 through Wednesday, 8 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Wednesday, 15 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 16 January 2020.

SUMMARY

GLOBAL OFFERING STATISTICS

	Based on the indicative Offer Price of HK\$0.50 per Share	Based on the indicative Offer Price of HK\$0.74 per Share
Number of Hong Kong Offer Shares	25,000,000	25,000,000
Number of International Placing Shares	225,000,000	225,000,000
Board lot.	5,000	5,000
Market capitalisation ^(Note 1)	500,000,000	740,000,000
Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per share as at 30 June 2019 ^(Note 2)	HK\$0.49 (equivalent to approximately RMB0.43)	HK\$0.53 (equivalent to approximately RMB0.47)

Notes:

- (1) The calculation of market capitalisation at the Offer Price is based on 1,000,000,000 Shares expected to be in issue immediately upon completion of the Capitalisation Issue and the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix IV — Statutory and General Information”.

LISTING EXPENSES

Our listing expenses 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 for the Listing. We expect to incur a total of approximately RMB35.3 million in listing expenses (based on the mid-point of the indicative price range for the Global Offering) in connection with the Global Offering and the Listing, of which (i) approximately RMB10.3 million has been recognised in our consolidated statements of profit or loss for 1H2019; (ii) approximately RMB7.5 million is expected to be charged to profit or loss of our Group for the six months ending 31 December 2019; and (iii) approximately RMB17.5 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.

OTHER INFORMATION

NEEQ listing and delisting

In October 2016, the shares in Values Culture were first listed on the NEEQ. On 17 August 2018, Values Culture’s shareholders resolved to voluntarily delist Values Culture’s shares from NEEQ (the “**NEEQ Delisting**”). On 23 August 2018, Values Culture applied and subsequently received regulatory approval for the NEEQ Delisting. On 26 September 2018, the shares in Values Culture ceased to be quoted on the NEEQ. 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 listing on the Stock Exchange. Please refer to the section headed “History, Reorganisation and Group Structure” for further details.

DEFINITIONS

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

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or where the context so requires, any of them that are used in connection with the Hong Kong Public Offering
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on 12 December 2019 to take effect upon Listing and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“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. BLW Investment is one of our Controlling Shareholders
“Board”	the board of Directors
“Bradbury Securities”	Bradbury Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, being one of the Joint Lead Managers
“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

DEFINITIONS

“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company referred to 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 12 December 2019” in Appendix IV to this prospectus
“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
“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 prospectus, 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

DEFINITIONS

“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 (新石文化投資有限公司), 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
“Contractual Arrangements”	a series of contractual arrangements entered into among Values Culture, WFOE and the Relevant Shareholders, details of which are described in the section headed “Contractual Arrangements” in this prospectus
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, collectively refers to Bai Yang (白陽), Liu Naiyue (劉乃岳), Liu Peiyao (劉佩瑤), Wei Xian (魏賢), Wu Tao (吳濤) and BLW Investment Limited, which constitute a group of controlling shareholders of our Company
“Core Shareholders”	Bai Yang (白陽), Liu Naiyue (劉乃岳), Liu Peiyao (劉佩瑤), Wei Xian (魏賢) and Wu Tao (吳濤)
“Co-Lead Manager”	Grand China Securities
“Deed of Indemnity”	the deed of indemnity dated 17 December 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries and consolidated affiliated entities), particulars of which are set out in the paragraph headed “5. Estate duty, tax and other indemnities” in Appendix IV to this prospectus
“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

DEFINITIONS

“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 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
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Grand China Securities”	Grand China Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO, being the Co-Lead Manager
“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we” or “us”	our Company, our subsidiaries and the Consolidated Affiliated Entities (the financial results of which have been consolidated 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))
“Guosen Securities”	Guosen Securities (HK) Capital Company Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being one of the Joint Bookrunners and Joint Lead Managers
“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

DEFINITIONS

“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
“Head & Shoulders Securities”	Head & Shoulders Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO, being one of the Joint Bookrunners and Joint Lead Managers
“HK eIPO White Form”	the application of the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the IPO App or the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified in the IPO App or on the designated website at www.hkeipo.hk
“HK\$”, “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
“Hong Kong Offer Shares”	the 25,000,000 Shares (subject to reallocation) initially offered by our Company for subscription in the Hong Kong Public Offering, as described under the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the issue and offer of the Hong Kong Offer Shares for subscription in Hong Kong at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriter(s)”	the underwriter(s) of the Hong Kong Public Offering, whose names are set out under the paragraph headed “Underwriting — Underwriters — Hong Kong Underwriters” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated 27 December 2019 and entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager and the Hong Kong Underwriters relating to the Hong Kong Public Offering, as further described in the paragraph headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering” in this prospectus
“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
“International Placing”	the conditional placing by the International Underwriter(s) on behalf of our Company of the International Placing Shares for cash at the Offer Price, as further described under the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing Shares”	the 225,000,000 new Shares (subject to reallocation and the Over-allotment Option) being initially offered by our Company for subscription under the International Placing, as described under the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriter(s)”	the underwriter(s) which are expected to enter into the International Underwriting Agreement to underwrite the International Placing Shares
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around 9 January 2020 among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager and the International Underwriters relating to the International Placing, as further described in the paragraph headed “Underwriting — The International Placing” in this prospectus
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp

DEFINITIONS

“I Win Securities”	I Win Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO, being one of the Joint Lead Managers
“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
“Joint Bookrunners”	Zhongtai International Securities, Head & Shoulders Securities and Guosen Securities
“Joint Lead Managers”	Zhongtai International Securities, Head & Shoulders Securities, Guosen Securities, Bradbury Securities and I Win Securities
“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”	20 December 2019, being the latest practicable date for ascertaining certain information prior to the printing of this prospectus
“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
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 16 January 2020, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“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 12 December 2019, to take effect upon Listing and as amended from time to time
“MOF”	the Ministry of Finance of the PRC (中國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部)
“Mr. Bai”	Bai Yang (白陽), one of the Core Shareholders, one of our Controlling Shareholders and one of the Relevant Shareholders
“Mr. Liu”	Liu Naiyue (劉乃岳), chairman of the Board, an executive Director, one of the Core Shareholders, one of our Controlling Shareholders and one of the Relevant Shareholders. Mr. Liu is the spouse of Ms. Wei and the father of Ms. Liu
“Mr. Wu”	Wu Tao (吳濤), the chief executive officer of our Group, one of the Core Shareholders, one of our Controlling Shareholders and one of the Relevant Shareholders

DEFINITIONS

“Ms. Liu”	Liu Peiyao (劉佩瑤), an executive Director, one of the Core Shareholders, one of our Controlling Shareholders and one of the Relevant Shareholders. Ms. Liu is the daughter of Mr. Liu and Ms. Wei
“Ms. Wei”	Wei Xian (魏賢), an executive Director, one of the Core Shareholders, one of our Controlling Shareholders and one of the Relevant Shareholders. Ms. 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) (2019 Edition) (外商投資准入特別管理措施(負面清單)(2019年版))
“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)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.74 per Offer Share and expected to be not less than HK\$0.50 per Offer Share at which the Offer Shares are to be offered under the Global Offering, to be determined in the manner as set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Offer Share(s)”	collectively, the International Placing Shares and the Hong Kong Offer Shares

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) subject to the terms and conditions of the International Underwriting Agreement pursuant to which our Company may be required to allot and issue up to an aggregate of 37,500,000 additional Offer Shares (representing 15% of the initial number of the Offer Shares) to cover over-allocations in the International Placing and/or to satisfy the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement, particulars of which are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or about the Price Determination Date to determine the Offer Price
“Price Determination Date”	the date expected to be on or about 9 January 2020 or such later date as may be agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) but in any event no later than 13 January 2020, on which the Offer Price is fixed for the purpose of the Global Offering
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC law
“Qingdao Fuhe”	Qingdao Fuhe Investment Company Limited* (青島富和投資有限公司), a company established in the PRC and owned as to 39.13% by Ms. Wei, 21.74% by Mr. Liu, 26.09 % by Mr. Sun Fuqiu, 6.52% by Ms. Chen Ying, 5.07% by Mr. Chen Li and 1.45% by Mr. Sun Dejun
“Relevant Shareholder(s)”	the registered shareholders of Values Culture consisting of Bai Yang (白陽), Suiyong Holdings Company Limited* (穗甬控股有限公司), Xu Jun (許軍), 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)), Liu Peiyao (劉佩瑤), Jin Ping (金萍), Wu Tao (吳濤), Sun Xianliang (孫賢亮), Liu Naiyue (劉乃岳), Yang Yanli (楊豔麗), Wei Xian (魏賢), Liu Wenqing (劉文清), Xie Ting (謝婷), Yu Fenghui (于鳳輝), Lin Xin (林欣), Hu Wangdong (胡望東), Wang Jianlin (王建林), Zhang Dongying (張東影), Tan Xu (譚栩), Li Yan (李岩), Sun Fuqiu (孫福秋), Liu Jinglei (劉驚雷), Li Zhongyin (李忠銀), Zhu Hui (朱卉), Lu Ying (魯瑩), Zhang Hui (張輝) and Wang Haiting (王海婷)

DEFINITIONS

“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 Listing, particulars of which are set out in the section headed “History, Reorganisation and Group Structure” in this prospectus
“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 Radio, Film and Television of the PRC (中國國家廣播電影電視總局), 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)
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 12 December 2019, the principal terms of which are summarised in the paragraph headed “Statutory and General Information — 4. Share Option Scheme” in Appendix IV to this prospectus

DEFINITIONS

“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
“Stabilising Manager”	Zhongtai International Securities
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement which may be entered into between the Stabilising Manager and BLW Investment pursuant to which the Stabilising Manager may borrow up to 37,500,000 Shares from BLW Investment for the purpose of covering any over-allocation under the International Placing
“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 established 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
“SYYT Investment”	SYYT 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, FY2018 and 1H2019
“Underwriter(s)”	the Hong Kong Underwriter(s) and the International Underwriter(s)
“Underwriting Agreement(s)”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America

DEFINITIONS

“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“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
“VAT”	PRC value-added tax
“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 our Company
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s/ applicants’ own name(s)
“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
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“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
“Zhongtai International Securities” or “Sole Global Coordinator”	Zhongtai International Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, being the Sole Global Coordinator, one of the Joint Bookrunners and the Joint Lead Managers

DEFINITIONS

“ZLLL Investment”	ZLLL Investment Limited, a company incorporated in the BVI as a BVI business company on 28 November 2018 owned as to approximately 42.85% by Ms. Zhang Dongying, 28.57% by Mr. Li Yan, 14.29% by Ms. Liu Jinglei and 14.29% by Ms. Lu Ying
“1H2018”	the six months ended 30 June 2018
“1H2019”	the six months ended 30 June 2019
“%”	per cent

In this prospectus, 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.

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

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

GLOSSARY OF TECHNICAL TERMS

This glossary of industry terms contains explanation of certain terms used in this prospectus 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” or “first-run”	the first broadcast of a TV series on the satellite channel of a TV station
“first-tier satellite channel”	satellite channel of a TV station which generally broadcasts TV series with high audience rating and production quality
“Fixed Return Investment”	the investment made by a passive investor in TV series/film/web series which allows the investor (who may or may not participate in the production and/or distribution of such TV series/film/web series) to receive the fixed contractual cash flows regardless of the sales performance of such TV series/film/web 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 broadcast” or “rerun”	the broadcast of a TV series that has previously been broadcast on the satellite channel of a TV station
“TV”	television
“TV series”	a series of scripted episodes that obtain the Licence for Distribution of TV Series which are broadcast on TV stations and/or new media channels such as Internet and mobile media
“web series”	a series of scripted episodes which can only be broadcast on new media channels such as Internet and mobile media

FORWARD-LOOKING STATEMENTS

This prospectus 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 prospectus. 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 prospectus, 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 prospectus 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

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 prospectus are qualified by reference to the cautionary statement set out in this section.

In this prospectus, 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 prospectus. 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 prospectus, 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 programmes, such as TV series and web series, has become popular daily entertainment activities. The TV series market is highly fragmented and the rapid development of the TV 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. If we fail to produce or distribute TV series which satisfy our customers' or public audiences' changing preference, our market share and financial performance may be materially and adversely affected. 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 production 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.

RISK FACTORS

We have limited experience in co-operating with online video platforms and we may not be able to successfully implement our strategy of developing business relationship with them

We intend to continue to expand our business with an aim to increase our market penetration and market diversification through developing business relationship with online video platforms. For further details of our expansion plans, please refer to the paragraph headed “Business — Business strategies” in this prospectus. However, we have limited experience in co-operating with the online video platforms. As at the Latest Practicable Date, we have only participated in the production of one web series as non-executive producer which has been licensed by us to a company operating a major online video platform in the PRC. Given our limited experience in co-operating directly with the online video platform, it could be time-consuming and difficult for us to develop business relationship with them. Moreover, our business objectives and strategies are based on prevailing circumstances and the development of TV series market currently known to our Directors. There is no assurance that we will successfully develop business relationship with the online video platforms or that our strategies will be able to achieve our objectives in the event that there is a change of the current circumstances. Our business, operating results and financial position may be materially and adversely affected if our business strategies are not achieved. Moreover, to manage and support our further expansion we may 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.

We recorded negative cash flows from our operating activities for each of the three years ended 31 December 2018 and are subject to liquidity risk arising from cash flow mismatch and long cash conversion cycle

We recorded negative net cash flows from operating activities of approximately RMB29.9 million, RMB28.2 million and RMB85.5 million for FY2016, FY2017 and FY2018, respectively, which were mainly due to (i) the slow recovery of trade receivables; and (ii) the long inventories turnover days.

For each of FY2016, FY2017, FY2018 and 1H2019, the average trade receivables turnover days were 187.7 days, 243.3 days, 198.4 days and 192.5 days, respectively. The long average trade receivables turnover days mainly arose from the slow recovery of the trade receivables which is attributable to the long internal procedures of our customers in settling our payments. Accordingly, there are often time lags between receiving payments from our customers and making payments to our suppliers. If we fail to manage the timing and amount of cash to be received from the customers and the timing and amount of cash to be paid to suppliers in an effective manner, we may be subject to tightened liquidity and fail to maintain sufficient working capital to support our daily operation. If the liquidity position deteriorates, our Group may decelerate the payment to our suppliers to manage the magnitude of such cash flow mismatch or even delay the production of our TV series, which will cast negative impact on our Group’s business activities and hurt our reputation. For

RISK FACTORS

further details of the changes in cash flows from our operating activities and our trade and notes receivables, please refer to the paragraphs headed “Financial Information — Liquidity and capital resources — Cash flow — Cash flows (used in)/from operating activities” and “Financial Information — Discussion on certain financial position items — Trade and notes receivables” in this prospectus respectively.

For each of FY2016, FY2017, FY2018 and 1H2019, our average inventories turnover days were 392.0 days, 457.7 days, 824.7 days and 272.1 days, respectively. The long inventories turnover days was mainly due to the long production and distribution life cycle of TV series. In view of the intense capital requirement in the industry of production of and investment in TV series for licensing the broadcasting rights of the TV series, the increased inventories turnover days from FY2016 to FY2018 was mainly attributable to the continuous increasing inventory level as a result of increasing costs incurred in various TV series we produced. For further details about our inventories, please refer to the paragraph headed “Financial Information — Discussion on certain financial position items — Inventories” in this prospectus.

The abovementioned slow recovery of trade receivables and long inventories turnover days will slow down the overall cash conversion cycle and straiten the liquidity of the Group. If our Group is not able to generate sufficient cash flows from its operations or obtain sufficient financing to support its business operation, the liquidity, results of operation and prospects of our Group will be materially and adversely affected.

Revisions made to the estimation of the total revenue to be generated from our TV series may result in understatement or overstatement of our cost of sales and adversely affect our financial results in relevant financial year/period(s)

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/period by reference to the proportion of a TV series’ revenue recognised for that financial year/period to the total estimated revenue of that TV series during its entire life cycle. In estimating the total estimated revenue, our management takes into account various factors such as the general prices range of similar TV series in the market and the historical purchase price of similar TV series of our potential customers, and we normally assume that we will successfully license the broadcasting rights for the TV series for both its first-run and rerun on satellite channels. From the stage of formulating the preliminary distribution plan, the total estimated revenue is revised from time to time to reflect the latest negotiation and communication results with the potential customers. For details, please refer to the paragraph headed “Financial Information — Description of principal components of our results of operations — Costs of sales” in this prospectus.

Given the changing market conditions, there is no assurance that the actual total revenue generated from our TV series will be the same as our estimation. If the actual total revenue generated from a TV series turns out to be lower than our estimation, it may result in understatement of cost of sales for the previous financial periods and overstatement of cost of sales for the financial year/period(s) during the remaining life cycle of the TV series. In such case, our Group’s financial performance for the financial year/period(s) during the

RISK FACTORS

remaining life cycle of the TV series will be adversely affected. On the contrary, if the actual total revenue generated from a TV series turns out to be higher than our estimation, it may result in an overstatement of cost of sales for the previous financial periods and understatement of cost of sales to be allocated in financial year/period(s) during the remaining life cycle of the TV series. During the Track Record Period, the total estimated revenue of our TV series The Furthest Distance* (遙遠的距離) and Happy Home* (幸福滿院) was adjusted upward by approximately 12.6% and 32.2% respectively and the total estimated revenue of The Jade* (女管家) was adjusted downward by approximately 30.0% as compared to their respective preliminary distribution plans.

In preparing the financial statements of our Company for the Track Record Period in this prospectus, our management examined all the licensed TV series during the Track Record Period and estimated the Total Estimated Revenue for each licensed TV series based on (i) the actual revenue realised; and (ii) the latest estimated revenue to be generated for the relevant TV series by reference to their remaining life cycle and the latest negotiation results with the potential customers as at the Latest Practicable Date. In preparing the financial statements of our Group for each financial year/period after the Listing, our management will regularly review the basis of estimation of the Total Estimated Revenue of each licensed TV series during its life cycle based on the latest realised revenue and negotiation results with the potential customers at the end of each financial year/period. We will recognise the corresponding cost of sales in the financial statements by applying the Revenue Proportion based on the adjusted Total Estimated Revenue. For the avoidance of doubt, changes in Total Estimated Revenue will not cause retrospective adjustments of cost of sales recognised in previous financial year/period(s) in the preparation of regular financial reports after the Listing. For details, please refer to the paragraphs headed “Financial Information — Description of principal components of our results of operations — Costs of sales” and “Financial Information — Description of principal components of our results of operations — Gross profit and gross profit margin” in this prospectus.

For TV series in which we made co-investment as non-executive producer, we mainly rely on the executive producer to execute the production and distribution of the TV series based on its experience, strategy and capabilities. Thus, the adjustment of total estimated revenue by the executive producer may also have adverse impact on our Group’s financial performance.

We are subject to credit risk in collecting trade receivables from our customers

During the Track Record Period, our trade and notes receivables were approximately RMB68.1 million, RMB68.3 million, RMB99.3 million and RMB209.7 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. 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 the co-investment arrangements (as non-executive producer). There can be no assurance that our customers will settle our invoices on time and in full. In particular, we made substantial provision for impairment of trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019 which amounted to RMB3,987,000, RMB8,719,000, RMB13,413,000 and RMB9,818,000, respectively. Impairment analysis is performed at the end of each reporting period using a provision

RISK FACTORS

matrix to measure expected credit losses. For details, please refer to the paragraph headed “Financial Information — Critical accounting policies, judgments and estimates — Provision for expected credit losses on trade receivables” in this prospectus. Accordingly, should we experience any unexpected delay or difficulty in collection of trade receivables from our customers, we may need to make substantial provision on trade receivables and our operating results and financial condition may be adversely affected. Moreover, there may be an adverse impact on our operation as it diverts our management resources, time and attention to pursue any unsettled receivables.

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

The TV 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.

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 executive Directors and senior management members and our ability to recruit and retain competent and dedicated personnel

Our future success depends substantially on the continued service of our executive Directors and the members of our senior management team including our key personnel, namely Mr. Liu, the chairman of our Board and an executive Director, and Mr. Wu, our chief executive officer, 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 executive Directors and members of the senior management team 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

RISK FACTORS

perception of our Group by our customers. Furthermore, if any of our executive Directors and members of the senior management team 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 executive Directors and senior management team, please refer to the section headed “Directors and Senior Management” in this prospectus.

Moreover, in order to accommodate the continued growth and expansion of our Group, we endeavour 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 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.

Failure to obtain or renew the permits, licences and other approvals required for our business operations may have material adverse impact on our business, financial condition and results of operations

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 for the production and distribution of our TV series, 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 which could result in disruption to our operations and growth plan. As a result, our business, 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 prospectus.

RISK FACTORS

The revenue generated by our business of licensing of broadcasting rights of TV series is on project-by-project basis and our historical financial performance may not be indicative of our future financial performance

The revenue generated by our business of licensing of broadcasting rights of TV series is on project-by-project basis through which we charge customers licence fee for each TV series that they purchase the broadcasting rights. For each TV series we licensed, the terms of the licensing agreement are determined between each of our customers and us on a case-by-case basis after arm's length negotiations based on various factors. Moreover, despite our attempt to negotiate with our customers during our course of production, our customers 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 their requirements. In the event that our TV series could not satisfy our customer's requirements for broadcasting, they will not purchase the TV series from us. 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. As a result, there is an inherent risk to project or estimate our future financial performance based on our historical financial information for they only reflect our past performance under particular conditions. Moreover, we may not be able to maintain our historical financial performance in the future 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.

RISK FACTORS

The majority of our revenue is derived from a small number of TV series or web series. Any delay in the production of or failure in securing the contracts for such TV series may have material adverse impact on our Group's financial performance

The majority of our revenue is derived from a small number of TV series or web series. For each of FY2016, FY2017, FY2018 and 1H2019, the revenue generated from our largest TV series contributed approximately 98.8%, 60.8%, 38.0% and 38.8% of our total revenue, respectively and the revenue generated from our top five TV series or web series (except for FY2016 in which we only derived revenue from three TV series) contributed approximately 100.0%, 100.0%, 89.3% and 92.3% of our total revenue, respectively. Since our licensing business is capital intensive, we are not able to produce or purchase a large number of TV series and, as a result, we expect that a significant proportion of our revenue will continue to be derived from a small number of our major TV series in the future. Accordingly, if the distribution performance of any of our major TV series does not meet our expectations, our financial condition may be materially and adversely affected.

For our self-produced TV series, as we rely on the services of our suppliers, any failure by our suppliers to meet our production schedule may cause delay in licensing of such TV series. Moreover, for both of our self-produced and purchased TV series, although we usually would have discussed with our potential customers regarding their requirements for the TV series before we produce or purchase the relevant TV series, the securing of contracts for such TV series still depends on various factors which are beyond our control such as change of market demand, change of the broadcasting schedule of our potential customers and change of government policies which prohibits the broadcasting of our TV series. Accordingly, any delay in the production of or failure in securing the contracts for our major TV series may have material adverse impact on our Group's financial performance.

We are exposed to inventory risks if we are not able to license the broadcasting rights of our TV series according to our distribution plan

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). As at 31 December 2016, 2017 and 2018 and 30 June 2019, our inventories amounted to approximately RMB74.2 million, RMB130.4 million, RMB203.9 million and RMB121.2 million, respectively, representing approximately 24.6%, 44.8%, 50.5% and 27.4% of our total current assets, respectively. As at 31 December 2016, 2017, 2018 and 30 June 2019, we made provision of inventories of approximately nil, nil, RMB4.1 million and RMB8.1 million, respectively.

RISK FACTORS

Our planning department and marketing and distribution department formulate distribution plan for each of our TV series. However, the distribution of a TV series is subject to the ever-changing market trends, the broadcasting schedule of our customers and the government policies, which are uncertain at the stage of production or purchasing of the TV series and beyond our control. In the event that we are not able to distribute the TV series according to our distribution plan, we may need to distribute the relevant TV series at a lower price than we estimated and the relevant inventories may also become obsolete and be impaired. As a result, our financial condition and results of operations could be materially and adversely affected.

There was a substantial amount of prepayments under the co-investment arrangement as at 30 June 2019 and we are exposed to investment and recoverability risks for such prepayment

We reach the co-investment arrangement with the executive producer of the TV series through which we act as non-executive producer and minority investor of the TV series. Prepayments under the co-investment arrangement represents the amount of investment we made as non-executive producer. Our prepayments under the co-investment arrangement increased significantly from approximately RMB0.5 million as at 31 December 2016 to approximately RMB77.8 million as at 30 June 2019, which was mainly attributable to our investment as non-executive producer in various TV series. Details of our prepayments under the co-investment arrangement as at 30 June 2019 are as follows:

<u>TV series</u>	Total amount of prepayment <i>RMB'000</i>
TV Series A	44,797
TV Series B	22,000
TV Series C	11,000

As at the Latest Practicable Date, we are required to make further investment of approximately RMB13 million in TV Series A based on the investment agreement, which is expected to be paid by the first quarter of 2020 and we do not have any further investment commitment in TV Series B and TV Series C.

The return for our co-investment arrangement is uncertain as it depends largely on the distribution performance of the relevant TV series. During the Track Record Period, the gross profit of our co-investment business was negative mainly because the TV series/film/web series we invested in did not achieve satisfactory distribution performance. Although we may participate in the production process of the relevant TV series in our capacity as non-executive producer, the overall control and management as well as the quality and marketing ability are in the hands of the executive producer. If the executive producer fails to discharge its duties properly, it may adversely affect the quality and marketability of the TV series which may in turn affect its distribution performance. If the net licence fee received by us fails to cover our investment amount, we may need to make provision for such amount of shortfall which may cause material adverse impact on our results of operations and financial condition. Moreover, if the production of the relevant

RISK FACTORS

TV series in which we made investment could not be completed, we will have to negotiate with the executive producer to recover our investment amount and the failure to recover part or whole of our investment amount may have a material adverse impact on our results of operations and financial condition.

If we purchase investment products in the future, such investment products may materially and adversely affect our financial condition and results of operations

During each of FY2016, FY2017 and FY2018, we purchased short term investment products issued by commercial banks in the PRC with aggregate principal amount of RMB125.0 million, RMB83.5 million and RMB11.5 million, respectively. We have not held any investment products as at 30 June 2019. While we do not have a present intention to purchase and hold any investment products, we cannot negate the possibility that we will purchase and hold investment products in the future.

According to our Group's accounting policies, financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period, and the resulting gain or loss on fair value is recognised in profit or loss. As a result, if we hold any investment products which is measured as financial assets at fair value through profit or loss in the future, the recognition of gain or loss from the investment products may cause significant volatility in or materially and adversely affect our period-to-period earnings, financial condition and results of operations. For details of our purchases of investment products during the Track Record Period and our accounting policy on financial assets, please refer to the paragraph headed "Financial Information — Description of principal components of our results of operations — Other income and gains" and the Accountants' Report in Appendix I to this prospectus, respectively.

We are exposed to credit risk in relation to the Fixed Return Investment

We make Fixed Return Investment in TV series/film by entering into investment agreement with the executive producer of the relevant TV series/film through which we receive fixed return on our investment. Our balance of Fixed Return Investment receivables were RMB7.5 million, RMB27.7 million, RMB1.0 million and RMB1.0 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. However, there is no assurance that the executive producer will repay the principal and the interest of our Fixed Return Investment in a timely manner or at all. During the Track Record Period, we failed to recover the principal amount of our Fixed Return Investment in TV Series D of RMB1.0 million and the film Pear Blossom* (又是一春梨花白) of RMB2.0 million which was due before the Track Record Period and in FY2018, respectively. Having considered the financial condition of the investees, we have made impairment provision of RMB1.0 million, RMB1.0 million, RMB2.0 million and RMB2.0 million in our Historical Financial Information as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively. Accordingly, if any of the investees face unexpected situations, including but not limited to financial difficulties, we may not be able to receive full or any payment of our Fixed Return Investment. Such default or delay in repayment may materially and adversely affect our business, financial condition and results of operation.

RISK FACTORS

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 film for which we act as the executive producer to safeguard against risks and unexpected events in the shooting of TV series or film. 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 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.

RISK FACTORS

RISKS RELATING TO OUR INDUSTRY

Increasingly competitive PRC TV series market could result in reduced market share

According to the F&S Report, the TV series market in the PRC is highly fragmented, with top five TV series groups accounted for a total market share of 30.6% in terms of revenue generated from investment, production, and distribution of TV series in 2018. It is increasingly competitive as more players are entering the TV series market. These TV 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 will be materially and adversely affected and our market share will be reduced.

We have to comply strictly with the laws, regulations and policies of the PRC which regulates the TV series production industry (including the content of our TV series) 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 prospectus for details of the relevant laws and regulations. Moreover, the content of the TV series we produce and distribute in the PRC are subject to examination system under various PRC laws and regulations. Please refer to the paragraph headed “Regulatory Overview — Regulations in relation to production and distribution of television programmes — Content examination and distribution licensing system” for details. In addition, the relevant PRC government authorities may from time to time impose policies relating to content of TV series to be broadcast in the PRC.

The PRC government may adopt additional or more stringent laws or regulations, or further tighten the government control in relation to content of TV series in the PRC. 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. Moreover, if the content of our TV series cannot meet the requirement of the future laws, regulations or government policies, the distribution of our TV series may be prohibited, and thus our business, results of operations and financial performance may be adversely affected.

RISK FACTORS

Our reputation, business, financial condition and results of 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 rights 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

RISK FACTORS

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 consolidated 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 consolidated financial statements for FY2016, FY2017, FY2018 and 1H2019, 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 prospectus.

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 business, 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;

RISK FACTORS

- restricting or prohibiting our use of the proceeds from the Global Offering or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities; 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 consolidated 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 — Details of the Contractual Arrangements — Dispute resolution” in this prospectus.

RISK FACTORS

The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional tax may be imposed which may reduce our consolidated net income and the value of your investment

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities 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 consolidated 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

Our Consolidated Affiliated Entities retained all net profits generated by them during the Track Record Period. However, under the Contractual Arrangements, WFOE is entitled to receive the total consolidated profit of Values Culture as service fees, subject to adjustments made by WFOE at its sole discretion. Such service fees payments to WFOE are subject to VAT at the tax rate of 6% in the PRC. In addition, WFOE is subject to enterprise income tax of 25% while certain of our Consolidated Affiliated Entities are entitled to preferential tax treatment, details of which are discussed in the paragraph headed "Financial Information — Description of principal components of our results of operations — Income tax expense" in this prospectus. As a result of the different income tax rates applicable to WFOE and certain of our Consolidated Affiliated Entities and the VAT as mentioned above, any payment of service fees by the Consolidated Affiliated Entities to WFOE under the Contractual Arrangements may increase our tax expenses and decrease our net profit and 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.

RISK FACTORS

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 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

RISK FACTORS

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 prospectus.

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.

RISK FACTORS

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. 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, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Hence, we cannot assure you that we may be able to benefit from all, or any, of the measures which are under constant adjustments. Moreover, despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market-friendly. Furthermore, the economic conditions of the PRC could also be affected by its trade relations with other countries. For example, the recent Sino-U.S. trade war may result in deterioration of the PRC economic environment. Accordingly, 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.

RISK FACTORS

Our other income is non-recurring in nature. Any reduction or discontinuation of government grants currently available to us may adversely affect our results of operations and financial condition

During the Track Record Period, we received government grants in the form of award granted by the local government in Haining, Zhejiang Province, the PRC for supporting the film and TV industry. For FY2016, FY2017, FY2018 and 1H2019, we received government grants of approximately RMB2.9 million, RMB5.8 million, RMB5.1 million and nil, respectively. For more information, please refer to the paragraph headed “Financial Information — Description of principal components of our results of operations — Other income and gains” in this prospectus.

The above mentioned government award was granted pursuant to the Circular of the Opinion about Further Facilitating the Development of the Television and Film Industry (關於進一步促進影視產業發展意見的通知, the “**2014 Circular**”) which was issued by the Haining government in 2014. According to the 2014 Circular, we are entitled to receive such government award for ten years until 2023. However, the 2014 Circular was superseded by the Circular of Several Policies and Opinions of Supporting Cultural (Sports) Industry of Haining (海寧市支持文化(體育)產業發展若干政策意見的通知, the “**2018 Circular**”) which was issued by the Haining government in 2018. The 2018 Circular is silent as to whether we are entitled to continue to receive such government award upon the expiry of the first five-year term. As a result, there can be no assurances that we will continue to receive similar levels of government grants, or at all from 2019 onwards. For details of the relevant laws and regulations, please refer to the paragraph headed “Regulatory Overview — Regulations in relation to fiscal award policies” in this prospectus. If the Haining government cancels the current government grants or reduces the amount of the government grant, our results of operations and financial condition could be adversely affected.

Any loss of, or significant reduction in, the preferential tax treatment we currently enjoy may adversely affect our financial condition

According to the Several Opinions of the State Council on Supporting the Construction of Kashgar and Khorgas 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 Khorgas 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 Khorgas within the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) (the “**Catalogue of Income Tax Preferences**”) shall be granted the preferential treatment of five-year EIT exemption since the taxable year when the first business income is obtained. Two of our Consolidated Affiliated Entities, namely Khorgas Values and Xinjiang Values, enjoyed the benefit under the Catalogue of Income Tax Preferences and are entitled to such

RISK FACTORS

EIT exemption for the years starting from FY2017 and FY2018, respectively. For each of FY2016, FY2017, FY2018 and 1H2019, the tax exemption granted to our Group was nil, RMB1.2 million, RMB15.1 million and RMB2.0 million, respectively. For details of the impact of the preferential tax treatment on our income tax expense, please refer to the paragraph headed “Financial Information — Description of principal components of our results of operations — Income tax expense” in this prospectus.

The preferential tax treatment currently enjoyed by our Group will expire in accordance with the applicable tax regulation and may be subject to change from time to time pursuant to the PRC laws and regulations. There is no assurance that we could continue to be granted to such tax exemption in the future if there are changes in tax policies to be adopted by the government authorities. To the extent that there is any loss of, or significant reduction in, 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 may adversely affect our financial condition.

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

RISK FACTORS

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.

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 proceeds of the Global Offering 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 filing, our ability to use the proceeds of the Global Offering 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

RISK FACTORS

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 proceeds of the Global Offering within the business scope of WFOE. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer and/or utilise the proceeds of the Global Offering and to capitalise or otherwise fund our PRC operations or invest in or acquire any other companies in the PRC.

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

RISK FACTORS

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.

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 Shareholders' investment 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 harbours 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

RISK FACTORS

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-characterise 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 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.

RISK FACTORS

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.

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 proceeds from the Global Offering) 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.

RISK FACTORS

On 14 July 2006, Hong Kong and the Supreme Court of the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments 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 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.

RISK FACTORS

Our revenue and expenses have been and are expected to continue to be primarily denominated in RMB while the proceeds to be raised from the Global Offering 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 proceeds from the Global Offering for implementing our future plans as disclosed in this prospectus. 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 proceeds from the Global Offering 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 proceeds from the Global Offering 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.

RISKS RELATING TO THE SHARES AND THE GLOBAL OFFERING

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

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters) and us, and the Offer Price may differ significantly from the market prices for our Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in our Shares on the Stock Exchange. However, there is no assurance that the Global Offering 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 Global Offering 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 Global Offering will be influenced by the following factors to vary significantly from the Offer Price:

- 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;

RISK FACTORS

- 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.

In addition, shares of other companies listed 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.

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 Cayman Company Law, 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 paragraph headed "Financial Information — Dividend" in this prospectus.

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 Listing, 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 Global Offering, 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 prospectus

Certain information, forecasts and other statistics in this prospectus 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 Underwriter or any other party involved in the Global Offering 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 prospectus.

Forward-looking statements contained in this prospectus may prove inaccurate

This prospectus 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 prospectus 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 prospectus are qualified by reference to this cautionary statement.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, 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, fax 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 Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year commencing after the Listing Date 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 Listing 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 Listing. 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”.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Marketing Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing on the Stock Exchange is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Placing is expected to be fully underwritten by the International Underwriters.

INFORMATION ON THE GLOBAL OFFERING

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

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any subsequent time.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

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

STRUCTURE OF THE GLOBAL OFFERING

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

RESTRICTIONS ON SALE OF OFFER SHARES

No action has been taken to permit any offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

No action has been taken to register or qualify the Offer Shares or the Global Offering, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his acquisition of the Offer Shares to confirm, that he is aware of the restrictions on the offer and sale of the Offer Shares described in this prospectus.

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice as appropriate, to inform themselves of, and to observe, all applicable laws, rule and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence of domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue, the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No part of our share or loan capital is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in Shares are expected to commence at 9:00 a.m. on Thursday, 16 January 2020. Shares will be traded in board lots of 5,000 Shares each. The stock code for the Shares is 1740.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Global Offering are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and/or dealing in the Shares or exercising rights attached to them. It is emphasised that none of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposition of, and/or dealing in, the Offer Shares or exercising any rights attached to them.

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All the Offer Shares will be registered on the Hong Kong branch register of members to be maintained by Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Dealings in the Offer Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members maintained by our Company's principal share registrar in the Cayman Islands will not be subject to the Cayman Island stamp duty.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval for the listing of, and permission to deal in, the Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS arrangement and how such arrangements will affect their rights and interests, investors should seek the advice of their stockbroker or other professional advisers.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

EXCHANGE RATE CONVERSION

Unless otherwise specified, conversion of RMB into HK\$ in this prospectus is based on the exchange rate set out below (for illustration purposes only):

RMB1:00: HK\$1.13

No representation is made that any amounts in the US\$ and HK\$ can be or could have been converted at the relevant dates at the above exchange rate at any other rate or at all.

ROUNDING

Any discrepancies in any table between totals and the sums of the amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
<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, Guangdong, PRC	Chinese
Ms. Wang Haiting (王海婷)	803, Unit 7, Building 9, Yuanyang Yifang Huayu Yuan, Chaoyang District, Beijing, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Ms. Yan Bei (閔蓓)	Unit 405, Building 10, Zhongdian Yihe Jiayuan Shangxuan, No. 77, Hengjia Road, Xuanwu District, Nanjing, Jiangsu, PRC	Chinese

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

PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
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>
Sole Global Coordinator.	Zhongtai International Securities 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 4 (advising on securities) regulated activities under the SFO)</i>

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
Joint Bookrunners	Zhongtai International Securities 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 4 (advising on securities) regulated activities under the SFO)</i>
	Head & Shoulders Securities Limited Room 2511, 25/F, Cosco Tower, 183 Queen's Road Central, Hong Kong <i>(a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO)</i>
	Guosen Securities (HK) Capital Company Limited 42/F Two International Finance Centre, No. 8 Finance Street, 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 Lead Managers	Zhongtai International Securities 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 4 (advising on securities) regulated activities under the SFO)</i>

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
	Head & Shoulders Securities Limited Room 2511, 25/F, Cosco Tower, 183 Queen's Road Central, Hong Kong <i>(a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO)</i>
	Guosen Securities (HK) Capital Company Limited 42/F Two International Finance Centre, No. 8 Finance Street, 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>
	Bradbury Securities Limited Unit 5106-07, 51/F, The Center, 99 Queen's 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>
	I Win Securities Limited Room 1916 Hong Kong Plaza, 188 Connaught Road West, Sai Wan, Hong Kong <i>(a corporation licensed to carry out type 1 (dealing in securities) regulated activity under the SFO)</i>
Co-Lead Manager	Grand China Securities Limited Room 503, 5/F, Loke Yew Building, 50-52 Queen's Road Central, Central, Hong Kong <i>(a corporation licensed to carry out type 1 (dealing in securities) regulated activity under the SFO)</i>

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
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 <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 Underwriters.	<i>As to Hong Kong law:</i> Hastings & Co. 5/F, Gloucester Tower, the Landmark, 11 Pedder Street, Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
	<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
Receiving Bank	Bank of China (Hong Kong) Limited 1 Garden Road, Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 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 prospectus)</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 (劉乃岳) 36-4201, Haixin Tianxi, No.1 Dong Hai Dong Lu, Laoshan District Qingdao, Shandong PRC Mr. Au Yeung Ming Yin Gordon (歐陽銘賢) Room 16, 28/F, One Midtown 11 Hoi Shing Road, Tsuen Wan New Territories, Hong Kong
Audit committee	Mr. Zhong Mingshan (鐘明山) (<i>Chairman</i>) Mr. Xian Guoming (冼國明) Mr. Xu Zongzheng (徐宗政)
Remuneration committee	Mr. Xu Zongzheng (徐宗政) (<i>Chairman</i>) Mr. Zhong Mingshan (鐘明山) Mr. Xian Guoming (冼國明)
Nomination committee	Mr. Xian Guoming (冼國明) (<i>Chairman</i>) Mr. Xu Zongzheng (徐宗政) Mr. Zhong Mingshan (鐘明山)

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	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands
Compliance adviser	Zhongtai International Capital Limited 19/F, Li Po Chun Chambers 189 Des Voeux Road Central Central, Hong Kong
Principal banks	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 Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective directors, senior management, representatives or any other person involved in the Global Offering 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 prospectus 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.

INDUSTRY OVERVIEW

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 new media, innovation on media technology, and support from the government are likely to drive the growth of China's media industry and drama series market.

OVERVIEW OF MACRO ECONOMY IN CHINA

Per Capita Disposable Income

Together with continuous growth in the economy and urbanisation, 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.

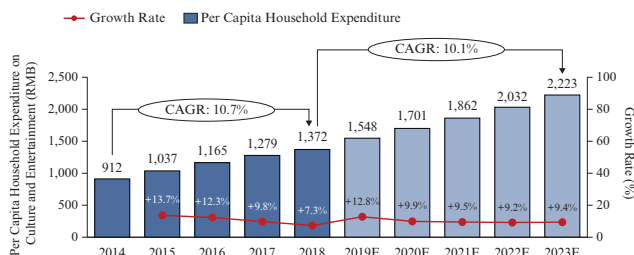
Per Capita Household Expenditure on Culture and Entertainment

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 predicted to reach RMB2,223 in 2023, representing a CAGR of 10.1% from 2018.

INDUSTRY OVERVIEW

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

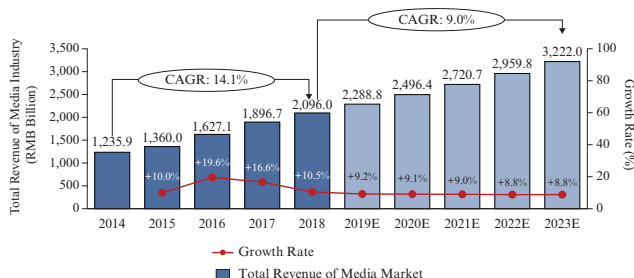
The media industry refers to the collection of businesses that allows information to be shared, which is primarily comprised of traditional media such as TV shows, films, paper media (i.e. newspapers, magazines, books, etc.), audios, broadcasts, advertising, as well as new media such as Internet and 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 RMB2,096.0 billion in 2018, realising a CAGR of 14.1%. Going forwards, the media industry is expected to grow at a CAGR of 9.0% from 2018 to 2023 and reach RMB3,220.0 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.

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, 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 Internet and mobile media, has witnessed a rapid growth and constituted a major proportion of the overall media industry. In 2018, these two segments together contributed to approximately 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 programmes, such as TV series, web series, and films, has become popular daily entertainment activities.
- ***Prevalence of new media:*** Riding the wave of the “Internet plus” concept advocated by Chinese government, 2016 is the golden year for the flourishing of new media. 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 both TV station and new media channels. Many online video 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 media have gradually overtaken traditional TV channels' leading status in broadcasting and become the preferred choice for audiences. Considering the huge opportunities provided by the new media, the development of China's media industry is expected to accelerate.

INDUSTRY OVERVIEW

- ***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 and virtual reality 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

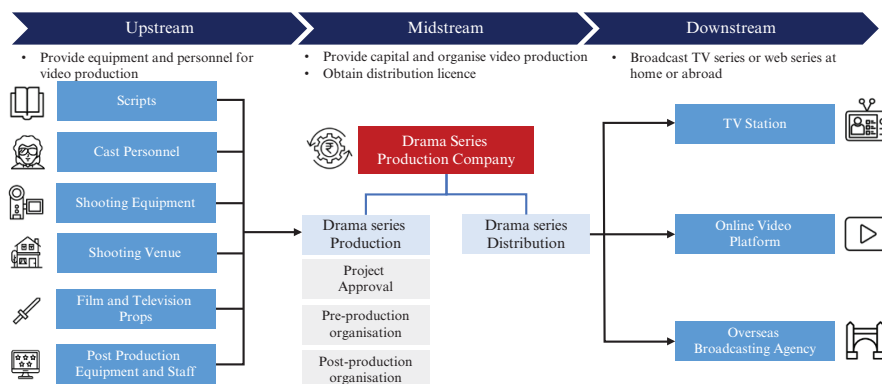
Definition and Segmentation of China's Drama Series Market

The drama series market consists of TV series market and web series market. TV series refers to a series of scripted episodes that obtain the Licence for Distribution of TV Series which are broadcast on TV stations and/or new media channels. Web series refers to a series of scripted episodes which can only be broadcast on new media channels.

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 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 costs, 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 TV stations is relatively low as they are state-owned entities. Furthermore, Fixed Return Investment and co-investment in TV series as non-executive producer are common in the industry.

INDUSTRY OVERVIEW

Value Chain of China's Drama Series Market



Source: Frost & Sullivan

Market Size and Growth of China's TV Series Market

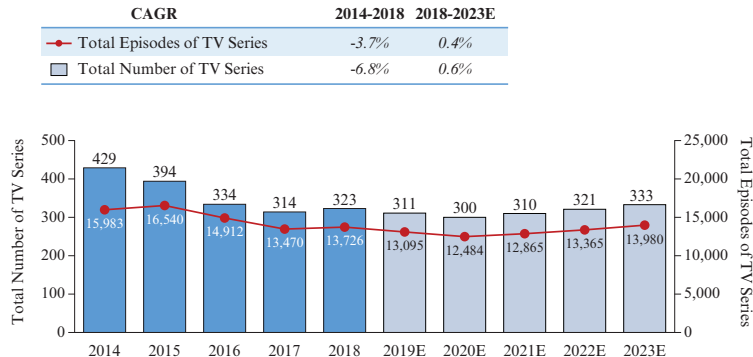
China's TV series market has been undergoing an evolution based on the Chinese government's imperative on improving the quality of domestic TV series. The market has stepped into a development phase when quality improvements outstrip the increase in quantity.

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 number of TV series and total episodes of TV series in China are expected to gradually stabilise with CAGRs of 0.6% and 0.4% from 2018 to 2023, respectively.

Furthermore, in order to support the development of television and film industry, the PRC government has promulgated various policies which provides preferential tax treatments and fiscal awards to companies engaged in the television and film industry. For details, please refer to the paragraphs headed "Regulatory Overview — Taxation laws" and "Regulatory Overview — Regulations in relation to fiscal award policies" in this prospectus.

INDUSTRY OVERVIEW

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



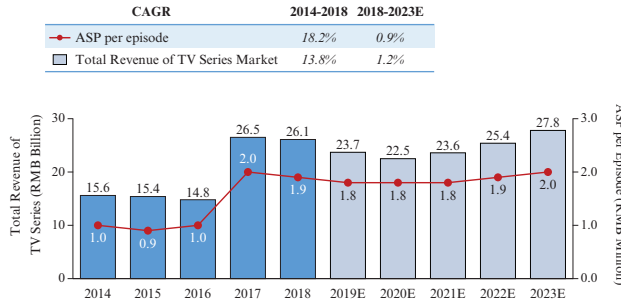
Source: National Radio and Television Administration, Frost & Sullivan

Total revenue of TV series market 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%. The ASP per episode of TV series in the industry includes the revenue of first-run broadcast and rerun broadcast on all distribution channels, including CCTV, satellite and terrestrial channels of TV station, and new media channel. In general, the ASP of TV series is based on the production costs, which mainly consist of remuneration for artists, as well as other production costs such as content or script cost, costumes and props, post production, staff wages, etc. Akin to the exorbitant salaries of artists (especially extremely famous artists) during 2016 to 2017, the ASP and total revenue of TV series grew rapidly. A group of Chinese government organisations 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**”) in 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 “*Notice for Further Strengthening the Administration on Radio or Television Programmes and Online Audio-visual Entertainment Programmes*” (關於進一步加強廣播電視和網路視聽文藝節目管理的通知) (the “**Notice**”) in October 2018. According to the Opinion and the Notice, for China’s drama series and web film industries, the total remuneration for all artists shall not exceed 40% of the total production costs, 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, the 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, the total revenue of TV series market is expected to increase to RMB27.8 billion in 2023, representing a CAGR of 1.2%.

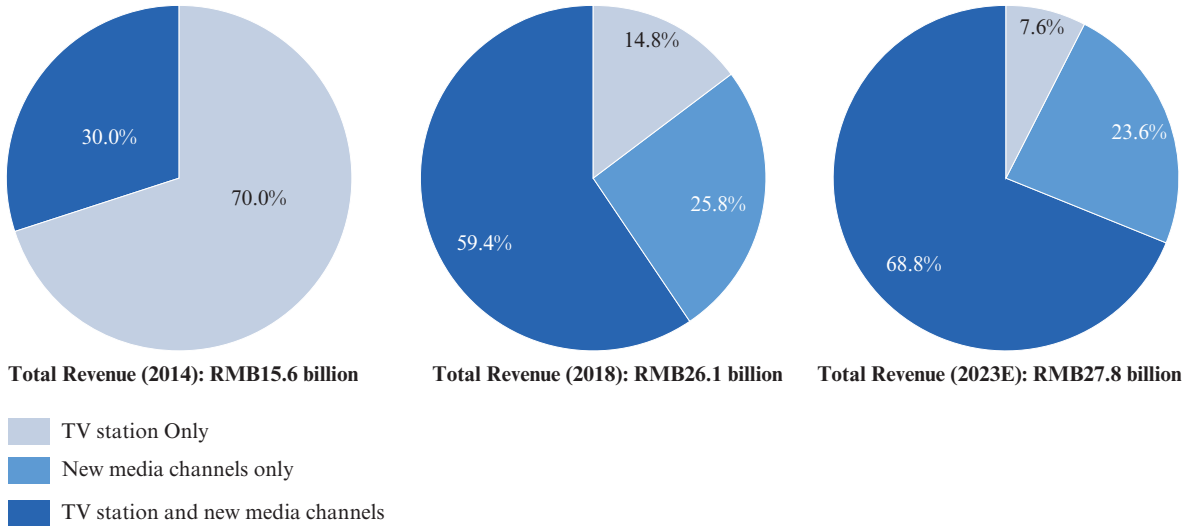
INDUSTRY OVERVIEW

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



Source: National Radio and Television Administration, Frost & Sullivan

Total Revenue of TV Series Market in China by Distribution Channel, 2014 vs. 2018 vs. 2023E



In terms of revenue, TV station, as a traditional channel, enjoyed a dominant role in the distribution channel of TV series market in 2014, accounted for 70.0% of total revenue of TV series. Given that the rising penetration of Internet has provided the audiences new media channels to enjoy TV series, TV station together with new media channels has been the mainstream of distribution channel of TV series in 2018, accounted for 59.4% of the market. Such trend is expected to remain in the forecast period, which indicates a new life style of watching TV series through both TV station and new media channels.

For the forecast period, it is believed that broadcasting through both TV station and new media channels is expected to be the major distribution channel for TV series, representing a market share of 68.8% in 2023.

Market Drivers of China's TV Series Market

The development of TV 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.

Since the TV series market is one of the major components of the entertainment industry, the increase in per capita expenditure on entertainment would further drive the drama series market. In addition, the habit of paying for content is forming for Chinese users, and their willingness to pay by subscription for content is getting better than before. According to the NRTA, the paying users of netcasting (online video and audio) in China reached 347.0 million in 2018, representing a CAGR of 42.0% from 2016. The continuous increase of disposable income and entertainment expenditure and their willingness to pay is expected to further drive the fast development of TV series market in China.

- ***Innovations in TV series:*** To fulfil audience's rising expectations on the quality of TV series, such as the quality of the script authoring, shooting technology and the performance of artists, TV series producers and online video platforms have intensively devoted their efforts on innovations. Some have established in-house research team focusing on content authoring, audience behaviours analysis and so forth to enhance the quality of TV series, so that the audience rating of TV 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 utilised in the process of content designing, marketing, and distributing.
- ***Rising penetration of Internet:*** The rising penetration rate of Internet has provided the audiences new media channels to enjoy TV series. The emergence of new media channels also present TV series producers a new way to distribute TV series. More options of channels to distribute TV series are expected to further drive the TV series market in China.

INDUSTRY OVERVIEW

- **Extensive capital investment:** Sufficient capital support has become a key market driver of TV series production industry. In addition, different financing methods like financing through private equity and venture capital are also involved in the investment process and they provide TV series production companies with diversified financing means.

Entry Barriers of China's TV Series Market

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

- **Administrative regulations:** TV 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 requires new entrant to this market must acquire legal licences from government administrations before producing and distributing any TV series. For details, please refer to the paragraph headed “Regulatory Overview — Regulations in relation to production and distribution of television programmes” in this prospectus.
- **Capital requirements:** Companies in TV series production industry usually have a strong capital strength. They need large capital to cover different expenses such as purchasing copyrights and labour costs. For the moment, the cost of content production and publication of TV 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 TV series requires a lot of professionals with expertise in different sectors such as directors, artists, photographers, publication teams and other professionals. 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 TV 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 TV 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 script 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 TV Series Market

- ***Collaboration of TV series production companies and online video platforms:*** In light of the increasing prevalence of the online video platforms, more people have adopted the habit of using new media channels to access TV series. As a result, TV series production companies 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. More TV series production companies tend to strategically collaborate with other companies to mitigate the high cost of TV series production and realise resources sharing to improve capacity.
- ***Distribution to both TV stations and new media channels:*** In light of the increasing penetration rate of Internet, more people get used to watching TV series through new media channels instead of TV stations. To cater for the rising demand on high-quality contents, leading online video platforms are devoted to provide various high-quality entertainment contents, including popular TV series to attract and retain users so as to maintain their competitiveness in the market. As a result, an increasing number of TV series are expected to be distributed to both TV stations and new media channels to reach a wider range of audience. Such dual distribution channels provide more flexibility to audience to watch TV series at anytime and anywhere, compared to the relatively rigid broadcast time on TV stations.
- ***Cut capacity reform and increasing licence fee:*** 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 Licence for Distribution of TV Series are not able to be broadcast. The gap between approved TV series and broadcast TV series has not been narrowed, which means that the “Cut Capacity” reform will continue, indicating that there will be an increasing number of approved TV series which cannot be broadcast. Under the influence of this reform, leading TV series production companies tend to focus more on quality so as to achieve higher ASP per episode. In addition, the increase of production costs and higher demands of high-quality TV series will also drive the licence fee to keep going up.

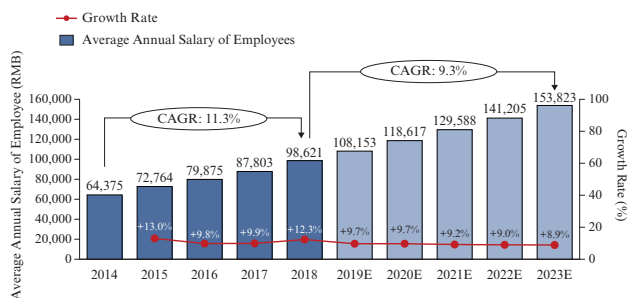
Cost Analysis of China's TV Series Market

With the prosperity of China's macro economy and development of culture, sports and entertainment industries, the average annual salary of employees in TV 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 TV series market and further development of China's culture, sports and entertainment industries.

INDUSTRY OVERVIEW

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



Source: National Bureau of Statistics, Frost & Sullivan

COMPETITIVE LANDSCAPE OF TV SERIES MARKET IN CHINA

The TV series market is highly fragmented in China. In 2018, the top five TV series groups accounted for a total market share of 30.6% in terms of revenue generated from investment, production, and distribution of TV series.

The Company ranked between 20th and 30th in the TV series market in 2018, with a market share of 0.6% in terms of revenue of TV series.

Ranking, Identity and Background of TV Series Group in 2018

Ranking	TV Series Group	Identity and Background	Revenue of TV Series (RMB Billion)	Market Share (%)
1	Group A	A listed company focusing on TV series and web series, TV shows, films, and artists agency.	4.0	15.3%
2	Group B	A listed company focusing on TV series and web series, TV shows, films, web game, and artists agency.	1.6	6.1%
3	Group C	A listed company focusing on TV series and web series, and films.	1.0	3.8%
4	Group D	A listed company focusing on TV series and web series, films, web game, and artists agency.	0.8	3.1%
5	Group E	A listed company focusing on TV series and web series, TV shows, films, and sports.	0.6	2.3%
	Top 5 Total		8.0	30.6%
			26.1	100.0%

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

Source: Frost & Sullivan

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 labour 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 authorised 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.

On 30 June 2019, the NDRC and the MOFCOM jointly promulgated the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單) (2019年版)) (the “**Negative List**”), which became effective on 30 July 2019. According to the Negative List, foreign investors shall not invest in any of the prohibited fields specified in the Negative List, and they must obtain permit for investment in other fields set out in the Negative list that are not prohibited. The establishment of foreign-invested partnerships is prohibited if they intend to invest in the fields subject to limitation of foreign investment proportion.

REGULATORY OVERVIEW

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 TV station shall not broadcast programmes produced by institutions without the licences for radio and television programme production and distribution.

Pursuant to the Administrative Provisions on the Production and Distribution of Radio and Television Programmes (廣播電視節目製作經營管理規定), which was promulgated by 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.

Record-filing and Announcing System

Pursuant to the Administrative Provisions for Contents of TV Series (電視劇內容管理規定) which was promulgated by 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. NRTA is responsible for announcing the TV series produced in the PRC. The radio and television administrative department of provincial government is responsible for accepting the record-filing of the TV series produced by the production entities within its administrative region, and upon its examination, report them to NRTA. When applying for record-filing of the TV series, the production institutions shall submit, among other materials, a brief introduction which truthfully and accurately describes the theme, main characters, background, stories and other contents of the TV series. If the TV series involves any significant theme or any sensitive content involving politics, military affairs, diplomacy, national security, united front, ethnic issues, religion, judicial issues, public security, etc., the written opinions issued by the relevant competent department of the government at or above the level of province shall be provided. The NRTA shall examine the application materials and announce them on its website. The announced contents shall include the name of the TV series, the production entity, the number of episodes, the abstract, etc.

Administrative Measures for the Filing and Announcement of the Production of TV Series (電視劇拍攝製作備案公示管理辦法), which was promulgated by the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣播電影電視總局) (the “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. TV series shall be produced in accordance with the announced content. If it is necessary to make a substantial adjustment to the theme, main characters and main plot, the producing institution shall go through record-filing and announcing procedure again. The production of TV series shall be completed within two years since the date of announcement.

Content Examination and Distribution Licensing System

Pursuant to the Administrative Provisions for Contents of TV Series, upon completion of the production of TV series, the production institutions shall file an application for content examination and apply for the Licence for Distribution of TV Series. The TV series without the Licence for Distribution of TV Series shall not be distributed, broadcast or appraised for awards. The institutions shall apply for the content examination to the radio and television administrative department of provincial government and submit, among other materials, a valid certification of the qualification of the production institution, the printed text of the announcement of the TV series, an abstract for each episode, a complete set of the sample TV series, and written opinions of the competent department and the parties concerned on special themes. The said administrative department shall make a decision of approval or disapproval within fifty days. After making a decision of approval, it shall issue the Licence for Distribution of TV Series. TV series which has obtained a distribution licence shall be distributed and broadcast based on the contents which passed

REGULATORY OVERVIEW

the examination. If the name, principal characters and stories, length of the episodes or any other aspect of the TV series is modified, the original production institution shall reapply for examination.

On 15 April 2015, the SAPPRFT announced on its 2014 national TV series broadcasting work conference that it shall modify the TV series broadcasting pattern during prime time on satellite television channels. Starting from 1 January 2015, one TV series can only be broadcast on maximum two satellite channels at the same time, and shall not be broadcast for more than two episodes on such satellite television channels every night during the prime time.

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

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

REGULATORY OVERVIEW

Our Directors confirm that our Group has been complying with the relevant regulations and policies issued by NRTA and industrial associations in the aspect of production and distribution of TV series during the Track Record Period and up to the Latest Practicable Date and have not received any punitive measures from the relevant government authorities, and shall continue to comply with aforesaid regulations and policies in the future. Accordingly, our Directors are of the view that these regulations and policies do not have any material adverse impact on our operations.

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 organisation 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, diplomacy, ethnicity, religion, military, and other matters shall be submitted for review and approval as required by relevant regulations of the PRC. Once finished producing, the film shall be submitted to 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 through 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 a film is examined and qualified.

Pursuant to Regulations for Administration of the Record-filing Script (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 script (outline) record-filing and films examination. A script (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.

REGULATORY OVERVIEW

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 popularised on audio-visual website.

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

REGULATORY OVERVIEW

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

REGULATORY OVERVIEW

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**”) which were promulgated by the State Council on 6 December 2007 and came into effect as of 1 January 2008 and was last revised on 23 April 2019, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within China. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside China, but have established institutions or premises in China, or have no such established institutions or premises but have income generated from inside China. Under the EIT Laws and relevant

REGULATORY OVERVIEW

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 Khorgas 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 Khorgas 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 Khorgas within the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) (the “**Catalogue of Income Tax Preferences**”) shall be granted the preferential treatment of five-year enterprise income tax exemption since the taxable year when the first business income is obtained. Radio, film and television production, distribution, transaction, projection, publication and creation of derivative production are included in Catalogue of Income Tax Preferences.

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 VAT, and shall pay VAT in accordance with the VAT Regulations. According to the VAT Regulations, a VAT tax rate at 6%, 11% or 17% applies to the PRC enterprises unless otherwise exempted or reduced according to the VAT Regulations and other relevant regulations.

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

According to the Announcement of the Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告), which was promulgated on 20 March 2019 and became effective on 1 April 2019, the VAT rate was further adjusted as follows: (1) VAT rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%. (2) The deduction rate of 10% applicable to any taxpayer’s purchase of agricultural products shall be adjusted to 9%. Where a taxpayer purchases agricultural products used for the production or consigned processing of goods to which the tax rate of 13% applies, the amount of import tax shall be calculated at the deduction rate of 10%. (3) As for exported goods and labour services to which the tax rate of 16% applies and whose export tax refund rate is 16%, the export tax refund rate shall be adjusted to 13%. As for exported goods and cross-border taxable acts to which the tax rate of 10% applies and whose export tax refund rate is 10%, the export tax refund rate shall be adjusted to 9%.

REGULATIONS IN RELATION TO FISCAL AWARD POLICIES

On 14 February 2014, the Haining government issued the Circular of the Opinion about Further Facilitating the Development of the Television and Film Industry (關於進一步促進影視產業發展意見的通知, the “**2014 Circular**”). Pursuant to the 2014 Circular, the enterprises engaged in the television and film industry which took residence in the Haining television and film base (the “**Haining Base**”) shall enjoy a 10-year award from the year of entering into the agreement with the Haining Base. For the first five-year term, the amount of the fiscal award shall be calculated with reference to the amount of the EIT and VAT paid by the enterprises conducting TV or film business which are contributed to the local government’s financial revenue and shall be equivalent to the sum of: (i) 90% of the part of such amount of EIT and VAT which is below, or equal to RMB3 million; and (ii) 95% of

REGULATORY OVERVIEW

the part of such amount of EIT and VAT which exceeds RMB3 million. For the second five-year term, the amount of the fiscal award shall be equivalent to 60% of all such amount of EIT and VAT paid by the relevant enterprise.

On 22 January, 2018, the Haining government issued the Circular of Several Policies and Opinions of Supporting Cultural (Sports) Industry of Haining (海寧市支持文化(體育)產業發展若干政策意見的通知, the “**2018 Circular**”), which became effective on 1 January 2018 and superseded the 2014 Circular. Pursuant to the 2018 Circular, as for the television and film enterprises which already took residence in the Haining Base, the policy of fiscal award in the first five years shall follow the policy of the 2014 Circular. The 2018 Circular is silent as to whether or not the fiscal award policy would remain the same after the fifth year.

REGULATIONS IN RELATION TO EMPLOYMENT AND SOCIAL WELFARE

The Labour Law and the Labour Contract Law

According to the Labour Law of the PRC (Revised in 2018) (中華人民共和國勞動法 (2018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 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate labourers in labour safety and sanitation in China. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide labourers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

The principal regulations governing the employment contract is the PRC Labor Contracts Law, which was promulgated by the SCNPC on 29 June 2007 and was revised on 28 December 2012. Pursuant to the PRC Labour 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

REGULATORY OVERVIEW

which the payment is overdue. If such overdue payment is not made within the stipulated period, the relevant administration government department shall impose a fine from one to three times the amount of overdue payment.

Pursuant to the Regulations of Housing Fund (住房公積金管理條例), which was promulgated by State Council and came into force in 3 April 1999, and was last revised on 24 March 2019, enterprises must complete registration at the competent administrative centre of housing fund and go through the procedures of opening the account of housing fund for their employees at the relevant bank upon the examination by such administrative centre of housing fund. Enterprises as employers are also obliged to timely pay and deposit housing fund for their employees in full amount.

REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY

Copyright

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

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

Pursuant to 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

REGULATORY OVERVIEW

January 2013, copyright shall be generated on the date when the creation of a work is completed. Where a joint work cannot be used separately, the copyright shall be jointly enjoyed by, and exercised through consultation between or among, the co-authors. Where they fail to reach an agreement and have no justified reasons for the failure, no party may hinder any of the other parties from exercising all the rights, except the right of assignment. However, the income generated from the joint work shall be fairly distributed between or among the co-authors.

Trademarks

Both Trademark Law of the PRC (Revised in 2019) (中華人民共和國商標法(2019年修訂)), which was promulgated by the SCNPC on 23 August 1982 and was last revised on 23 April 2019, and the 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.

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 at 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 Controlling Shareholders. For details of the qualifications and experience of other Core Shareholders, please refer to the section headed "Directors and Senior Management" in this prospectus.

BUSINESS HISTORY AND MILESTONES

The following illustrates our major business development milestones and achievements:

Year	Key Milestones
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 Licence 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

Year	Key Milestones
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

Year	Key Milestones
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)影視產業國際合作實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)影視產業國際合作實驗區海寧基地服務中心).

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 incorporation or establishment/ Date of commencement of business (if different)</u>	<u>Place of incorporation or establishment</u>	<u>Principal activities</u>
Our Company	11 March 2019/20 June 2019	Cayman Islands	Investment holding
Subsidiaries			
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
Consolidated Affiliated Entities			
Values Culture	14 November 2013	PRC	(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
Beijing Values	3 April 2014	PRC	Investment in TV series
Khorgas Values	29 December 2016	PRC	(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
Xinjiang Values	22 June 2018	PRC	Licensing of broadcasting rights 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 “Corporate History and Development — Establishment and shareholding changes of the major members of our Group — Values Culture” and “Reorganisation — 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 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

On 11 December 2019, our Shareholders resolved that, among others, each issued and unissued share in our Company at a par value of US\$0.0001 each was to 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 proceeds of the Global Offering, a sum standing to the credit of the share premium account of our Company will be capitalised and applied to paying up in full 748,000,000 Shares to be allotted and issued 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 Capitalisation Issue 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 Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

Pursuant to the Global Offering, our Company will offer 250,000,000 Offer Shares, being 25% of the total issued share capital of our Company (as enlarged by the Shares offered under the Global Offering and the Shares issued under the Capitalisation Issue excluding the Shares which may be allotted and issued upon exercise of the Over-allotment Option 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 (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. 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.

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 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.

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 Ms. Zhang Hui and Mr. 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.

HISTORY, REORGANISATION AND GROUP STRUCTURE

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

<u>Name of shareholder</u>	<u>Number of shares held</u>	<u>Percentage of shareholding (%)</u>
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	<u>150,000,000</u>	<u>100.0</u>

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 Suiyong Holdings and Hangzhou Baihuiquan entered into a supplemental agreement (the “**First Supplemental Agreements**”) to the Values Culture Equity Transfer Agreements and the Values Culture Subscription Agreements with, among other, Mr. Bai and Mr. Liu, pursuant to which Mr. Bai and Mr. Liu agreed to guarantee each of Suiyong Holdings and Hangzhou Baihuiquan that (i) the net profit of Values Culture for FY2016, FY2017 and FY2018 shall not be less than RMB50,000,000, RMB55,000,000 and RMB60,000,000 (the “**Yearly Target(s)**”) respectively (the “**Profit Guarantee I**”) and (ii) the sum of the net profits for FY2016, FY2017 and FY2018 shall not be less than RMB165,000,000 in total (the “**Profit Guarantee II**”, together with the Profit Guarantee I, the “**Profit Guarantees**”). Pursuant to the First Supplemental Agreements, provided that Values Culture fails to meet both of the Profit Guarantees: (i) if the net profit of Values Culture for any of FY2016, FY2017 or FY2018 is less than RMB20,000,000, each of Mr. Bai and Mr. Liu shall transfer 3,000,000 shares in Values Culture to each of Suiyong Holdings and Hangzhou Baihuiquan respectively at nil consideration for each year in which the said shortfall occurs; and (ii) if the net profit of Values Culture for any of FY2016, FY2017 or FY2018 is equal to or more than RMB20,000,000 but less than the respective Yearly Target, each of Mr. Bai and Mr. Liu shall transfer 2,000,000 shares in Values Culture to each of Suiyong Holdings and Hangzhou Baihuiquan respectively at nil consideration for each year in which the said shortfall occurs. On 6 June 2019 and 10 June 2019, each of Suiyong Holdings and Hangzhou Baihuiquan further entered into separate supplemental agreements (the “**Second Supplemental Agreements**”) with, among other, 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 Guarantees 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 Suiyong Int’l (as the wholly-owned subsidiary of Suiyong Holdings) and SDJZ Investment (as related offshore holding company of Hangzhou

HISTORY, REORGANISATION AND GROUP STRUCTURE

Baihuiquan) 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 “Reorganisation — Steps of Reorganisation — 4. Transfer of Shares by BLW Investment to SDJZ Investment and Suiyong Int'l” below in this section.

In December 2017, Values Culture initiated the early phase of preparation for an A-share listing by lodging a registration with the Zhejiang Administration of the CSRC (中國證監會浙江監管局) in respect of the commencement of the pre-listing tutoring given by Ping An Securities Co., Ltd. (平安證券股份有限公司) (“**Ping An**”) as pre-listing tutoring securities firm. In about April 2018, the management of Values Culture after taking Ping An’s advice into account was of the view that it was not cost effective to pursue the said A-share listing in the PRC given that the A-share listing process was expected to take much longer time due to the large number of pending A-share listing applications at that time. As a result, on 31 May 2018, Values Culture decided to seek the Listing on the Stock Exchange in Hong Kong instead. Values Culture and Ping An mutually terminated the said tutoring, during which Values Culture had never submitted any A-share listing application. Ping An had performed comprehensive due diligence on the background, business, financial position and management of Values Culture’s group and no material adverse findings thereof had been revealed by Ping An. Our Directors believe that the Listing on the Stock Exchange in Hong Kong will be in the interests of our Group’s business development strategies, and would be beneficial to us and our Shareholders as whole for the reasons that (i) the Stock Exchange, as a leading player of the international financial markets with long-standing reputation, could offer us a direct access to the international capital markets and investors, enhance our fund-raising capabilities and channels and broaden our Shareholders base; and (ii) a public listing status on the Stock Exchange can enhance our corporate profile, brand awareness and credibility with the public and potential business partners, thereby giving us competitive advantage over other non-listed market competitors in such a fragmented and highly competitive TV series market in the PRC. Our Directors are of the view and the Sole Sponsor, having considered the above as well as its due diligence, concurs that there is no other matter in relation to the proposed A-share listing plan of Values Culture that needs to be brought to the attention of the regulators and investors.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 17 August 2018, Values Culture’s shareholders resolved to voluntarily delist Values Culture’s shares from NEEQ (the “**NEEQ Delisting**”). On 23 August 2018, Values Culture applied and subsequently received regulatory approval for the NEEQ Delisting. On 26 September 2018, the shares in Values Culture ceased to be quoted on the NEEQ. Based on the average trading price of the shares in Values Culture for the three-month period before the NEEQ Delisting, being 27 June 2018 to 26 September 2018, of RMB5.23 per share, the market capitalisation of Values Culture was estimated to be RMB785 million.

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 listing on the Stock Exchange.

Our Directors confirm and the Sole Sponsor, having considered its due diligence, concurs that (i) during the period when the shares in Values Culture were quoted on the NEEQ and up to the NEEQ Delisting, 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 none of Values Culture and its directors had been subject to any investigation or disciplinary actions by any relevant regulators in the PRC in relation to Values Culture’s listing on the NEEQ; and (ii) there are no further matters in relation to the prior listing of Values Culture on the NEEQ that need to be brought to the attention of the regulators in Hong Kong or the investors.

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:

<u>Name of shareholder</u>	<u>Number of shares held</u>	<u>Percentage of shareholding (%)</u>
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

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 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.
- (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 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 (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.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Xinjiang Values

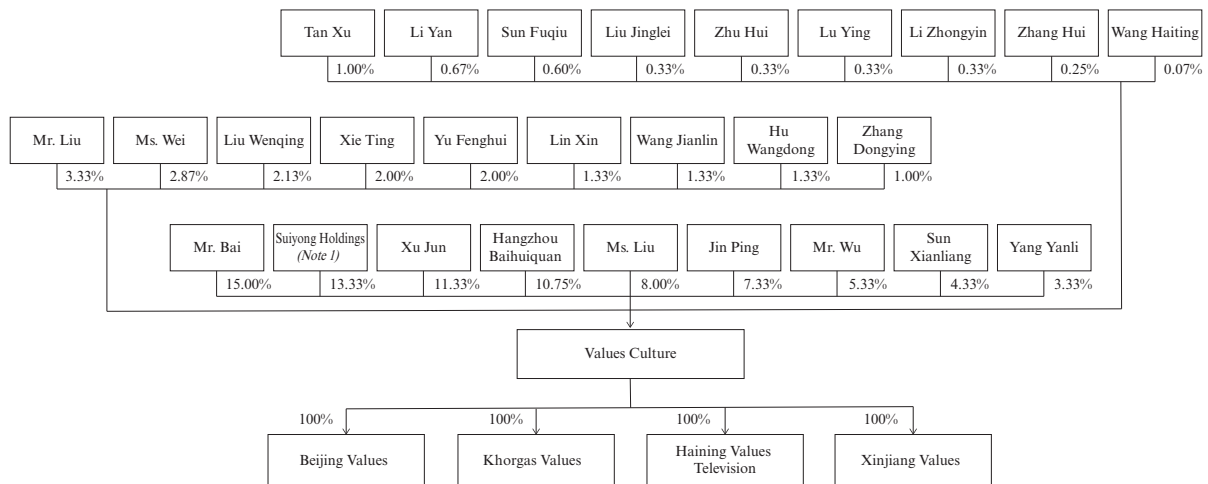
Xinjiang Values was established in the PRC on 22 June 2018 as a limited liability company with an initial registered capital of RMB10,000,000. Since its establishment and up to the Latest Practicable Date, there had been no change in the shareholding of Xinjiang Values. Xinjiang Values was a wholly-owned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

REORGANISATION

The following diagram illustrates our corporate structure before the Reorganisation:



HISTORY, REORGANISATION AND GROUP STRUCTURE

Note:

1. As at the Latest Practicable Date, Suiyong Holdings is a state-invested company established in the PRC principally engaged in investment and asset management, which is owned as to (i) 30% by Ningbo Shanshan Co., Ltd* (寧波杉杉股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600884), (ii) 30% by Guangzhou Financial Innovation Investment Holding Co., Ltd.* (廣州科技金融創新投資控股有限公司), which is ultimately controlled by Guangzhou Municipal Finance Bureau, (iii) 20% by Ningbo Meishan Bonded Port Area Guangxin Bosheng Investment Management Center (Limited Partnership)* (寧波梅山保稅港區廣信博勝投資管理中心(有限合夥)), which is ultimately controlled by Mr. Xu Ming and (iv) 20% by Xizang Huiying Investment Management Partnership Enterprise (Limited Partnership)* (西藏輝盈投資管理合夥企業(有限合夥)), the limited partners of which are Mr. Qu Guohui (“**Mr. Qu**”) and Mr. Wang Yue and the general partner of which is Lhasa Economic & Technological Development Zone Jinchengze Investment Management Co., Ltd.* (拉薩經濟技術開發區金澄澤投資管理有限公司), which is owned by the said limited partners. Save for their interest in Suiyong Holdings, each of the said persons is an Independent Third Party.

In contemplation of being quoted on the NEEQ and for the sake of the long-term development of the Group, Values Culture intended to induce the strategic investors to invest in it. In about March 2016, Jiuzhou Securities Co., Ltd* (九州證券股份有限公司), the sponsor of Values Culture in respect of its listing on the NEEQ, referred Suiyong Holdings as a potential investor to Values Culture. After having performed the due-diligence on the group of Values Culture and held the discussions between the representatives of Suiyong Holdings including Mr. Qu and the management of Values Culture including Mr. Bai, Mr. Liu and Mr. Wu, Suiyong Holdings decided to invest in Values Culture after assessment of the outlook of the TV series production industry as well as Values Culture’s business prospects, financial position and business expansion plan. Mr. Qu is the chairman of the board and the managing director of Suiyong Holdings. He has over 15 years of experience in the securities industry and worked for several securities firms in the PRC. Moreover, to the best knowledge of our Directors, Mr. Xu Ming and Mr. Wang Yue, the other abovementioned ultimate individual beneficial owners of Suiyong Holdings, are the passive investors who are not engaged in the daily management of Suiyong Holdings including its decision to invest in Values Culture. Save as disclosed above and their beneficial interest in Suiyong Holdings, to the best knowledge of our Directors, each of Mr. Qu, Mr. Xu Ming and Mr. Wang Yue does not have any relationship with our Group and our Controlling Shareholders.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Steps of Reorganisation

In preparation for the Listing 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	42.85%
			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 Jun	97.84%
			Ms. Zhang Hui	2.16%
SLZW Investment	28 November 2018	BVI	Mr. Sun Fuqiu	45.00%
			Mr. Li Zhongyin ⁽³⁾	25.00%
			Ms. Zhu Hui	25.00%
			Ms. Wang Haiting ⁽¹⁾	5.00%
LHW Investment	28 November 2018	BVI	Ms. Lin Xin	33.33%
			Mr. Hu Wangdong	33.33%
			Mr. Wang Jianlin	33.34%
Jinping Holding	28 November 2018	BVI	Ms. Jin Ping	100%
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%

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 Global Offering (which will be diluted to 9.06% of the issued share capital in our Company immediately after the completion of the Global Offering).
- (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	<u>100,000</u>	<u>100.0</u>

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 “Corporate History and Development — 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

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 prospectus for further details.

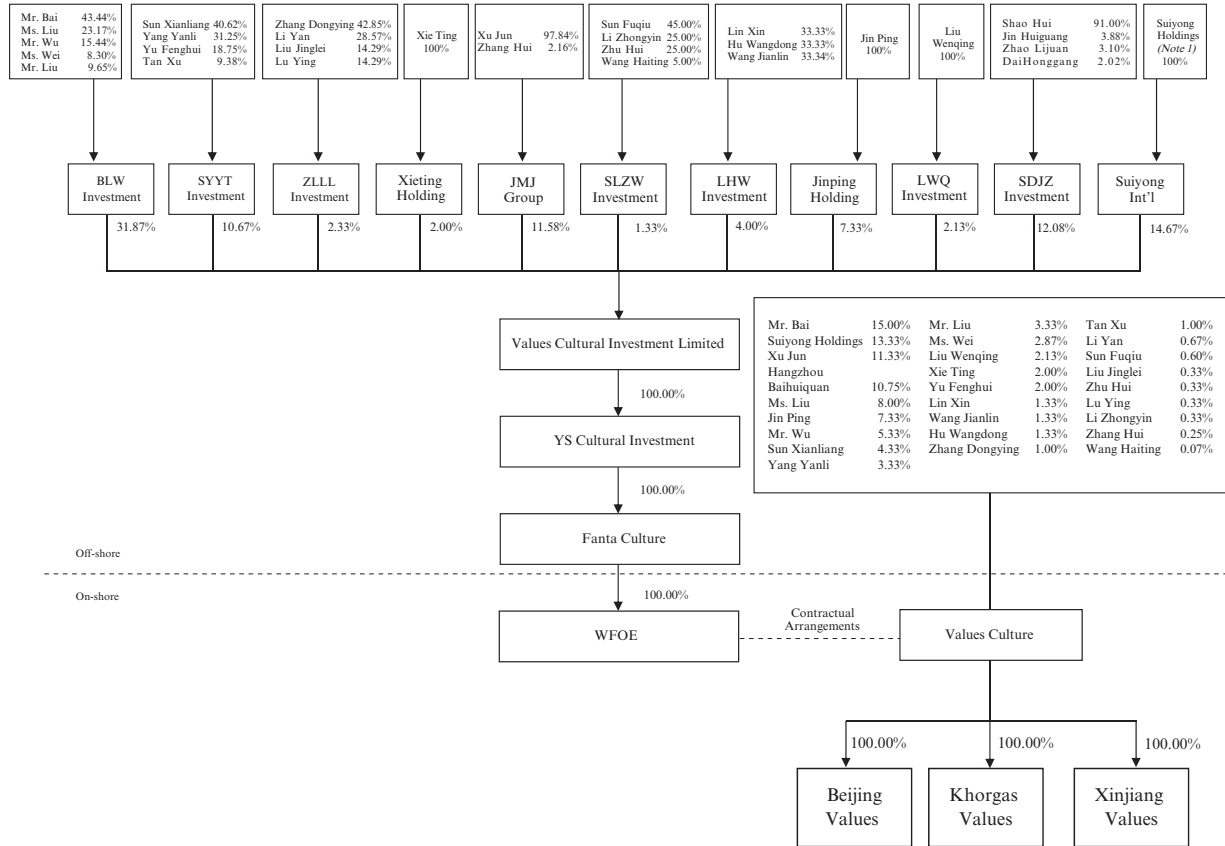
7. Share subdivision

On 11 December 2019, our Shareholders resolved that, among others, each issued and unissued share in our Company at a par value of US\$0.0001 each was to 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.

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 Global Offering:



HISTORY, REORGANISATION AND GROUP STRUCTURE

Note:

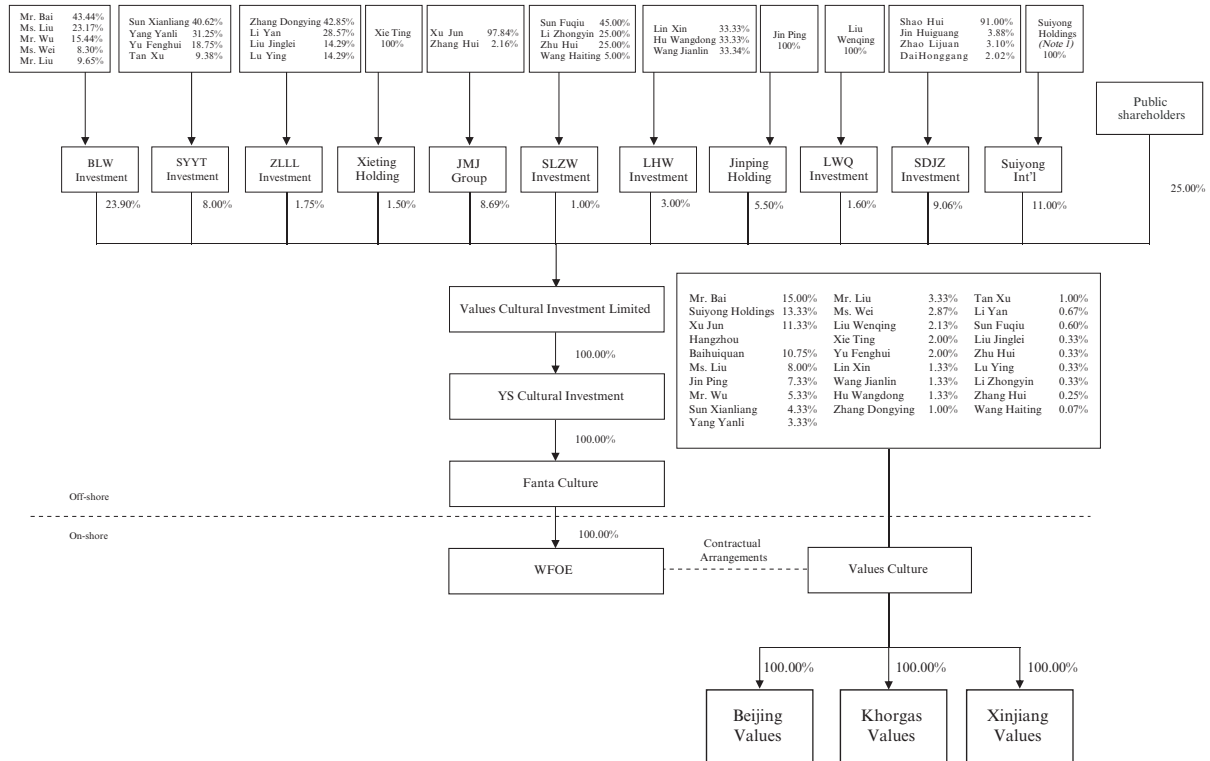
1. As at the Latest Practicable Date, Suiyong Holdings is a state-invested company established in the PRC principally engaged in investment and asset management, which is owned as to (i) 30% by Ningbo Shanshan Co., Ltd* (寧波杉杉股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600884), (ii) 30% by Guangzhou Financial Innovation Investment Holding Co., Ltd.* (廣州科技金融創新投資控股有限公司), which is ultimately controlled by Guangzhou Municipal Finance Bureau, (iii) 20% by Ningbo Meishan Bonded Port Area Guangxin Bosheng Investment Management Center (Limited Partnership)* (寧波梅山保稅港區廣信博勝投資管理中心(有限合夥)), which is ultimately controlled by Mr. Xu Ming and (iv) 20% by Xizang Huiying Investment Management Partnership Enterprise (Limited Partnership)* (西藏輝盈投資管理合夥企業(有限合夥)), the limited partners of which are Mr. Qu Guohui (“**Mr. Qu**”) and Mr. Wang Yue and the general partner of which is Lhasa Economic & Technological Development Zone Jinchengze Investment Management Co., Ltd.* (拉薩經濟技術開發區金澄澤投資管理有限公司), which is owned by the said limited partners. Save for their interest in Suiyong Holdings, each of the said persons is an Independent Third Party.

In contemplation of being quoted on the NEEQ and for the sake of the long-term development of the Group, Values Culture intended to induce the strategic investors to invest in it. In about March 2016, Jiuzhou Securities Co., Ltd* (九州證券股份有限公司), the sponsor of Values Culture in respect of its listing on the NEEQ, referred Suiyong Holdings as a potential investor to Values Culture. After having performed the due-diligence on the group of Values Culture and held the discussions between the representatives of Suiyong Holdings including Mr. Qu and the management of Values Culture including Mr. Bai, Mr. Liu and Mr. Wu, Suiyong Holdings decided to invest in Values Culture after assessment of the outlook of the TV series production industry as well as Values Culture’s business prospects, financial position and business expansion plan. Mr. Qu is the chairman of the board and the managing director of Suiyong Holdings. He has over 15 years of experience in the securities industry and worked for several securities firms in the PRC. Moreover, to the best knowledge of our Directors, Mr. Xu Ming and Mr. Wang Yue, the other abovementioned ultimate individual beneficial owners of Suiyong Holdings, are the passive investors who are not engaged in the daily management of Suiyong Holdings including its decision to invest in Values Culture. Save as disclosed above and their beneficial interest in Suiyong Holdings, to the best knowledge of our Directors, each of Mr. Qu, Mr. Xu Ming and Mr. Wang Yue does not have any relationship with our Group and our Controlling Shareholders.

HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE GLOBAL OFFERING

The following diagram illustrates our corporate structure immediately after the completion of the Global Offering:



Note:

- As at the Latest Practicable Date, Suiyong Holdings is a state-invested company established in the PRC principally engaged in investment and asset management, which is owned as to (i) 30% by Ningbo Shanshan Co., Ltd* (寧波杉杉股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600884), (ii) 30% by Guangzhou Financial Innovation Investment Holding Co., Ltd.* (廣州科技金融創新投資控股有限公司), which is ultimately controlled by Guangzhou Municipal Finance Bureau, (iii) 20% by Ningbo Meishan Bonded Port Area Guangxin Bosheng Investment Management Center (Limited Partnership)* (寧波梅山保稅港區廣信博勝投資管理中心(有限合夥)), which is ultimately controlled by Mr. Xu Ming and (iv) 20% by Xizang Huiying Investment Management Partnership (Limited Partnership)* (西藏輝盈投資管理合夥企業(有限合夥)), the limited partners of which are Mr. Qu Guohui (“**Mr. Qu**”) and Mr. Wang Yue and the general partner of which is Lhasa Economic & Technological Development Zone Jinchengze Investment Management Co., Ltd.* (拉薩經濟技術開發區金澄澤投資管理有限公司), which is owned by the said limited partners. Save for their interest in Suiyong Holdings, each of the said persons is an Independent Third Party.

HISTORY, REORGANISATION AND GROUP STRUCTURE

In contemplation of being quoted on the NEEQ and for the sake of the long-term development of the Group, Values Culture intended to induce the strategic investors to invest in it. In about March 2016, Jiuzhou Securities Co., Ltd* (九州證券股份有限公司), the sponsor of Values Culture in respect of its listing on the NEEQ, referred Suiyong Holdings as a potential investor to Values Culture. After having performed the due-diligence on the group of Values Culture and held the discussions between the representatives of Suiyong Holdings including Mr. Qu and the management of Values Culture including Mr. Bai, Mr. Liu and Mr. Wu, Suiyong Holdings decided to invest in Values Culture after assessment of the outlook of the TV series production industry as well as Values Culture's business prospects, financial position and business expansion plan. Mr. Qu is the chairman of the board and the managing director of Suiyong Holdings. He has over 15 years of experience in the securities industry and worked for several securities firms in the PRC. Moreover, to the best knowledge of our Directors, Mr. Xu Ming and Mr. Wang Yue, the other abovementioned ultimate individual beneficial owners of Suiyong Holdings, are the passive investors who are not engaged in the daily management of Suiyong Holdings including its decision to invest in Values Culture. Save as disclosed above and their beneficial interest in Suiyong Holdings, to the best knowledge of our Directors, each of Mr. Qu, Mr. Xu Ming and Mr. Wang Yue does not have any relationship with our Group and our Controlling Shareholders.

PRC LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that all relevant approvals and permits (as applicable) in respect of the reorganisation 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 Jun, 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 Dongying, 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.

HISTORY, REORGANISATION AND GROUP STRUCTURE

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 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 oversea 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 oversea 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 Listing 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 film and engage in the business of co-investment in and production of films and web series. 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 consolidated 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 the Negative List which was promulgated by the MOFCOM and the NDRC on 30 June 2019 and became effective on 30 July 2019. The current version of 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 the co-investment as non-executive producer in one TV series and the Fixed Return Investment in one film without participating in the production or distribution process, our business falls within the Negative List. To the best knowledge of our Directors, the TV series has been broadcast and the film has been screened in cinema, and both of them are still undergoing distribution process as at the Latest Practicable Date.

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 TV series and the film was RMB3.6 million and RMB3.0 million (of which RMB1.0 million was repaid in FY2018), 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 Fixed Return Investment in the film was approximately RMB0.7 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. We expect that we will receive net licence fee of approximately RMB2.7 million from investment in the TV series and interest income of approximately RMB0.4 million from the film by the end of 2019;
- (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;
- (v) we have established internal control measures which require our chief executive officer, with the assistance of our external legal advisers, to review the terms and conditions of every transaction to be entered into by the Consolidated Affiliated Entities to ensure that such transaction shall fall within the restricted or prohibited industry pursuant to the Negative List. In particular, for TV series, web series or films which the Consolidated Affiliated Entities make investment in and take the role as non-executive producer, we will ensure that we will participate in the production or distribution process of such TV series, web series or films; and

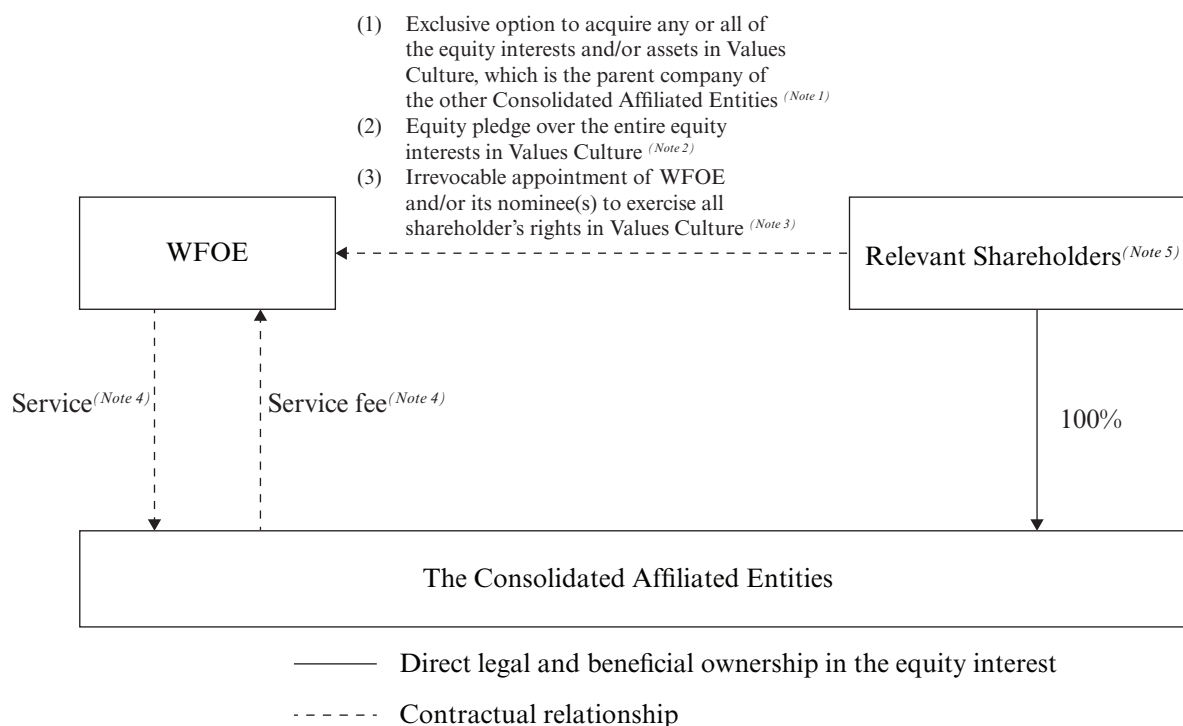
CONTRACTUAL ARRANGEMENTS

- (vi) we also undertake that if we engage in any new business that does not fall within such restricted or prohibited industry (in particular, business of making pure financial investment in TV series, web series or films without participation in their production and/or distribution process), such new business will be conducted by WFOE or its subsidiaries and the Consolidated Affiliated Entities undertake that they will not conduct any such new business.

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 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:



Notes:

- Please refer to the paragraph headed “Details of the Contractual Arrangements — Exclusive Option Agreement” in this section for details.
- Please refer to the paragraph headed “Details of the Contractual Arrangements — Equity Pledge Agreement” in this section for details.

CONTRACTUAL ARRANGEMENTS

3. Please refer to the paragraph headed “Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement” in this section for details.
4. Please refer to the paragraph headed “Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this section for details.
5. The Relevant Shareholders are Bai Yang (白陽), Suiyong Holdings Company Limited* (穗甬控股有限公司), Xu Jun (許軍), 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)), Liu Peiyao (劉佩瑤), Jin Ping (金萍), Wu Tao (吳濤), Sun Xianliang (孫賢亮), Liu Naiyue (劉乃岳), Yang Yanli (楊豔麗), Wei Xian (魏賢), Liu Wenqing (劉文清), Xie Ting (謝婷), Yu Fenghui (于鳳輝), Lin Xin (林欣), Hu Wangdong (胡望東), Wang Jianlin (王建林), Zhang Dongying (張東影), Tan Xu (譚栩), Li Yan (李岩), Sun Fuqiu (孫福秋), Liu Jinglei (劉驚雷), Li Zhongyin (李忠銀), Zhu Hui (朱卉), Lu Ying (魯瑩), Zhang Hui (張輝) and Wang Haiting (王海婷).

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 Exclusive Business Co-operation 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

CONTRACTUAL ARRANGEMENTS

- (ix) to provide other services as required by Values Culture from time to time if permitted by the laws of the PRC.

Pursuant to the Exclusive Business Co-operation Agreement, the service fee shall be equivalent to the total consolidated 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 interests 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 Exclusive Business Co-operation 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 and Values Culture 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

CONTRACTUAL ARRANGEMENTS

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.

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, 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 subsidiaries' assets, business, legal or beneficial interest of its income or allow any security interest to be created thereon 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 subsidiaries 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 subsidiaries 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 and its subsidiaries 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 subsidiaries shall not provide loan or guarantee to any person without the prior written consent of WFOE;
- (x) Values Culture and its subsidiaries shall provide its labour, operational and financial information to WFOE or its nominee(s) upon WFOE's request;

CONTRACTUAL ARRANGEMENTS

- (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;
- (xii) Values Culture shall immediately inform WFOE if its and its subsidiaries' assets, business or income may be subject to any litigations, arbitrations or administrative proceedings and shall 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 subsidiaries' 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 subsidiaries 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 business and other income derived from the equity interests held by the Relevant Shareholder 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 Exclusive Option 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.

CONTRACTUAL ARRANGEMENTS

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) (or partner(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 general partner(s) 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

CONTRACTUAL ARRANGEMENTS

Relevant Shareholders to exercise his/her/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 the Equity Pledge Agreement by giving a prior written notice of termination. The registration of the pledge of equity interests as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and PRC laws and regulations.

Shareholders' Rights Proxy Agreement

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

CONTRACTUAL ARRANGEMENTS

- (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 the Shareholders' Rights Proxy 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 Arrangements.

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.

CONTRACTUAL ARRANGEMENTS

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.

Non-competition

Our Relevant Shareholders confirm that, as at the Latest Practicable Date, none of them nor their shareholders, directors or any of their respective associates has any interest in a business which competes or is likely to compete, directly or indirectly, with our Group's business.

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 consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

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.

CONTRACTUAL ARRANGEMENTS

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.

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 minimise 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;

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.

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 business 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

CONTRACTUAL ARRANGEMENTS

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 Global Offering, 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 prospectus.

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 consolidated into our Company’s financial statements.

CONTRACTUAL ARRANGEMENTS

In this regard, our Directors consider that our Company can consolidated the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountants' Report in Appendix I to this prospectus.

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 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 Arrangements

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.

CONTRACTUAL ARRANGEMENTS

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”.

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.

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.

BUSINESS

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

	FY2016		FY2017		FY2018		1H2018		1H2019	
	RMB'000	%	RMB'000	%	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	94,603	85.9	137,411	94.6
Distribution of broadcasting rights of TV series	472	0.5	—	—	12,939	8.4	12,939	11.8	—	—
Net licence fee received from investment in TV series/film/web series as non-executive producer .	—	—	6,916	7.0	2,528	1.6	2,528	2.3	7,892	5.4
	<u>101,975</u>	<u>100.0</u>	<u>99,266</u>	<u>100.0</u>	<u>154,085</u>	<u>100.0</u>	<u>110,070</u>	<u>100.0</u>	<u>145,303</u>	<u>100.0</u>

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" (2018年度國劇頒獎禮收視貢獻). 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 channel.

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 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 prospectus.

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

BUSINESS

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 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 focused 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 various 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 has been licensed by us to a company operating a major online video platform in the PRC. 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 deepening collaborations with our existing customers and developing business relationships with TV stations operating first-tier satellite channels in the PRC. Our licensing business is our core business segment which contributed 99.5%, 93.0%, 90.0% and 94.6% of our total revenue during the Track Record Period respectively. Given the importance of this business segment to our Group, we intend to reinforce our market position in this area so as to drive the overall growth of our business.

BUSINESS

Through years of business development and experience, we have established solid business relationships with our existing customers in 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 as well as the preferred genre of TV series that they desire to broadcast on their channels, and we are confident that the TV series produced or purchased by us will be broadcast by them. In order to deepen our collaborations with our existing customers, in addition to maintaining our engagement in licensing business with them, we will seek to develop other types of business with them such as reaching co-investment arrangement or acting as distribution agent for them. We believe that by developing different forms of business co-operation with the existing customers, we could strengthen the business relationships with our existing customers in licensing business and meanwhile broaden our revenue sources which will be beneficial to the overall growth of our business. 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 agreements — (iv) Strategic co-operation agreement” in this section.

In addition to deepening and expanding the collaborations with our existing customers in various business segments, we will also strive to actively explore business relationships with TV stations operating first-tier satellite channels in the PRC by actively approaching these TV stations and producing TV series which could meet their requirements. According to the F&S Report, the first-tier satellite channels are able to offer higher purchase price for the first-run broadcast of TV series. Therefore, licensing the first-run broadcasting rights of our TV series to the first-tier satellite channels can not only broaden our revenue sources and improve our profitability, but also enhance our reputation and brand image in the industry. Our Directors believe that we are able to implement this strategy given that the production quality of our TV series has been recognised in the industry. In June 2019, our self-produced TV series National Spirit* (共和國血脈) had its first-run broadcast on comprehensive channel of CCTV (CCTV-1). 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. We believe that this would give confidence to our potential customers and assist us in developing business relationships with TV stations operating first-tier satellite channels in the PRC.

According to the F&S Report, (i) the total revenue of TV series market of the PRC will remain steady in the future which is expected to increase to RMB27.8 billion in 2023, representing a CAGR of 1.2% from 2018 to 2023; (ii) the TV series market in the PRC is highly fragmented and we accounted for approximately 0.6% of the market share in terms of revenue generated from investment, production, and distribution of TV series in the PRC in 2018; and (iii) 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 TV and web series industry development. Despite the slight expected increase in the total revenue of the TV series market from 2018 to 2023, we believe that we

are able to grow our business healthily and profitably because (i) given the large size of the TV series market and that we have only captured a small market share, there exists an opportunity to share the growth of the market and capture more market shares by effectively implementing our strategies; and (ii) we believe that we will continue to benefit from the PRC government's policy in supporting the development of drama series market.

We intend to utilise approximately HK\$100.0 million and HK\$15.1 million from the net proceeds of the Global Offering for producing and purchasing TV series respectively. For details, please refer to the paragraph headed "Future Plans and Use of Proceeds — Use of proceeds" in this prospectus. In order to strengthen the relationship with our existing customers, we will approach our existing customers for making investment in these self-produced TV series as the non-executive producer, and license the broadcasting rights of some of these purchased TV series to our existing customers. Moreover, for the purpose of expanding our customer base, we target to license the broadcasting rights of some of these self-produced TV series to a TV station operating first-tier satellite channels in the PRC.

Expanding our business by developing business relationship with the online video platforms

According to the F&S Report, TV station, as a traditional channel, enjoyed a dominant role in the distribution channel of TV series market in 2014, accounting for 70.0% of total revenue of TV series. Given that the rising penetration of Internet has provided the audiences new media channels to enjoy TV series, TV station together with new media channels has been the mainstream of distribution channel of TV series in 2018, accounting for 59.4% of the market. It is believed that broadcasting through both TV station and new media channels is expected to be the major distribution channel for TV series in the future which will account for 68.8% of the total revenue of TV series market in China in 2023.

Our Group currently produces TV series according to the requirements of TV stations and licenses the broadcasting rights of our TV series mainly to TV stations and also to companies engaged in the distribution business which may in turn distribute our TV series to online video platforms. During the Track Record Period, we have successfully developed business relationship with one major online video platform in the PRC by acting as non-executive producer for one web series which has been licensed by us to the company operating that online video platform. Such business co-operation resulted from our continuous effort in reaching a wider range of audience who may be used to watching TV series through new media channels such as Internet and mobile media instead of TV stations.

According to the F&S Report, to cater for the rising demand on high quality contents, leading online video platforms are devoted to provide various high quality entertainment contents, including popular TV series to attract and retain users so as to maintain their competitiveness in the market. Therefore, in view of the increasing popularity of the dual distribution channel (i.e. TV stations and new media channels) and the rising demand of the online video platforms, we believe that we are able to catch such market trend by utilising

our wide business network while extending our distribution channels to new media channels, which will benefit us greatly in the future business growth and enhance our competitiveness.

By leveraging upon our successful experience in cooperating with TV stations, our Group is determined to expand our business by developing business relationship with the online video platforms directly. Specifically, instead of licensing the broadcasting rights of our TV series to companies who will distribute our TV series to online video platforms, we will actively approach the online video platforms directly, understand their preferences and content requirements for TV series and explore the possibility of producing TV series for them. In contrast to web series which can only be broadcast on new media channels, the TV series we produced for the online video platforms can also be broadcast on TV stations which will expand our customer base and provide additional revenue sources for us. The production and distribution processes of TV series which will also be broadcast on online video platforms are similar to those of TV series broadcast only on TV stations except that we will take into account the broadcasting on online video platforms when formulating our distribution plan and agree on the terms and broadcasting schedules with the online video platforms as well as with our TV station customers before the broadcasting. We intend to arrange the broadcasting of TV series on online video platforms together with the first-run broadcast. Apart from producing TV series for the online video platforms, we also intend to diversify our revenue streams by reaching co-investment arrangement with the online video platforms, acting as the distribution agent or purchasing the broadcasting rights in respect of the TV series produced by them.

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 and our solid business resources. 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 deepening collaborations with our existing customers and developing business relationships with TV stations operating first-tier satellite channels and online video platforms in the PRC. As mentioned in the paragraph headed “Future Plans and Use of Proceeds — Use of proceeds” of this prospectus, 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. In view of our future plan and our business strategies, we plan to hire additional experienced staff to support our business growth. We intend to hire (i) one publicity and marketing manager responsible for assisting the work of our chief publicity and marketing officer, promoting and marketing of TV series and films, and customer credit management and evaluation; (ii) one administrative manager responsible for the formulation, revision and supervision of our management system, and the supervision of our internal control system; (iii) one producer focusing on the production of TV series by co-operating with the online video platforms; and (iv) one

script planner responsible for the evaluation, selection and market analysis of scripts for TV series and films. Given the competition in the market, we believe that our Listing 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 TV series business

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.

(i) Licensing of broadcasting rights of TV series

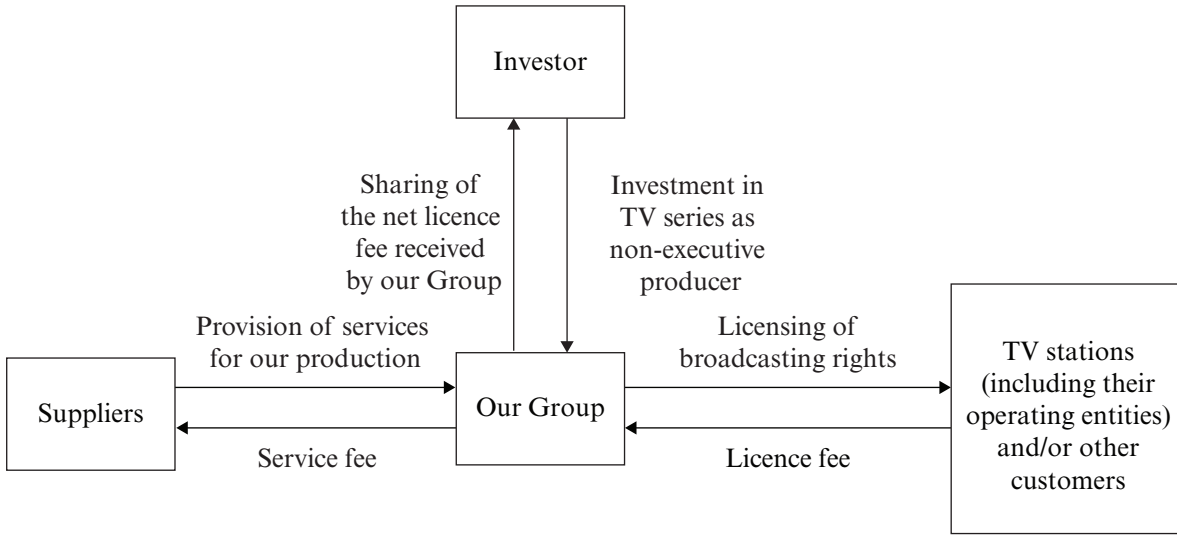
Our business of licensing of broadcasting rights of TV series involves the licensing of broadcasting rights of TV series produced by us as executive producer or TV series that we have purchased the copyrights (or broadcasting rights).

(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-investment arrangement. Under the co-investment 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(s) take(s) a passive role and mainly make(s) equity investment with limited involvement in the production and/or distribution processes 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.

BUSINESS

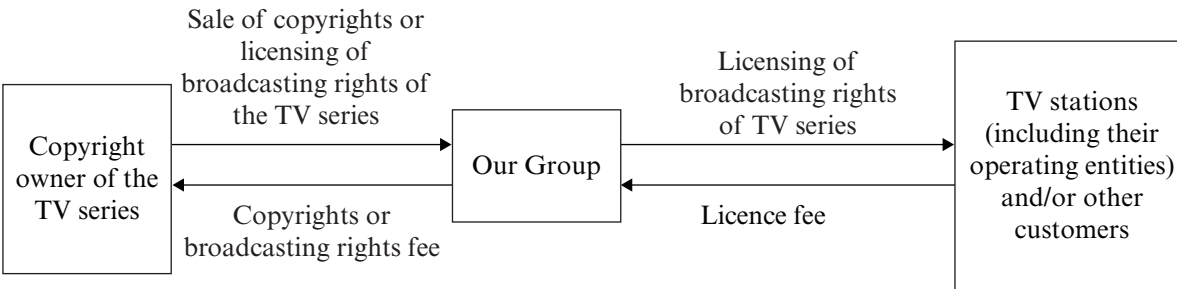
Our business of licensing of broadcasting rights of TV series produced by us as executive producer and its revenue model are summarised in the chart below:



(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.

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

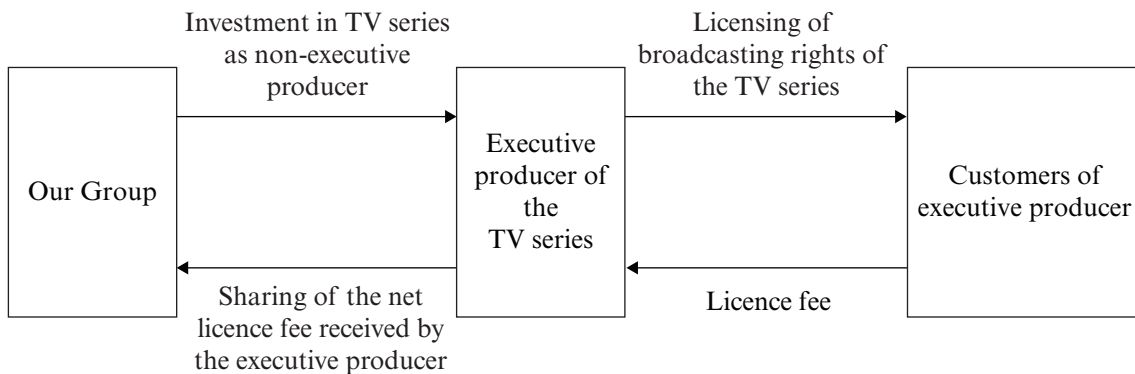


We charge a fixed licence fee for licensing the broadcasting rights of TV series. We determine the licence fee based on factors such as the type of the broadcasting channel (i.e. satellite channel of TV stations, terrestrial channel of TV stations or online video platforms) to be used by the potential 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 (generally about 30% to 50% for our self-produced TV series and about 30% for our purchased TV series) 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 a co-investment 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 processes. By leveraging on our industry insights and extensive experience in production and distribution of TV series, 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.

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



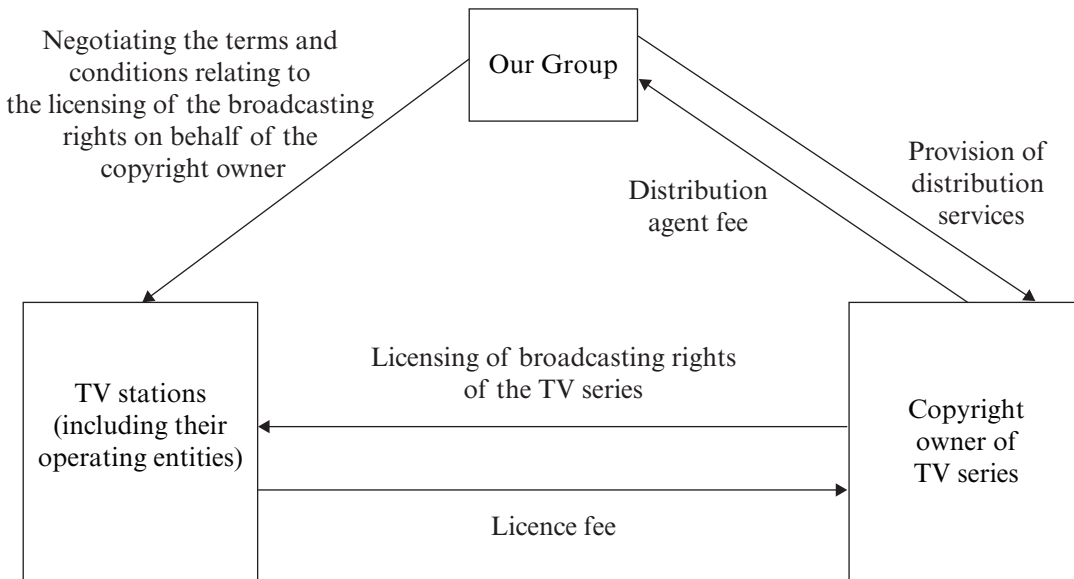
Our Group generate investment income by sharing the net licence fee according to the proportion of our investment. The net licence fee is calculated by deducting the distribution costs incurred by the executive producers from the licence fee earned by them by licensing of the broadcasting rights of the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

(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 in which 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. During the Track Record Period, our Group acted as distribution agent for three TV series.

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.

Our film business

Since the establishment of our Group, we have participated in the production of two films (as executive producer and non-executive producer respectively) and made Fixed Return Investment in one film through Values Culture.

Target customers

Generally, for the films which we act as executive producer, our target customers include (i) distribution agents which will promote and distribute the films; (ii) CCTV which will broadcast the films on its film channels; (iii) online video platforms; and (iv) public transportation companies which will broadcast the films on board.

Licences, permits and qualification requirements

For the two films which we have participated in the production, as required under the then applicable PRC laws and regulations, a one-off Licence for the Production of Films (攝制電影許可證(單片)) had been obtained for each of these two films by other producers of the films. Our Group is not the licence holder of these films regardless of whether we are the executive or non-executive producer of the film. As advised by our PRC Legal Advisers, all applicable licences, permits and approvals in relation to these two films have been duly

obtained. According to the business licence of Values Culture, its business scope includes the business of producing, reproducing and distributing films, radio and television programmes. Therefore, Values Culture's engagement in the business of producing films does not exceed its registered business scope. On 29 May 2019, the Press and Publishing Bureau of Haining (海寧市新聞出版局) ("**Haining Press Bureau**"), being the competent authority which supervises Values Culture in relation to its film production business, issued a certificate which states that there is no record showing that Values Culture, from its establishment to the date of issuance of the certificate, has been investigated, required to rectify or punished by Haining Press Bureau, or has had any disputes with Haining Press Bureau.

For the film in which we made Fixed Return Investment, as advised by our PRC Legal Advisers, we are not required to obtain any licence or permit for making Fixed Return Investment in this film.

In view of the above, our PRC Legal Advisers are of the opinion that our Group's engagement in the above film business was not in violation of the applicable laws and regulations in the PRC.

Revenue stream and distribution channels

For the film which we acted as the executive producer, we engaged a distribution agent to promote the film and granted the distribution rights of the film (such as the cinemas, online video platform and overseas distribution rights) to it for distributing the film. The distribution agent will receive the total revenue generated by distribution of the film on our behalf and pay the total revenue to us after deducting its (i) promotion fee; (ii) distribution fee (which is calculated at a fixed percentage of the total distribution revenue); and (iii) the awards to the cinemas (if any).

For the film which we acted as non-executive producer, our Group generates investment income by sharing the net licence fee with the executive producer of the film according to the proportion of our investment. The net licence fee is calculated by deducting the distribution costs incurred by the executive producer from the licence fee earned by the executive producer by licensing of the broadcasting rights of the film.

For details about our business of making Fixed Return Investment in film, please refer to the paragraph headed "Fixed Return Investment in TV series/film — (i) Fixed Return Investment in TV series/film as an investor" in this section below.

Profitability and cost of investment

For the two films which we have participated in the production, one of them (which we acted as non-executive producer) was broadcast and generated revenue of approximately RMB236,000 in 1H2019, whereas the other one (which we acted as executive producer) is expected to be broadcast in January 2020. For the film which we acted as executive producer, we do not expect to make any further investment in the production of the film except that we may incur further promotion fee and other disbursement costs which we estimate will not exceed RMB200,000. Our aggregate total investment in these two films amounted to approximately RMB3.3 million as at the Latest Practicable Date.

For the film in which we made Fixed Return Investment, the investment amount was RMB3.0 million. The film was screened in cinema in May 2019 and we expect that we will receive our investment return by the end of 2019.

Our film business is not the principal business of our Group. The costs of our investment in these films are not material as we were only trying to understand more about the operation of the film industry and explore the feasibility of tapping into it through our engagement in the production of and investment in the films mentioned above. As at the Latest Practicable Date, we do not have any specific plan for producing any films in the future. However, we may produce or invest in films in the future if we consider the relevant films have good prospects and will provide attractive return to our Group.

Our web series business

We reached a co-investment arrangement with the executive producer of a web series in 2017 through which we made investment in the web series as non-executive producer. According to the arrangement, in addition to making investment, we are also responsible for distributing the web series and we have successfully licensed the broadcasting right of the web series to a company operating a major online video platform in the PRC.

OUR TV SERIES

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

Name of the TV series	Date of the License for Distribution of TV Series	Expected life cycle (Note 1) (Note 2)	Date of first-run broadcast on satellite channel	Genre	Number of episodes as stated in the License for Distribution of TV series	Self-produced/ purchased TV series	Total production/ purchase cost (RMB'000)	Percentage of equity interest held by our Group (%)	FY2016			FY2017			FY2018			H12019			Subsequent to the Track Record Period						
									Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin (%)	
1. The Furthest Distance* (遠處卻是最親)	12 September 2016	3 years	30 September 2016	Period romance	48	Self-produced	47,353	100	100,771	58,875	58.4	12,620	7,181	56.9	117	99	84.6	—	—	—	—	—	—	27	27	100	
2. Jade* (玉海棠)	4 November 2016	3 years	3 June 2017	Modern legend	43	Self-produced	59,741	70	—	—	—	60,317	3,081	5.1	131	131	100	93	(2,185)	(2,349.5)	41	41	100	—	—	—	
3. The Golden Years Of The Nursing Mother* (養母如花談年華)	27 June 2017	N/A	(Note 1) 14 March 2018	Family ethics	55	Purchased	20,789	100	—	—	—	—	—	—	58,307	37,728	64.5	—	—	—	—	—	—	—	—	—	—
4. National Spirit* (共和國風箏)	25 July 2018	3 years	12 June 2019	Patriotism	46	Self-produced	58,358	80	—	—	—	—	—	—	—	—	—	56,377	7,393	13.1	13,925	2,076	14.9	—	—	—	
5. Yan Yang Chun* (煙囪春)	13 February 2019	3 years	4 April 2019	Modern legend	48	Self-produced	37,100	100	—	—	—	—	—	—	—	—	—	—	52,228	21,764	41.7	11,205	4,570	40.8	—	—	—
6. Super Father-In-Law & Son-In-Law* (超級翁婿)	3 July 2017	3 years	22 June 2018	Urban romance	40	Purchased	30,247	100	—	—	—	—	—	—	34,449	14,817	43.0	—	—	—	—	—	18,868	8,253	43.7	—	—

Name of the TV series	Date of the Licence for Distribution of TV Series	Expected life cycle (Note 1) (Note 2)	Date of first-run broadcast on satellite channel	Genre	Number of episodes as stated in the Licence for Distribution of TV series	Self-produced/ purchased TV series	Total production/ purchase cost (RMB'000)	Percentage of equity interest held by our Group (%)	FY2016			FY2017			FY2018			H12019			Subsequent to the Track Record Period						
									Revenue (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Revenue (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Revenue (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Revenue (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Revenue (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)				
									(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)				
7. The Way We Were* (過往)*	23 March 2018	N/A (Note 4)	N/A	Urban romance	50	Purchased	19,550	100	—	—	—	29,182	10,551	36.2	1,439	520	36.1	—	—	—	—	—	—	—	—	—	
8. Mother Relative Uncle* (母親舅夫)	29 September 2017	N/A (Note 4)	N/A	Family ethics	57	Purchased	9,142	100	—	—	—	9,568	9,568	100	15,998	6,856	42.9	—	—	—	—	—	—	—	—	—	
9. Happy Home* (幸福滿院)	14 January 2015	N/A (Note 4)	N/A	Family ethics	45	Purchased	6,818	100	—	—	10,659	5,471	51.4	3,396	1,746	51.4	—	—	—	—	—	—	—	—	—	—	—

Notes:

- For our self-produced TV series, the expected life cycle is three years from the date of its Licence for Distribution of TV Series. For Super Father-In-Law & Son-In-Law* (超級翁婿) which we purchased the copyrights, since this TV series had not had its first-run broadcast on satellite channel of TV station prior to our acquisition of its copyrights, the calculation of its expected life cycle is the same as that of our self-produced TV series, i.e. three years from the date of its Licence for Distribution of TV Series. Please refer to the paragraph headed “Financial Information — Critical accounting policies, judgements and estimates- Provision for impairment of inventories and prepayments under co-investment arrangement” in this prospectus for the accounting treatment of TV series upon the expiry of its expected life cycle.
- While the date of first-run broadcast on satellite channel of a TV series depends on the broadcasting schedule of the relevant TV station, our Group targets to arrange the first-run broadcast on satellite channel for our self-produced TV series within one year from the date of their Licence for Distribution of TV Series. The period between the first-run broadcast on satellite channel of the relevant TV series and the date of their Licence for Distribution of TV Series could vary from less than one month to almost one year, which is within the expected life cycle of the TV series as we have taken into account the need of accommodating TV stations’ broadcasting schedule when determining the expected life cycle of our TV series.
- Revenue subsequent to the Track Record Period represents the amount of revenue which has been recognised or estimated to be generated from the TV series subsequent to the Track Record Period.
- We purchased the broadcasting rights of these TV series for specified broadcasting runs and in specified broadcasting areas, and had already licensed the relevant broadcasting rights to our customers. Therefore, there is no expected life cycle for these purchased TV series.
- The amounts represent the commission income generated from distribution of broadcasting rights of such TV series, which were recognised on net basis.

BUSINESS

Our major TV series was broadcast on the following major media platforms during the Track Record Period:

Name of the TV series	Major media platforms on which the TV series was broadcast during the Track Record Period
1. The Furthest Distance* (遙遠的距離)	<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) and 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) and 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)	<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 Group* (浙江廣播電視集團), Chongqing Broadcasting Group* (重慶廣播電視集團(總台)), Shanghai Television Station* (上海廣播電視台) and Jiangsu Broadcasting Corporation* (江蘇省廣播電視總台(集團)) and Heilongjiang Broadcast TV Station* (黑龍江廣播電視台), 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.
3. The Golden Years Of The Nursing Mother* (養母的花樣年華)	<ul style="list-style-type: none"> — 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. National Spirit* (共和國血脈)	<ul style="list-style-type: none"> — First-run broadcast on comprehensive channel of CCTV (CCTV-1) — Online video platforms: iqiyi.com (愛奇藝), sohu.com (搜狐網), le.com (樂視視頻), v.qq.com (騰訊視頻) and fun.tv (風行網), etc.

BUSINESS

Name of the TV series	Major media platforms on which the TV series was broadcast during the Track Record Period
5. Yan Yang Chun* (燕陽春)	<ul style="list-style-type: none"> — 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) — Terrestrial channel of the following TV stations: Nanjing Broadcasting System (南京廣播電視台), Anhui Broadcasting Corporation (安徽廣播電視台), Shanghai Television Station* (上海廣播電視台), Sichuan Radio and Television (四川廣播電視台) and Shenzhen Television* (深圳電視台) — Online video platforms: iqiyi.com (愛奇藝), sohu.com (搜狐網), le.com (樂視視頻), fun.tv (風行網) and mgmtv.com (芒果TV), etc.
6. Super Father-In-Law & Son-In-Law* (超級翁婿)	<ul style="list-style-type: none"> — 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 Group* (海南廣播電視總台) — Terrestrial channel of the following TV station: Shenyang Radio & Television* (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.
7. The Way We Were* (歸去來)	<ul style="list-style-type: none"> — 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)
8. Mother Relative Uncle* (娘親舅大)	<ul style="list-style-type: none"> — Rerun by the satellite channel of the following TV station: Tianjin Radio & Television Station* (天津廣播電視台)
9. Happy Home* (幸福滿院)	<ul style="list-style-type: none"> — Rerun by the satellite channel of the following TV stations: Hebei Television* (河北廣播電視台) and Hainan Broadcasting Group* (海南廣播電視總台)

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

BUSINESS

As executive producer

<u>TV series</u>	<u>Genre</u>	<u>Actual total investment amount</u> <i>(RMB)</i>	<u>Percentage of equity interest held by our Group</u> <i>(%)</i>	<u>Status as at the Latest Practicable Date</u>	<u>Estimated first-run broadcast time</u>
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	First half of 2020

As non-executive producer

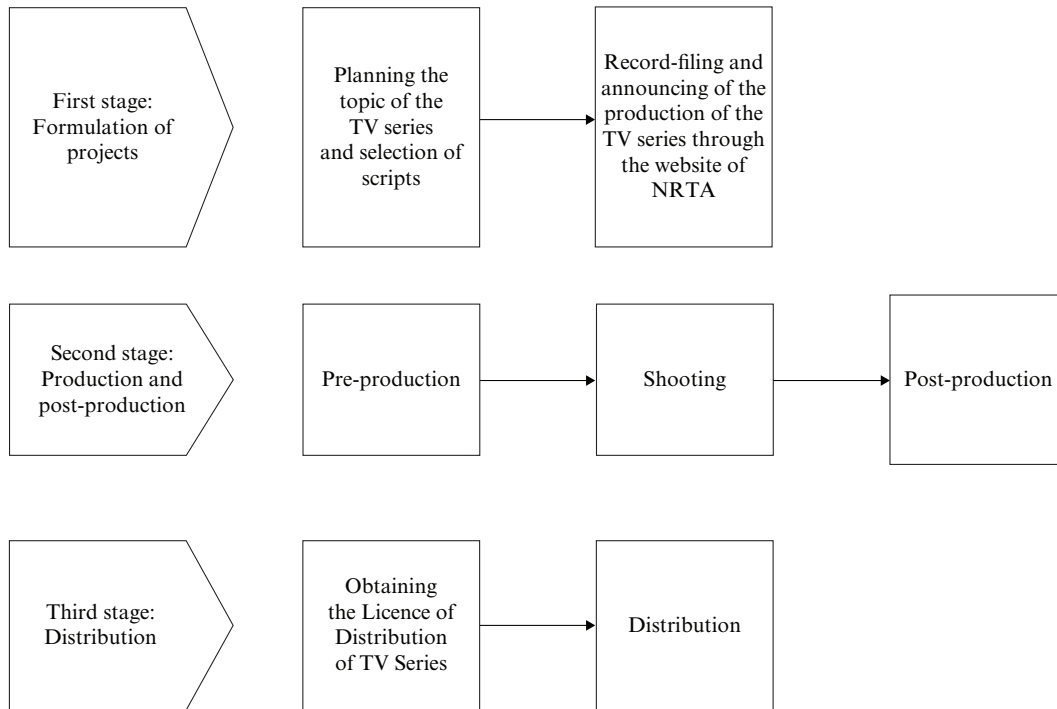
<u>TV series</u>	<u>Genre</u>	<u>Actual or estimated total investment amount by our Group</u> <i>(RMB)</i>	<u>Percentage of equity interest held by our Group</u> <i>(%)</i>	<u>Status as at the Latest Practicable Date</u>	<u>Estimated first-run broadcast time</u>
TV Series A	Medical drama	60 million	21.4	In the course of post-production	Second quarter of 2020
TV Series B	Modern education	22 million	10.0	Pending to apply for record-filing and announcing of production through the website of NRTA	In or after 2020
TV Series C	War	11 million	20.0	Pending to apply for record-filing and announcing of production through the website of NRTA	In or after 2020

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 decide 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.

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. It usually takes two to three months to complete the pre-production process.

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. It usually takes three to four months to complete the shooting.

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. It usually takes three to nine months to complete the post-production process.

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. It usually takes two to three months to obtain the Licence for Distribution of 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 communications 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.

(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 in which 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

BUSINESS

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.

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

For each of FY2016, FY2017, FY2018 and 1H2019, our five largest customers in aggregate accounted for approximately 91.9%, 82.9%, 84.2% and 93.5%, respectively of our total revenue, and our largest customers accounted for approximately 37.8%, 24.5%, 39.5% and 37.4%, 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	Nature of business relationship	Name of the TV series	Typical credit terms and payment method	Transaction amount (RMB'000)	Percentage of our total revenue	Amount of outstanding trade receivables for the respective transactions in FY2016 as at the Latest Practicable Date (RMB'000)
1	Customer A	A major TV station in Anhui province operating 10 TV channels; it is owned by the People's Government of Anhui Province* (安徽省人民政府)	Since 2015	Licensing of broadcasting rights of TV series	The Furthest Distance* (最遠的距離)	Within 1 month of the relevant milestone dates (i.e. the date of entry into contract, the date of confirmation of broadcasting time, and the date of broadcasting); by bank transfer	38,522	37.8%	11,674
2	Customer B	A major TV station in Shandong province operating 10 TV channels; it is owned by Radio and Television Administration of Shandong Province (山東省廣播電視局)	Since 2015	Licensing of broadcasting rights of TV series	The Furthest Distance* (最遠的距離)	Within 30 working days after receipt of invoice; by bank transfer	36,249	35.5%	—
3	Customer C	An indirect wholly-owned subsidiary of a major TV station in Guizhou province operating 10 TV channels; this TV station is owned by the People's Government of Guizhou Province* (貴州省人民政府)	Since 2015	Licensing of broadcasting rights of TV series	The Furthest Distance* (最遠的距離)	Within 1 year after broadcasting; by bank transfer	11,321	11.1%	5,996

BUSINESS

Rank	Customer	Background	Year of commencement of business relationship	Nature of business relationship	Name of the TV series	Typical credit terms and payment method	Transaction amount (RMB'000)	Percentage of our total revenue	Amount of outstanding trade receivables for the respective transactions in FY2016 as at the Latest Practicable Date (RMB'000)
									—
4	Xi'an Jiayunshu Digital Entertainment Distribution Company Limited* (西安佳韻社數字娛樂發行股份有限公司)	A subsidiary of Zhejiang Huace Film & TV Co., Ltd. (浙江華策影視股份有限公司) which is listed in the PRC, whose scope of business includes, among others, production and distribution of TV series and films According to the 2019 half-yearly report of Zhejiang Huace Film & TV Co., Ltd. (浙江華策影視股份有限公司), the total assets and operating revenue of Xi'an Jiayunshu Digital Entertainment Distribution Company Limited* (西安佳韻社數字娛樂發行股份有限公司) in the first half-year of 2019 were approximately RMB238.1 million and RMB45.9 million, respectively According to its 2019 half-yearly report, Zhejiang Huace Film & TV Co., Ltd. (浙江華策影視股份有限公司) is controlled by two individuals	Since 2015	Licensing of broadcasting rights of TV series	The Furthest Distance* (遙遠的距離)	Within 5 to 7 working days of the relevant milestone dates (i.e. the date of entry into contract and the date of public announcement of first-run broadcast of the TV series on satellite channel); by bank transfer	5,887	5.8%	—
5	Customer D	A major TV station in Hubei province operating 10 TV channels; it is owned by the People's Government of Hubei Province* (湖北省人民政府)	Since 2015	Licensing of broadcasting rights of TV series	The Furthest Distance* (遙遠的距離)	Within 30 to 60 working days after signing of contract or broadcasting; by bank transfer	1,732	1.7%	—

BUSINESS

For the year ended 31 December 2017

Rank	Customer	Background	Year of commencement of business relationship	Nature of business relationship	Name of the TV series	Typical credit terms and payment method	Transaction amount (RMB'000)	Percentage of our total revenue	Amount of outstanding trade receivables for the respective transactions in FY2017 as at the Latest Practicable Date
									(RMB'000)
1	Customer B	A major TV station in Shandong province operating 10 TV channels; it is owned by Radio and Television Administration of Shandong Province (山東省廣播電視局)	Since 2015	Licensing of broadcasting rights of TV series	Jade* (女管家)	Within 30 working days after receipt of invoice; by bank transfer	24,344	24.5%	—
2	Customer D	A major TV station in Hubei province operating 10 TV channels; it is owned by the People's Government of Hubei Province* (湖北省人民政府)	Since 2015	Licensing of broadcasting rights of TV series	The Furthest Distance* (遙遠的距離), Jade* (女管家)	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 major TV station in Hebei province operating 8 TV channels; this TV station is owned by Publicity Department of Hebei Provincial Committee of the Communist Party of China* (中共河北省委宣傳部)	Since 2017	Licensing of broadcasting rights of TV series	The Furthest Distance* (遙遠的距離), Happy Home* (幸福滿院)	Within 180 working days to 1 year after broadcasting; by bank transfer	19,270	19.4%	9,213
4	Customer F	A major TV station in Heilongjiang province operating 8 TV channels; it is owned by the People's Government of Heilongjiang Province* (黑龍江省人民政府)	Since 2017	Licensing of broadcasting rights of TV series	The Eagle Corps* (野山鷹)	Within 30 to 60 days of the relevant milestone dates (i.e. the date of signing of contract, the date of receipt of Licence for Distribution of TV series and master tapes by the customer, and the date of broadcasting); by bank transfer	8,186	8.2%	—
5	Customer G	A wholly-owned subsidiary of a company listed in the PRC, whose scope of business includes, among others, production and distribution of TV series According to the 2019 half-yearly report of its parent company, the total assets of Customer G in the first half-year of 2019 were approximately RMB953.1 million and such parent company is controlled by an individual	Since 2015	Investment in TV series as non-executive producer	Magnificent Sword With Beauty* (美人如玉劍如虹)	Within 5 working days after confirmation of the investment return amount by our Group; by bank transfer	6,916	7.0%	—

BUSINESS

For the year ended 31 December 2018

Rank	Customer	Background	Year of commencement of business relationship	Nature of business relationship	Name of the TV series	Typical credit terms and payment method	Transaction amount (RMB'000)	Percentage of our total revenue	Amount of outstanding trade receivables for the respective transactions in FY2018 as at the Latest Practicable Date (RMB'000)
1	Customer B	A major TV station in Shandong province operating 10 TV channels; it is owned by Radio and Television Administration of Shandong Province (山東省廣播電視局)	Since 2015	Licensing of broadcasting rights of TV series	The Golden Years Of The Nursing Mother* (養母的花樣年華), Super Father-In-Law & Son-In-Law* (超級翁婿)	Within 30 working days after receipt of invoice; by bank transfer	60,858	39.5%	—
2	Customer H	A public institution operating a major TV station in Shenzhen and 10 TV channels; it is owned by Publicity Department of Shenzhen Municipal Committee of the Communist Party of China* (中共深圳市委宣傳部)	Since 2016	Licensing of broadcasting rights of TV series	The Way We Were* (歸去來)	Within 40 working days to 15 months after the date of contract; by bank transfer	27,295	17.7%	20,253
3	Customer I	An indirect subsidiary of a major TV station in Tianjin operating 11 TV channels; this TV station is owned by Publicity Department of Tianjin Municipal Committee of the Communist Party of China* (中共天津市委宣傳部)	Since 2017	Licensing of broadcasting rights of TV series	The Golden Years Of The Nursing Mother* (養母的花樣年華)	Within 60 days upon receipt of invoice or immediately after broadcasting; by bank transfer	22,182	14.4%	—
4	Customer J	A limited company indirectly owned by a state-owned corporation and a major TV station in Hainan province operating 7 TV channels; this TV station is owned by the People's Government of Hainan Province* (海南省人民政府) According to the Enterprise Credit Information Publicity Report (企業信用信息公示報告) of Customer J filed with the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), its total assets and operating revenue in 2018 were approximately RMB9.4 million and RMB189.3 million, respectively	Since 2018	Licensing of broadcasting rights of TV series	Super Father-In-Law & Son-In-Law* (超級翁婿), Happy Home* (幸福滿院), Wild Roses* (紅薔薇)	Within 1 year after broadcasting by instalments; by bank transfer	10,038	6.5%	—
5	Customer K	A private company owned by an individual, whose scope of business includes, among others, production of TV programmes	Since 2018	Provision of distribution services of TV series	Mother Relative Uncle* (娘親舅大)	After the customer receiving the relevant licence fee and within 5 working days after receipt of invoice; by bank transfer	9,368	6.1%	2,931

BUSINESS

For the six months ended 30 June 2019

Rank	Customer	Background	Year of commencement of business relationship	Nature of business relationship	Name of the TV series/web series	Typical credit terms and payment method	Transaction amount (RMB'000)	Percentage of our total revenue	Amount of outstanding trade receivables for the respective transactions in 1H2019 as at the Latest Practicable Date (RMB'000)
1	Customer L	The national TV station of PRC; it is owned by State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣播電影電視總局)	Since 2017	Licensing of broadcasting rights of TV series	National Spirit* (共和國血脈)	Immediately after broadcasting; by bank transfer	54,340	37.4%	57,600
2	Customer I	An indirect subsidiary of a major TV station in Tianjin operating 11 TV channels; this TV station is owned by Publicity Department of Tianjin Municipal Committee of the Communist Party of China* (中共天津市委宣傳部)	Since 2017	Licensing of broadcasting rights of TV series	Yan Yang Chun* (燕陽春), Mother Relative Uncle* (娘親舅大), Behind enemy lines* (武工隊傳奇), The VI Group of Fatal Case III* (重案六組第三部), The VI Group of Fatal Case IV* (重案六組第四部), Drawing sword* (亮劍), The Sharp knife* (鐵血尖刀), The Predator Soldiers* (鐵血武工隊傳奇)	Within 60 days upon receipt of invoice or immediately after broadcasting; by bank transfer	42,630	29.3%	22,228
3	Customer B	A major TV station in Shandong province operating 10 TV channels; it is owned by Radio and Television Administration of Shandong Province (山東省廣播電視局)	Since 2015	Licensing of broadcasting rights of TV series	Yan Yang Chun* (燕陽春)	By instalments after broadcasting and agreement between the parties; by bank transfer	23,868	16.4%	19,800
4	Customer M	A limited company jointly owned by two limited partnerships, operating one of the major online video platforms in the PRC	Since 2019	Licensing of broadcasting rights of web series	Evil Nights* (罪夜無間)	Within 20 working days after receipt of invoice; by bank transfer	7,656	5.3%	—
5	Customer N	An indirect wholly-owned subsidiary of a company listed in the PRC, whose scope of business includes, among others, copyright distribution According to the 2019 half-yearly report of its parent company, such parent company is controlled by an individual	Since 2019	Licensing of broadcasting rights of TV series	Yan Yang Chun* (燕陽春), National Spirit* (共和國血脈)	Within 5 to 15 working days after receipt of invoice; by bank transfer	7,332	5.0%	1,080

None of our Directors or any of their respective associates or, to the knowledge of our Directors, 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 TV station in Tianjin province. We licensed the broadcasting right of a TV series to Customer I and the revenue recognised from the transaction in FY2018 was RMB22.2 million, representing approximately 14.4% of our total revenue 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 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.
- *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 within the period of broadcasting right granted. Some of the agreements also include clauses designating the number of times the relevant TV series can be broadcast, which varies on a case-by-case basis depending on the distribution strategies of our Group, the negotiation with our customers and/or the agreements with our suppliers in relation to our purchased TV series.
- *Period of broadcasting right granted:* The period of broadcasting right granted to our customers for broadcasting on TV stations usually ranges from one to five years, except that we granted non-exclusive permanent broadcasting rights of TV series to Customer L during the Track Record Period. For some of our customers to whom we licensed the broadcasting rights of TV series on online video platforms, the period of broadcasting right granted is longer, which usually ranges from seven to fifteen years.
- *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 the executive producers of the relevant TV series 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 the executive producers after they have received the relevant licence fee and is usually paid by bank transfer.
- *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.

The agreements we entered into with the non-executive producer of our self-produced TV series also contain terms which are similar to the above salient terms.

(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, which ranges from two to five years.
- *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 after they have received the relevant licence fee and is usually paid by bank transfer.
- *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 if the terms and conditions offered by Customer I are the same as those offered by other potential purchasers; and (ii) Customer I agrees to give priority to us for

BUSINESS

purchasing TV series produced or distributed by us (including two TV series for first-run broadcast during prime hours and several TV series for rerun during prime or non-prime hours) if our terms and conditions are the same as those of our competitors, 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.

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 costs, the cost of purchasing the relevant copyrights or broadcasting rights and our target profit margin. For our self-produced TV series, we normally target to cover our production costs by the licence fee received from first-run broadcast on satellite channel. During the Track Record Period, for our business of licensing of broadcasting rights of TV series, the price per episode of each TV series (VAT included) for first-run broadcast on satellite channel ranged from RMB380,000 to RMB1,600,000, and our price per episode for rerun of each TV series (VAT included) ranged from RMB28,000 to RMB590,000.

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 and 30 June 2019, our inventories amounted to approximately RMB74.2 million, RMB130.4 million, RMB203.9 million and RMB121.2 million, respectively, representing approximately 24.6%, 44.8%, 50.5% and 27.4% of our total current assets, respectively.

BUSINESS

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 entered into contracts with our suppliers for the production of two, two, five and two 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.

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.

Inventory provision policy

Inventories are stated at lower of cost and net realisable value. Our Group carries out an inventory review on a project-by-project basis at the end of each reporting period and makes provision for obsolete projects accordingly. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and our historical experience in producing and distributing TV series of a similar nature.

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.

BUSINESS

Major suppliers

For each of FY2016, FY2017, FY2018 and 1H2019, our five largest suppliers in aggregate accounted for approximately 46.3%, 60.6%, 56.8% and 84.6%, respectively of our total purchases, and our largest suppliers accounted for approximately 14.5%, 17.7%, 19.5% and 39.5%, 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 (RMB'000)	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 or within 7 days of the relevant milestone dates; by bank transfer	13,689	12.2%
3	Dongyang City Jiunian Film Studio* (東陽市玖年影視工作室)	Sole proprietorship enterprise providing television and film related services	Since 2014	Scripts	Within 7 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 2 to 3 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 3 days of the relevant milestone dates; by bank transfer	5,139	4.6%

BUSINESS

For the year ended 31 December 2017

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 E	Private company providing television and film related services	Since 2017	Broadcasting rights of TV series	Within 15 working days or 6 months of the relevant milestone dates; by bank transfer	20,769	17.7%
2	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 3 working days of the relevant milestone dates; by bank transfer	17,549	14.9%
3	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	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 7 days of the relevant milestone dates; 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%

BUSINESS

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 <i>(RMB'000)</i>	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 dates or within 5 working days to 6 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 and scripts	Upon or within 40 working days of 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 7 days of the relevant milestone dates; 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 7 days of the relevant milestone dates; by bank transfer	11,321	7.3%

BUSINESS

For the six months ended 30 June 2019

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 K	Private company providing television and film related services	Since 2019	Planning and consulting services	Upon fulfilment of contractual obligations by the supplier; by bank transfer	7,217	39.5%
2	Supplier L	Private company providing television and film related services	Since 2019	Broadcasting rights of TV series	Within 6 months after broadcasting; by bank transfer	3,472	19.0%
3	Supplier M	Private company providing television and film related services	Since 2019	Broadcasting rights of TV series	Within the month of receipt of invoice; by bank transfer	1,925	10.5%
4	Supplier N	Private company providing advertising, planning and designing services	Since 2019	Promotional services for web series	Upon or within 5 to 15 days of the relevant milestone dates; by bank transfer	1,415	7.8%
5	Supplier O	Private company providing television and film related services	Since 2019	Broadcasting rights of TV series	Within 10 or 60 days after receipt of invoice; by bank transfer	1,415	7.8%

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 Directors, 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 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 contracts set out the scope and delivery or completion time of work.
- *Compliance:* The contracts 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.

For our suppliers from which we purchased the broadcasting rights associated with TV series, our contracts with these suppliers usually set out the additional terms below:

- *Intellectual property rights ownership:* We purchase the broadcasting rights of the TV series in the designated areas for a period of time generally ranging from three to five years. Some of the contracts also include clauses designating the number of times the relevant TV series can be broadcast, which varies on a case-by-case basis depending on the negotiation with our suppliers.

Basis for the selection of suppliers

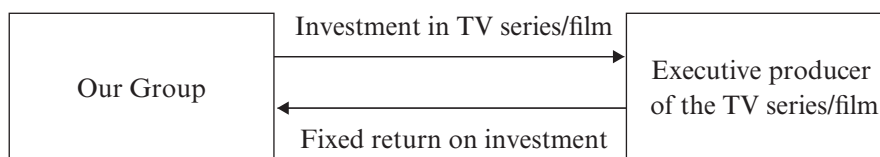
We select the suppliers based on a number of factors such as prior experience, expertise, complexity and specific requirements of the task. We will also consider the quality of their service in our past engagement with them. We inspect their work according to our requirements and we closely monitor their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

FIXED RETURN INVESTMENT IN TV SERIES/FILM

(i) Fixed Return Investment in TV series/film as an investor

In addition to our principal 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 Group also make Fixed Return Investment in TV series/film by entering into investment agreement with the executive producer of the relevant TV series/film through which we receive fixed return on our investment.

Our business of Fixed Return Investment in TV series/film and its business model are summarised in the chart below:



BUSINESS

Our Group receives fixed return on our investment, typically ranging from 10% to 15% per annum of our investment amount, regardless of the sales performance of such TV series/film. The fixed return rate was determined after arm's length negotiations between our Group and the executive producers of the relevant TV series/film and taking into account of the market rate of return. During the Track Record Period, our investment period usually ranges from 12 to 18 months.

(ii) Fixed Return Investment in TV series as an investee

We also enter into investment agreement with third party investors who make Fixed Return Investment in our self-produced TV series. During the Track Record Period, we paid fixed return on investment to the third party investors, which ranged from 15% to 40% per annum of their investment amount, regardless of the sales performance of the relevant TV series. The fixed return rate was determined after arm's length negotiations between our Group and the third party investors and taking into account of the market rate of return. During the Track Record Period, the investment period of our investors usually ranges from six to eighteen months.

The agreements of the Fixed Return Investment (whether our Group acts as an investor or an investee) usually also set out the following salient terms:

- *Timing of making investment:* The agreements in general set out a specific time for making investments.
- *Rights and obligations in production and/or distribution:* The agreements in general set out the rights and obligations of the parties in relation to production and/or distribution of the relevant TV series/film.
- *Default:*
 1. If the investor fails to make investment according to the time as stipulated in the agreement, the investor shall pay the investee penalties at a rate as stipulated in the agreement.
 2. If there is an overdue payment of the principal and return on investment to the investor by the investee, the investee shall pay the investor penalties at a rate as stipulated in the agreement.
- *Termination of agreement:* In general and depending on the terms and conditions of the agreement, the agreement may be terminated if the following happens:
 1. If there is a material breach of the agreement by a party, the other party may terminate the agreement.
 2. The agreement may be terminated if any party fails to make investment according to the time as stipulated in the agreement.

For further details of our Group's Fixed Return Investment, please refer to the paragraph headed "Financial Information — Discussion on certain financial position items — Prepayments, other receivables and other assets — Loans receivables" in this prospectus.

Differences between Fixed Return Investment and co-investment in TV series as non-executive producer

We invest in TV series by (i) making Fixed Return Investment; or (ii) reaching co-investment arrangement with executive producer of the TV series as non-executive producer. The following summarises the key features and differences between Fixed Return Investment and co-investment as non-executive producer:

- *Roles of parties:* Under Fixed Return Investment, the investor takes no equity interest in the TV series and receives fixed investment return from the investee; whereas the non-executive producer under co-investment arrangement shares the revenue and investment risk with the executive producer according to the proportion of investment.
- *Rights and responsibilities of parties:* Under Fixed Return Investment, the investee is responsible for the production and distribution of the TV series, and the investor does not participate in or only has limited involvement in the production and/or distribution process. Under co-investment arrangement, the executive producer takes a leading role in the production and distribution of the TV series, and the non-executive producer also has involvement in the production and/or distribution process, the extent of such involvement is generally larger than that of the investor under Fixed Return Investment.
- *Returns on investment:* Under Fixed Return Investment, the investor is entitled to fixed investment return based on principal investment amount, agreed rate of return and investment period, whereas the return of non-executive producer under co-investment arrangement is based on the sales performance of the TV series and proportional to its investment amount.
- *Risk exposures:* Fixed Return Investment provides a fixed return on investment to the investor according to the agreed rate of return; whereas investment as non-executive producer under the co-investment arrangement exposes the non-executive producer to the risk of variable returns.

According to the F&S Report, both Fixed Return Investment and co-investment in TV series as non-executive producer are common in our industry. Although Fixed Return Investment provides a fixed return whereas there is a risk of variable returns under the co-investment as non-executive producer, our Directors believe that the potential return from co-investment as non-executive producer could be higher than that of Fixed Return Investment as the return of Fixed Return Investment is fixed based on the relevant agreement whereas the return under the co-investment arrangement depends on the sales performance of the relevant TV series. Based on the latest estimated revenue of the three TV series in which we entered into co-investment arrangement as non-executive producer and had not generated any revenue as at the Latest Practicable Date, our Directors estimated

that the rate of return from such investments ranged from approximately 16% to 34%. For details, please refer to the paragraph headed “Financial Information — Discussion on certain financial position items — Prepayments, other receivables and other assets — Prepayments under the co-investment arrangement” in this prospectus.

In addition, when we invest in TV series by co-investment as non-executive producer, we generally have more control and involvement in the production process of the TV series than acting as an investor under Fixed Return Investment. We may provide advice in relation to the production process to the executive producer and determine certain matters jointly with the executive producer. Further, by reaching co-investment arrangement with executive producer of the TV series as non-executive producer, our Directors believe that we can build up a stronger network with different market players in the industry and benefit from working with them through the production of TV series.

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.

BUSINESS

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 30 June 2019 and the Latest Practicable Date, we had 14, 17, 25, 21 and 22 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	3
Total	<u>22</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 for the production of the TV series or film.

BUSINESS

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 may be subject to compensation claims if there are injuries sustained by the production crew (including artists) engaged in our TV series or film in which we act as executive producer. Accordingly, we have taken out personal injury and medical insurance for the production crew (including artists) for the TV series or film in which we act as executive producer. For certain famous artists engaged in our TV series, we have also taken out separate personal injury and medical insurance for them upon their requests. The amount of the insurance coverage of such separate insurance varies subject to our negotiation with the relevant artists. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, there had not been any material claims against our Group for any serious accident which caused severe injuries to the production crew (including artists) engaged in our TV series or film. 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 — Risks relating to our business — We maintain limited insurance coverage which do not cover all business risks” for the relevant details.

BUSINESS

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 prospectus. 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 relating to intellectual property rights” in this prospectus.

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 Khorgas 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 the Latest Practicable Date, we also rented one property in Beijing from an Independent Third Party with gross floor area of approximately 162.9 sq.m., which is used as staff quarter.

As at the Latest Practicable Date, we have not filed the lease agreements of all the seven 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 staff quarter 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)

BUSINESS

<u>Year</u>	<u>Award/Accreditation</u>	<u>Awarding Organisation</u>	<u>Awarded TV series/Party</u>
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 Furthest Distance* (遙遠的距離)
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)影視產業國際合作實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

BUSINESS

<u>Year</u>	<u>Award/Accreditation</u>	<u>Awarding Organisation</u>	<u>Awarded TV series/Party</u>
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)
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獎」)	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)影視產業國際合作實驗區海寧基地服務中心)	Values Culture
2019	National Drama Ceremony 2018 Viewership Ratings Contribution* (2018年度國劇頒獎禮收視貢獻)	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.

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 TV series market increased largely from RMB15.6 billion in 2014 to RMB26.1 billion in 2018, representing a CAGR of 13.8% during the period which is mainly due to rising average selling price per episode. Going forward, the total revenue of TV series market is forecasted to remain steady due to a stable average selling price per episode in the future. From 2018 to 2023, the total revenue of TV series market is expected to increase to RMB27.8 billion in 2023, representing a CAGR of 1.2%.

The TV series market is highly fragmented in China. In 2018, the top five TV series groups accounted for a total market share of 30.6% in terms of revenue generated from investment, production, and distribution of TV series and we accounted for approximately 0.6% of the market share. According to the F&S Report, the entry barriers of the TV series market in China are relatively high in view of strict supervision by relevant administrations, large capital requirements, demand for experienced professionals and reputable brand name. For further details, please refer to the section headed "Industry Overview" in this prospectus.

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.

BUSINESS

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 programme 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 prospectus.

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	28 August 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	1 April 2019	31 March 2021	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 22 June 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 and 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 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 has 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 has 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 has 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 has 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.

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.

BUSINESS

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.

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 Listing 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 Listing.

In preparation of the Listing, 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

BUSINESS

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.

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 CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Following the completion of the Reorganisation but prior to the completion of the Global Offering, our Company will be owned as to approximately 31.87% 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 (i.e. the Core Shareholders), respectively. 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. The Core Shareholders have also decided to restrict their ability to exercise direct control over our Company by holding their interest through BLW Investment. As such, the Core Shareholders together with BLW Investment are regarded as a group of Controlling Shareholders of our Company under the Listing Rules. For details of the background of the Controlling Shareholders, please refer to the sections headed “History, Reorganisation and Group Structure” and “Directors and Senior Management” in this prospectus.

INDEPENDENCE FROM OUR CONTROLLING 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 Controlling Shareholders and their close associates after Listing 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 business and operations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Although three of our executive Directors, Mr. Liu, Ms. Liu and Ms. Wei are our Controlling 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 Controlling 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 our 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 Controlling Shareholders following the completion of the Global Offering.

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 Controlling 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 Controlling Shareholders. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and their close associates upon the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial independence

Our Directors consider that our Group will be financially independent from our Controlling Shareholders and any of their respective close associates upon Listing. As at the Latest Practicable Date, all loans due to our Shareholders had been fully settled 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 Listing. 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 net proceeds from the Global Offering, our Directors consider that our Group will have sufficient capital for its financial needs. Our Directors further consider that, upon the Listing, our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders or their respective associates.

COMPETING BUSINESS

None of our Controlling 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 Controlling Shareholders, we have adopted the following corporate governance measures:

- (a) we have established internal control mechanisms to identify connected transactions. Upon the Listing, if we enter into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (b) our Company has appointed the 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 Controlling 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 CONTROLLING SHAREHOLDERS

- (e) our Controlling Shareholders will undertake 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 Controlling 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 Listing.

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 prospectus.

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 one of our Controlling Shareholders
Ms. Liu	an executive Director and one of our Controlling Shareholders
Ms. Wei	an executive Director and one of our Controlling Shareholders
Mr. Wu	a director of Values Culture in the last 12 months and one of our Controlling Shareholders
Mr. Bai	one of our Controlling Shareholders
Mr. Xu Jun	a substantial shareholder of Values Culture
Ms. Zhang Hui	an associate of Mr. Xu Jun
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	an associate of our Controlling Shareholders

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.

CONTINUING CONNECTED TRANSACTIONS

The Sole Sponsor is of the view that the Contractual Arrangements 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 business. 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)	55	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)	27	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)	54	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)	41	Non-executive Director	25 October 2017	19 June 2019	Supervising the overall management and strategic planning of our Group	N/A
Xian Guoming (洗國明)	65	Independent Non-executive Director	12 December 2019	12 December 2019	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	12 December 2019	12 December 2019	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)	45	Independent Non-executive Director	12 December 2019	12 December 2019	The chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee (Note 2)	N/A

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)	48	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)	31	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 (閔蓓)	35	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 55, 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 27, 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 54, 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 colour 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 his 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 him as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

Mr. Shao graduated from Changshan Vocational Senior High School* (長山職業高級中學).

DIRECTORS AND SENIOR MANAGEMENT

Ms. Shen Yi (沈毅), aged 41, 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, 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 (冼國明), aged 65, was appointed as an independent non-executive Director in December 2019. 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 has served as an independent non-executive director of Jizhong Energy Resources Co., Ltd* (冀中能源股份有限公司) (000937.SZ), the shares of which are listed on the Shenzhen Stock Exchange. From October 2015 to January 2017 and from June 2017 to present, he has 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.SZ), the shares of which are listed on the Shenzhen Stock Exchange.

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 his 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 him 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 (鐘明山), aged 67, was appointed as an independent non-executive Director in December 2019. 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(特殊普通合伙)). 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 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 45, was appointed as an independent non-executive Director in December 2019. 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 his 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 him 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 section 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 prospectus, 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 Controlling Shareholders” in this prospectus, 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 48, is the chief executive officer of our Group. He joined our Group in November 2013 and 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 his 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 him as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above companies.

Mr. Wu obtained a bachelor's degree in law from the University of International Business and Economics* (對外經濟貿易大學) through distance learning in January 2008.

Ms. Wang Haiting (王海婷), aged 31, 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 in 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 35, is the chief publicity and marketing officer of Values Culture. She joined our Group in 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 44, was appointed as our company secretary.

Mr. Au Yeung has been the company secretary of Cocoon Holdings Limited (stock code: 428) since February 2019 and L&A International Holdings Limited (stock code: 8195) since November 2019. He has been the financial controller and company secretary of China Finance Investment Holdings Limited (stock code: 875) since May 2019. He was the company secretary of Success Dragon International Holdings Limited (stock code: 1182) from October 2017 to September 2019. He was the chief financial controller and company secretary of On Real International Holdings Limited (stock code: 8245) from August 2017 to February 2019. He was the chief financial officer and company secretary of Huge China Holdings Limited (stock code: 428) from May 2015 to 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 Beijing Sports and Entertainment Industry Group Limited (formerly known as 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.

DIRECTORS AND SENIOR MANAGEMENT

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.

Following the Listing, 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, FY2018 and 1H2019, 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, RMB683,000 and RMB405,000, respectively.

For each of FY2016, FY2017, FY2018 and 1H2019, 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, RMB1,597,000 and RMB994,000, 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, FY2018 and 1H2019. 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, FY2018 and 1H2019, 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 ended 31 December 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 prospectus.

DIRECTORS AND SENIOR MANAGEMENT

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.

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 Listing, our

DIRECTORS AND SENIOR MANAGEMENT

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;
- (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 net proceeds of the Global Offering in a manner different from that set out in this prospectus or where our business activities, development or results deviate from any forecast, estimate, or other information in this prospectus; 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 Listing Date 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 Listing Date. Such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option 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:

LONG POSITION IN THE SHARES IN OUR COMPANY

Name	Capacity/Nature of interest	As at the Latest Practicable Date		Immediately following the completion of the Global Offering	
		Number of Shares	Approximate percentage of shareholding	Number of Shares	Approximate percentage of shareholding
BLW Investment (Note 1)	Beneficial owner	637,340	31.87%	239,002,500	23.90%
Mr. Bai (Note 1)	Interest of a controlled corporation	637,340	31.87%	239,002,500	23.90%
Ms. Xie Jinhong (Note 2)	Interest of spouse	637,340	31.87%	239,002,500	23.90%
Ms. Liu (Note 1)	Interest of a controlled corporation	637,340	31.87%	239,002,500	23.90%
Mr. Wu (Note 1)	Interest of a controlled corporation	637,340	31.87%	239,002,500	23.90%
Ms. Chen Ying (Note 3)	Interest of spouse	637,340	31.87%	239,002,500	23.90%
Mr. Liu (Note 1) (Note 4)	Interest of a controlled corporation, interest of spouse	637,340	31.87%	239,002,500	23.90%
Ms. Wei (Note 1) (Note 5)	Interest of a controlled corporation, interest of spouse	637,340	31.87%	239,002,500	23.90%
Suiyong Int'l (Note 6)	Beneficial owner	293,360	14.67%	110,010,000	11.00%
Suiyong Holdings (Note 6)	Interest of a controlled corporation	293,360	14.67%	110,010,000	11.00%
SDJZ Investment (Note 7)	Beneficial owner	241,660	12.08%	90,622,500	9.06%
Hangzhou Baihuiquan (Note 7)	Interest of a party to an agreement regarding interest in the Company	241,660	12.08%	90,622,500	9.06%
Tibet Langrun Investment Management Co., Ltd. (西藏朗潤投資管理有限公司) (Note 7)	Interest of a party to an agreement regarding interest in the Company	241,660	12.08%	90,622,500	9.06%
Mr. Shao Hui (Note 7)	Interest of a controlled corporation	241,660	12.08%	90,622,500	9.06%
Ms. Lu Min (Note 8)	Interest of spouse	241,660	12.08%	90,622,500	9.06%
JMJ Group (Note 9)	Beneficial owner	231,660	11.58%	86,872,500	8.69%
Mr. Xu Jun (Note 9) (Note 10)	Interest of a controlled corporation, interest of spouse	231,660	11.58%	86,872,500	8.69%
Ms. Zhang Hui (Note 9) (Note 11)	Interest of a controlled corporation, interest of spouse	231,660	11.58%	86,872,500	8.69%
SYTY Investment (Note 12)	Beneficial owner	213,340	10.67%	80,002,500	8.00%

SUBSTANTIAL SHAREHOLDERS

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>As at the Latest Practicable Date</u>		<u>Immediately following the completion of the Global Offering</u>	
		<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>
Mr. Sun Xianliang <i>(Note 12)</i>	Interest of a controlled corporation	213,340	10.67%	80,002,500	8.00%
Ms. Yu Jinmei <i>(Note 13)</i>	Interest of spouse	213,340	10.67%	80,002,500	8.00%
Jinping Holding <i>(Note 14)</i>	Beneficial owner	146,660	7.33%	54,997,500	5.50%
Ms. Jin Ping <i>(Note 14)</i>	Interest of a controlled corporation	146,660	7.33%	54,997,500	5.50%
Mr. Yao Changhui <i>(Note 15)</i>	Interest of spouse	146,660	7.33%	54,997,500	5.50%

Notes:

- (1) The issued shares of BLW Investment are owned as to approximately 43.44%, 23.17%, 15.44%, 9.65% and 8.30% by Mr. Bai, Ms. Liu, Mr. Wu, Mr. Liu and Ms. Wei (i.e. the Core Shareholders) respectively. 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. The Core Shareholders have also decided to restrict their ability to exercise direct control over our Company by holding their interest through BLW Investment. Accordingly, 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 91.00%, 2.02%, 3.88% and 3.10% by Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan respectively. 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 Global Offering (which will be diluted to 9.06% of the issued share capital in our Company immediately after the completion of the Global Offering). Furthermore, Hangzhou Baihuiquan is a limited equity investment fund partnership

SUBSTANTIAL SHAREHOLDERS

established in the PRC, the general partner of which is Tibet Langrun Investment Management Co., Ltd. (西藏朗潤投資管理有限公司). Accordingly, each of Mr. Shao Hui, Hangzhou Baihuiquan and Tibet Langrun Investment Management Co., Ltd. is deemed to be interested in such number of Shares held 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) The issued shares of JMJ Group are owned as to approximately 97.84% and 2.16% by Mr. Xu Jun and Ms. Zhang Hui respectively. Under the SFO, each of Mr. Xu Jun and Ms. Zhang Hui is deemed, or taken to be interested in the Shares beneficially owned by JMJ Group.
- (10) Mr. Xu Jun 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.
- (11) Ms. Zhang Hui is the spouse of Mr. Xu Jun. Under the SFO, she is taken to be interested in the Shares in which Mr. Xu Jun is interested.
- (12) 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, Ms. Yu Fenghui and Mr. Tan Xu respectively. Under the SFO, Mr. Sun Xianliang is deemed, or taken to be interested in the Shares beneficially owned by SYYT Investment.
- (13) 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.
- (14) 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.
- (15) 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 prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering, 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.

SHARE CAPITAL

SHARE CAPITAL

Assuming the Over-allotment Option 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 prospectus and immediately after completion of the Capitalisation Issue and the Global Offering will be as follows:

		Nominal Value
		<u>(US\$)</u>
<i>Authorised 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 prospectus	10
748,000,000	Shares to be issued under Capitalisation Issue .	3,740
250,000,000	Shares to be issued pursuant to the Global Offering	1,250
<u>1,000,000,000</u>	Total	<u>5,000</u>

Assuming the Over-allotment Option 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 prospectus and immediately after completion of the Capitalisation Issue and the Global Offering will be as follows:

		Nominal Value
		<u>(US\$)</u>
<i>Authorised 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 prospectus	10
748,000,000	Shares to be issued under Capitalisation Issue .	3,740
250,000,000	Shares to be issued pursuant to the Global Offering	1,250
37,500,000	Shares to be issued if the Over-allotment Option is exercised in full	187.5
<u>1,037,500,000</u>	Total	<u>5,187.5</u>

SHARE CAPITAL

Assumptions

The above table assumes that the Global Offering becomes unconditional, and the issue of Shares pursuant to the Global Offering and the Capitalisation Issue 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 Offer Shares and Shares which may be issued under the Over-allotment Option 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 prospectus, except for entitlement under the Capitalisation Issue.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering 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 Global Offering and the Capitalisation Issue, but excluding any Shares which may be issued upon the exercise of the Over-allotment Option 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 Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, 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,

SHARE CAPITAL

issue and deal in 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 12 December 2019” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering 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 Global Offering and the Capitalisation Issue, but excluding any Shares that may be issued upon the exercise of the Over-allotment Option 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 recognised 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 prospectus.

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 12 December 2019” in Appendix IV in this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the paragraph headed “4. Share Option Scheme” in Appendix IV to this prospectus.

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 prospectus.

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 prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group's audited consolidated financial statements, including the notes thereto, included in the Accountants' Report set out in Appendix I to this prospectus. Our Group's audited consolidated financial statements have been prepared in accordance with HKFRSs. You should read the entire Accountants' 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 prospectus.

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 of broadcasting rights of TV series and (iii) net licence fee received from investment in TV series/film/web series as non-executive producer.

For each of FY2016, FY2017, FY2018 and 1H2019, we generated revenue of approximately RMB102.0 million, RMB99.3 million, RMB154.1 million and RMB145.3 million, respectively, of which approximately 99.5%, 93.0%, 90.0% and 94.6% 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 prospectus, our Company became the holding company of the companies now comprising our Group 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 consolidated 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 Accountants' Report in Appendix I to this prospectus 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. 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 consolidated 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 Prospectus. Our Group does not have any equity interests in the Consolidated Affiliated Entities.

The consolidated statements of profit or loss, consolidated statements of 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 consolidated statements of financial position of our Group as of 31 December 2016, 2017 and 2018 and 30 June 2019 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 consolidation.

The historical financial information of our Group has been prepared in accordance with HKFRSs (which includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations 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 2019, including HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts*

FINANCIAL INFORMATION

with *Customers* and HKFRS 16 *Lease* 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 and in the period covered by the interim comparative financial information.

The historical financial information has been prepared under the historical cost convention, except for financial instruments which have been measured at fair value.

Application of HKFRS 9, HKFRS 15 and HKFRS 16

Effective from 1 January 2019, HKFRS 9 “*Financial Instruments*” (“**HKFRS 9**”) replaced the previous standard HKAS 39 “*Financial Instruments: Recognition and Measurement*”; and HKFRS 15 “*Revenue from contracts with customers*” and related amendments to HKFRS 15 “*Clarifications to HKFRS 15 Revenue from Contracts with Customers*” (“**HKFRS 15**”) replaced the previous revenue standards HKAS 18 “*Revenue*” and HKAS 11 “*Construction Contracts*” and related interpretations, and effective for annual periods beginning on or after 1 January 2019, HKFRS 16 “*Leases*” replaced the previous standards HKAS 17 “*Leases*” and related interpretations. We have early adopted HKFRS 9, HKFRS 15 and HKFRS 16 and consistently applied them throughout the Track Record Period. Our Directors consider that the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have significant impact on our financial position and performance during the Track Record Period.

For other new and revised financial reporting standards that are not yet effective as at 30 June 2019, please refer to note 2.3 to the Accountants’ Report on historical financial information set out in Appendix I to this prospectus.

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 on project-by-project basis

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 small number of TV series each year. Despite our Group’s attempt to negotiate with TV stations during our course of production and distribution, 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 stations.

FINANCIAL INFORMATION

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 estimated revenue with our TV series and our results of operation and financial condition 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.

Our 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.

Revisions made to the estimation of the total revenue to be generated from our TV series may result in understatement or overstatement of our cost of sales and adversely affect our financial results in relevant financial year/period(s)

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/period by reference to the proportion of a TV series' revenue recognised for that financial year/period to the total estimated revenue of that TV series during its entire life cycle. However, the estimated total revenue is subject to adjustment from time to time to reflect the latest negotiation and communication results with the potential customers. For details, please refer to the paragraph headed "Description of principal components of our results of operations — Costs of sales" in this section.

Given the changing market conditions, there is no assurance that the actual total revenue generated from our TV series will be the same as our estimation. If the actual total revenue generated from a TV series turns out to be lower than our estimation, it may result in understatement of cost of sales for the previous financial periods and overstatement of

FINANCIAL INFORMATION

cost of sales for the financial year/period(s) during the remaining life cycle of the TV series. In such case, our Group's financial performance for the financial year/period(s) during the remaining life cycle of the TV series will be adversely affected. For details, please refer to the paragraphs headed "Description of principal components of our results of operations — Costs of sales" and "Description of principal components of our results of operations — Gross profit and gross profit margin" in this section.

For the TV series in which we made co-investment as non-executive producer, we mainly rely on the executive producer to execute the production and distribution of the TV series based on its experience, strategy and capabilities. Thus, the adjustment of total estimated revenue by the executive producer may also have adverse impact on our Group's financial performance.

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 condition will be adversely affected

TV series production business is capital intensive in nature. Our cost of sales for licensing of broadcasting rights of TV series includes cast personnel costs, production costs, costs of scripts, post-production costs, costs of purchased copyrights (or broadcasting rights) and other miscellaneous materials and services required in the process of shooting and post-production. Many of 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 executive producers of the relevant TV series. 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 loans and other borrowings 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 condition will be adversely affected.

The ability to continue to enjoy preferential tax treatment and government grants by our Consolidated Affiliated Entities will affect our financial results

During the Track Record Period, certain of our Consolidated Affiliated Entities has enjoyed preferential tax treatment and government grants. There is no assurance that we could continue to enjoy such tax exemption and government grants in the future due to changes in policies to be adopted by the government authorities. To the extent that there is any loss of, or significant reduction in, any preferential tax treatment or government grant applicable to us, or increase in the effective tax rate, our tax expenses would increase accordingly and our other income will decrease. 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

FINANCIAL INFORMATION

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 Accountants' Report in Appendix I to this prospectus.

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.

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 NRTA or receipt of the Licence 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 for Distribution of TV series 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.

FINANCIAL INFORMATION

(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.

Net licence fee received from investment in TV series/film/web series as non-executive producer 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 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' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a TV series' life cycle).

Accounting for the co-investment arrangement

The co-investment 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 Licence 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 the co-investment arrangement to the third-party investors by the Group was recognised as prepayments under the co-investment arrangement and reclassified to inventory upon receipt of the Licence for Distribution of TV Series from NRTA.

FINANCIAL INFORMATION

Provision for impairment of inventories and prepayments under co-investment arrangement

Inventories and prepayment under co-investment arrangement of the Group are stated at the lower of cost and net realisable value while net realisable value is based on the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. An impairment loss is recognised if the carrying amount of the asset exceeds its recoverable amount, which, in our case, being the net realisable value. The key assumptions and variables adopted in the Group's estimation of the net realisable value of the relevant TV series/film/web series include the licence fee for first-run and rerun broadcast on satellite channels, the estimated costs of completion, and the selling and distribution expenses. Inventories will be generally fully recognised as cost of sales upon the expiry of the expected life cycle of the TV series, i.e. three years from the date of its Licence for Distribution of TV Series.

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 Track Record Period, 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 Track Record Period 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

FINANCIAL INFORMATION

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 Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Track Record Period 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 Track Record Period. 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.

FINANCIAL INFORMATION

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 aging period and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on our Group's historical expected default rates. 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 expected default rates are adjusted. At every reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analysed. Since our Group has only operated for a short period of time as at 31 December 2016 and the historical default information was insufficient, our Directors estimated the expected credit loss as at 31 December 2016 by taking into account of historical default rate, the bad debt provision policy of the industry participants in the PRC and forward-looking information.

The assessment of the correlation between historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. Our Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The provision for impairment of trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019 amounted to RMB3,987,000, RMB8,719,000, RMB13,413,000 and RMB9,818,000, respectively, details of which are set out in note 16 to the Accountants' Report in Appendix I to this prospectus.

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 17 to the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth a summary of our consolidated statements of profit or loss for the Track Record Period, which is extracted from and should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

Summary of consolidated statements of profit or loss

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	101,975	99,266	154,085	110,070	145,303
Cost of Sales	<u>(42,495)</u>	<u>(81,575)</u>	<u>(73,979)</u>	<u>(47,590)</u>	<u>(108,115)</u>
Gross profit	59,480	17,691	80,106	62,480	37,188
Other income and gains	3,619	8,868	7,047	2,442	15
Selling and distribution expenses	(5,271)	(2,246)	(3,219)	(1,031)	(3,809)
Administrative expenses	(7,505)	(9,207)	(6,832)	(2,580)	(14,692)
Reversal of impairment loss/ (impairment losses) on financial assets	(3,987)	(4,732)	(6,843)	(1,437)	3,595
Other expenses	—	(8)	(32)	—	(85)
Finance costs	<u>(1,259)</u>	<u>(1,796)</u>	<u>(2,378)</u>	<u>(899)</u>	<u>(1,506)</u>
PROFIT BEFORE TAX	45,077	8,570	67,849	58,975	20,706
Income tax expense	<u>(12,274)</u>	<u>(1,879)</u>	<u>(3,366)</u>	<u>(4,047)</u>	<u>(5,561)</u>
PROFIT FOR THE YEAR/ PERIOD	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>	<u>54,928</u>	<u>15,145</u>
Attributable to:					
Owners of the parent	<u>32,803</u>	<u>6,691</u>	<u>64,483</u>	<u>54,928</u>	<u>15,145</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 of broadcasting rights of TV series, and (iii) net licence fee received from investment in TV series/film/web series as non-executive producer. During the Track Record Period, a substantial proportion of our revenue was derived from a small number of TV series or web series. For each of FY2016, FY2017, FY2018 and 1H2019, the revenue generated from our largest TV series contributed approximately 98.8%, 60.8%, 38.0% and 38.8% of our total revenue, respectively and the revenue generated from our top five TV series or web series (except for FY2016 in which we only derived revenue from three TV series) contributed to approximately 100.0%, 100.0%, 89.3% and 92.3% of our total revenue, respectively. For the risks relating to the revenue concentration on a small number of TV series or web series, please see the paragraph headed "Risk Factors — Risks relating to our business — The majority of our revenue is derived from a small number of TV series or web series. Any delay in the production of or failure in securing the contracts for such TV series may have material adverse impact on our Group's financial performance" in this prospectus.

FINANCIAL INFORMATION

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

	FY2016		FY2017		FY2018		1H2018		1H2019	
	RMB'000	%	RMB'000	%	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	94,603	85.9	137,411	94.6
Distribution of broadcasting rights of TV series	472	0.5	—	—	12,939	8.4	12,939	11.8	—	—
Revenue from other sources										
Net licence fee received from investment in TV series/film/web series as non-executive producer .	—	—	6,916	7.0	2,528	1.6	2,528	2.3	7,892	5.4
	<u>101,975</u>	<u>100.0</u>	<u>99,266</u>	<u>100.0</u>	<u>154,085</u>	<u>100.0</u>	<u>110,070</u>	<u>100.0</u>	<u>145,303</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 of 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, FY2018 and 1H2019, the total licence fee we earned under this business segment was approximately RMB101.5 million, RMB92.4 million, RMB138.6 million and RMB137.4 million, representing approximately 99.5%, 93.0%, 90.0% and 94.6% of the total revenue, respectively.

The following table sets forth a breakdown of our revenue from licensing the broadcasting rights of TV series of which we acted as executive producer or purchased copyrights (or broadcasting rights) in absolute amounts and as percentages during the Track Record Period:

	FY2016		FY2017		FY2018		1H2018		1H2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Acted as executive producer	101,503	100.0	81,711	88.5	8,862	6.4	4,641	4.9	109,639	79.8
Licensed purchased copyrights (or broadcasting rights) . . .	—	0.0	10,639	11.5	129,756	93.6	89,962	95.1	27,772	20.2
Total	<u>101,503</u>	<u>100.0</u>	<u>92,350</u>	<u>100.0</u>	<u>138,618</u>	<u>100.0</u>	<u>94,603</u>	<u>100.0</u>	<u>137,411</u>	<u>100.0</u>

FINANCIAL INFORMATION

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

	FY2016			FY2017			FY2018			1H2018			1H2019		
	Number of TV series licensed	Revenue		Number of TV series licensed	Revenue		Number of TV series licensed	Revenue		Number of TV series licensed	Revenue		Number of TV series licensed	Revenue	
		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%
<i>TV stations</i>															
— Satellite channel															
— First-run . . .	1	74,771	73.7	1	46,676	50.6	2	83,040	59.9	2	83,035	87.7	2	94,698	68.9
— Reruns . . .	1	11,321	11.1	3	30,889	33.4	4	39,219	28.3	—	—	0.0	8	27,578	20.1
— Terrestrial channel	2	9,030	8.9	3	8,192	8.9	5	8,167	5.9	4	3,834	4.1	4	6,793	4.9
Subtotal	2	95,122	93.7	4	85,757	92.9	8	130,426	94.1	5	86,869	91.8	13	129,069	93.9
<i>Other customers</i>	2	6,381	6.3	3	6,593	7.1	5	8,192	5.9	3	7,734	8.2	5	8,342	6.1
Total	2	101,503	100.0	4	92,350	100.0	10	138,618	100.0	6	94,603	100.0	14	137,411	100.0

* Taking into account that some TV series were licensed to both TV stations (including different channels) and other customers in the same financial year/period, 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 or different channels of TV stations.

Revenue from our customers which are TV stations (including their operating entities) accounted for approximately 93.7%, 92.9%, 94.1% and 93.9% of our revenue from licensing of broadcasting rights of TV series for each of FY2016, FY2017, FY2018 and 1H2019, with the rest attributable to other customers such as companies engaged in the business of distribution of TV series.

Among the revenue from licensing of broadcasting rights of TV series, approximately 73.7%, 50.6%, 59.9%, and 68.9%, were generated from first-run broadcast on satellite channels for each of FY2016, FY2017, FY2018 and 1H2019. According to F&S Report, the average selling price per episode for rerun 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 rerun are much lower than those from the first-run.

Hence, the increase in the number of first-run broadcast TV series licensed in FY2018 as compared to FY2016 and FY2017 improved our revenue from licensing of broadcasting rights of TV series in FY2018. As the first-run broadcast TV series, the Furtherest 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 first-run broadcast decreased in FY2017 as compared to FY2016 which was compensated by the increase in revenue from reruns of the Furtherest Distance* (遙遠的距離) and Happy Home* (幸福滿院), resulting in an overall slight decrease in revenue from licensing of broadcasting rights of TV series in FY2017 as compared to FY2016.

FINANCIAL INFORMATION

Our revenue from licensing of broadcasting rights of TV series in 1H2019 increased as compared to 1H2018 due to (i) the increase in contribution from reruns of TV series, primarily from our purchased TV series *Mother Relative Uncle** (娘親舅大) and (ii) the higher average selling price of our self-produced TV series, namely *National Spirit** (共和國血脈) and *Yan Yang Chun** (燕陽春) which had their first-run broadcast in 1H2019 as compared to those broadcast in 1H2018.

(ii) Distribution of broadcasting rights of TV series

Our revenue from distribution of broadcasting rights 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 owners as our distribution agent fee. Our distribution agent fee was approximately RMB0.5 million, nil, RMB12.9 million and nil for each of FY2016, FY2017, FY2018 and 1H2019, representing approximately 0.5%, nil, 8.4% and nil of our total revenue, respectively.

(iii) Net licence fee received from investment in TV series/film/web series as non-executive producer

Our net licence fee received from investment in TV series/film/web series as non-executive producer segment relates to our investment in TV series/film/web series as non-executive producer. It involves the sharing of the net licence fee received by the executive producers of the TV series/film/web series from licensing of the broadcasting rights of the TV series/film/web series according to the proportion of our investment. Under this segment, we make certain amount of equity investment and may or may not participate in the production such as casting and reviewing of production budgets and/or distribution of the TV series/film/web series.

We generated net licence fee from investment in TV series/film/web series as non-executive producer of nil, approximately RMB6.9 million, RMB2.5 million and RMB7.9 million for each of FY2016, FY2017, FY2018 and 1H2019, representing nil, approximately 7.0%, 1.6% and 5.4% 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 “Period to period comparison of results of operations” in this section.

FINANCIAL INFORMATION

Sensitivity analysis of historical results

For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of licence fee of first-run and rerun TV series on satellite channels (including the revenue expected to be recognised after the Track Record Period) after taking into account the impact on the corresponding cost of sales with reference to the Revenue Proportion (as defined below) on our profit before tax during the Track Record Period, while all other factors remain unchanged. While none of the hypothetical fluctuation ratios of 10%, 20% and 30% applied in the sensitivity analysis equals the historical fluctuations of licence fee of first-run and rerun TV series on satellite channels, we believe that the application of these hypothetical fluctuation ratios presents a meaningful analysis of the potential impact of changes in licence fee of first-run and rerun TV series on satellite channels on our profitability.

	Increase/(decrease) in profit before tax			
	FY2016	FY2017	FY2018	1H2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Percentage change in licence fee of first-run				
+ 10%	7,169	3,842	8,037	7,860
+ 20%	14,374	7,652	16,094	15,809
+ 30%	21,610	11,433	24,169	23,828
-10%	(7,124)	(3,880)	(8,015)	(7,299)
-20%	(14,194)	(7,805)	(16,005)	(14,391)
-30%	(21,195)	(11,781)	(23,967)	(21,218)

	Increase/(decrease) in profit before tax			
	FY2016	FY2017	FY2018	1H2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Percentage change in licence fee of rerun				
+ 10%	1,525	2,492	4,561	4,026
+ 20%	3,034	5,012	9,077	8,006
+ 30%	4,529	7,558	13,555	11,942
-10%	(1,541)	(2,463)	(4,610)	(4,075)
-20%	(3,100)	(4,894)	(9,276)	(8,203)
-30%	(4,678)	(7,292)	(14,008)	(12,387)

Prospective investors should note that the above analysis on the historical financial results is based on assumptions and for reference only and should not be viewed as actual effect.

FINANCIAL INFORMATION

Costs of sales

For each of FY2016, FY2017, FY2018 and 1H2019, our cost of sales was approximately RMB42.5 million, RMB81.6 million, RMB74.0 million and RMB108.1 million, respectively. The following table sets forth our cost of sales by business segment and by nature during the Track Record Period:

	FY2016		FY2017		FY2018		1H2018		1H2019	
	RMB'000	%	RMB'000	%	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	602	1.3	31,475	29.0
Production costs	12,757	30.0	21,699	26.6	2,306	3.1	1,103	2.3	34,005	31.4
Costs of scripts	8,026	18.9	8,091	9.9	389	0.5	185	0.4	8,536	7.9
Post-production costs	1,416	3.3	1,911	2.4	253	0.4	84	0.2	2,246	2.1
Cost of purchased copyrights (or broadcasting rights)	—	0.0	5,168	6.3	48,820	66.0	38,640	81.2	3,640	3.4
Service fees	—	0.0	—	0.0	13,931	18.8	—	—	10,377	9.6
Interest capitalised	844	2.0	1,706	2.1	9	0.0	9	0.0	1,724	1.6
Cost of co-investment (as executive producer)	—	0.0	544	0.7	—	0.0	—	—	1,907	1.8
Inventories provision	—	0.0	—	0.0	4,087	5.5	4,087	8.6	2,278	2.1
Subtotal	42,495	100	72,660	89.1	71,099	96.1	44,710	94.0	96,188	88.9
Investment in TV series as non-executive producer										
Cost of co-investment (as non-executive producer)	—	0.0	8,915	10.9	2,880	3.9	2,880	6.0	10,217	9.5
Inventories provision	—	0.0	—	0.0	—	0.0	—	0.0	1,710	1.6
Subtotal	—	0.0	8,915	10.9	2,880	3.9	2,880	6.0	11,927	11.1
Total cost of sales	42,495	100.0	81,575	100.0	73,979	100.0	47,590	100.0	108,115	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 our cost of sales. Each of the above costs refers to (i) remuneration to artists, directors and producers 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 of 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 service providers for planning and consulting services in relation to the promotion and distribution of our TV series.

Interest capitalised represents interest accrued to the Fixed Return Investment made by third party investors in our TV series. For details of interest capitalised, please refer to the paragraph headed “Description of principal components of our results of operations — Finance costs” in this section.

FINANCIAL INFORMATION

Cost of co-investment (as executive producer) represented the net licence fee (i.e. investment return) payable to third party investors under the co-investment arrangement in which we are executive producer. Due to the capital intensive nature of TV series production, we generally seek funds from third party investors and make utilisation 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 the net licence fee which is based on the distribution performance of the relevant TV series while the amount of the net licence fee is a component of our cost of sales as cost of co-investment (as executive producer).

Cost of co-investment (as non-executive producer) represented our investment amount in TV series under the co-investment arrangement with the executive producers of the TV series in 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.

While planning the topic and formulating the production plan for each TV series, our planning department and marketing and distribution department usually communicate with the purchasing department of over 20 potential customers (including satellite channels and terrestrial channels of TV station) to ascertain their intention of purchasing the TV series, the price range they may offer and the available broadcasting schedule, etc. Based on the discussions with our potential customers and the prevailing price of TV series in the market, our management formulates a preliminary distribution plan which reflects the estimation of the total revenue to be generated by the relevant TV series throughout its life cycle (the “**Total Estimated Revenue**”). In estimating the Total Estimated Revenue, our management mainly takes into account the genre of the TV series, the production costs, the range of prices of similar TV series in the market and the historical purchase price of similar TV series of our potential customers, and assumes that we will successfully license the broadcasting rights of the TV series for both its first-run and rerun on satellite channels. As the relevant regulation in the PRC requires that one TV series can only be broadcast on a maximum of two satellite channels at the same time, we normally target two satellite channel customers for each of the first-run and rerun which offer better terms.

At the stage of formulating the preliminary distribution plan, the Total Estimated Revenue is normally based on verbal communications with our potential customers and is not backed by legally binding agreements. During the process of production and post-production, our marketing and distribution department continues to maintain close communications with the potential customers by, for instance, inviting the purchasing managers to visit our shooting site. During post-production stage, we would provide the demo of the TV series to our potential customers and seek their feedback and comments so as to improve the quality of our TV series in accordance with our customers’ requirements and preferences. Normally, the licence fee and broadcasting schedule are in principle agreed with the customers after obtaining of the Licence for Distribution of TV Series and within three months before the broadcasting of the TV series.

FINANCIAL INFORMATION

Key parameters in estimating the Total Estimated Revenue include the level of licence fee for first-run and rerun on satellite channels. As discussed above, the licence fee for first-run broadcast is generally higher than that for rerun. Normally, we estimate the number of reruns on satellites channels to be one to two and the immediate reruns are within one year from the first-run broadcast of the TV series. Level of licence fee is also affected by the type and financial strength of customers and whether the TV series is broadcast during prime or non-prime hours. As the licence fee is generally higher for the TV series to be broadcast during prime hours than non-prime hours, it is an industry norm that TV series producers would endeavor to arrange the first-run broadcast of their TV series on satellite channels during prime hours. During the Track Record Period, our Group has managed to broadcast all of its first-run TV series on satellite channels during prime hours.

As the production and distribution processes continue, the distribution plan and the Total Estimated Revenue are constantly revised to reflect the actual distribution performance that has materialised based on signed agreements and the latest estimated revenue to be generated in the remaining life cycle of the TV series based on the latest negotiations with potential customers.

For the TV series under co-investment arrangement in which we act as non-executive producer, we normally discuss with the executive producer and assess the distribution plan and expected return of the TV series before we commit our investment. After our investment is made, we mainly rely on the executive producer to execute the production and distribution of the TV series based on its experience, strategy and capabilities. However, in order to ensure that the production and distribution plan is carried out as planned, we maintain close communications with the executive producer to understand the latest production and distribution status of the TV series and provide necessary advice and assistance as appropriate.

The total cost of a TV series initially accrued to inventories is the total cost of production, purchase and/or investment. The cost of sales is recognised based on the proportion of a TV series' revenue recognised for the relevant financial year/period to the Total Estimated Revenue (the "**Revenue Proportion**"). The calculation of our cost of sales is as follows:

Cost of sales for relevant year/period = Revenue Proportion x Total cost accrued to inventories + Investment return payable under co-investment arrangement

In preparing the financial statements of our Company for the Track Record Period in this prospectus, our management examined all the licensed TV series during the Track Record Period and estimated the Total Estimated Revenue for each licensed TV series based on (i) the actual revenue realised and (ii) the latest estimated revenue to be generated for the relevant TV series by reference to their remaining life cycle and the latest negotiation results with the potential customers as at the Latest Practicable Date.

FINANCIAL INFORMATION

The below table sets forth, for each of our major TV series during the Track Record Period, (i) the Total Estimated Revenue at the time of formulating the preliminary distribution plan and as at the end of each reporting year/period during the Track Record Period and (ii) the revenue recognised during the Track Record Period.

Name of TV series	Preliminary distribution plan Date of formulation	As at 31 December									Revenue recognised during the Track Record Period		
		2016			2017			2018					
		Total Estimated Revenue		Adjustment = R1-R0	Total Estimated Revenue		Adjustment = R2-R0	Total Estimated Revenue		Adjustment = R3-R0		Total Estimated Revenue	
		R0	R1		R2	R3		R4	R4-R0				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
The Furthest Distance* (遙遠的距離)	6/2015	100,791	103,004	2,213	113,391	12,600	113,508	12,717	113,508	12,717	113,508		
Jade* (女管家)	8/2015	86,531	86,531	—	86,531	—	63,369	(23,162)	60,541	(25,990)	60,541		
Super Father-In-Law & Son-In-Law* (超級翁婿)	5/2018	53,132	N/A	N/A	N/A	N/A	53,132	—	53,506	374	34,449		
The Way We Were* (歸去來)	10/2018	30,621	N/A	N/A	N/A	N/A	30,621	—	30,621	—	30,621		
The Golden Years Of The Nursing Mother* (養母的花樣年華)	9/2017	58,502	N/A	N/A	58,502	—	58,507	5	58,507	5	58,507		
Happy Home* (幸福滿院)	9/2017	10,613	N/A	N/A	10,639	26	14,035	3,422	14,035	3,422	14,035		
Yan Yang Chun* (燕陽春)	12/2017	63,438	N/A	N/A	63,438	—	63,438	—	63,574	136	52,228		
National Spirit* (共和國血脈)	4/2017	69,962	N/A	N/A	69,962	—	69,962	—	69,962	—	56,377		
Mother Relative Uncle* (娘親舅大)	3/2019	15,998	N/A	N/A	N/A	N/A	N/A	N/A	15,998	—	15,998		

N/A: No preliminary distribution plan has been formulated and thus no corresponding adjustment is made to such preliminary plan.

During the Track Record Period, the Total Estimated Revenue of The Furthest Distance* (遙遠的距離) and Happy Home* (幸福滿院) was adjusted upward by approximately 12.6% and 32.2% respectively and the Total Estimated Revenue of The Jade* (女管家) was adjusted downward by approximately 30.0% as compared to their respective preliminary distribution plans. Except for these three TV series, there was no material adjustment made to the Total Estimated Revenue of our self-produced and purchased TV series during the Track Record Period and up to the Latest Practicable Date, which had and/or are expected to have a material impact on the financial performance of our Group. For further details regarding the adjustment of the Total Estimated Revenue for Jade* (女管家) and the corresponding adjustments made to its cost of sales, please refer to the paragraph headed “Description of principal components of our results of operations — Gross profit and gross profit margin” in this section.

In preparing the financial statements of our Group for each financial year/period after the Listing, our management will regularly review the basis of estimation of the Total Estimated Revenue of each licensed TV series during its life cycle based on the realised revenue and latest negotiation results with the potential customers at the end of each financial year/period. We will recognise the corresponding cost of sales in the financial statements by applying the Revenue Proportion based on the adjusted Total Estimated Revenue.

For the avoidance of doubt, changes in Total Estimated Revenue will not cause retrospective adjustments of cost of sales recognised in previous financial year/period(s) in the preparation of regular financial reports after the Listing.

FINANCIAL INFORMATION

Gross profit and gross profit margin

For each of FY2016, FY2017, FY2018 and 1H2019, our gross profit was approximately RMB59.5 million, RMB17.7 million, RMB80.1 million and RMB37.2 million, respectively, while our gross profit margin was approximately 58.3%, 17.8%, 52.0% and 25.6%, 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		1H2018		1H2019	
	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>
Licensing of broadcasting rights of TV series .	59,008	58.1	19,690	21.3	67,519	48.7	49,893	52.7	41,223	30.0
Distribution of broadcasting rights of TV series	472	100.0	—	—	12,939	100.0	12,939	100	—	—
Net licence fee received from investment in TV series/film/web series as non-executive producer	—	—	(1,999)	(28.9)	(352)	(13.9)	(352)	(13.9)	(4,035)	(51.1)
Total	59,480	58.3	17,691	17.8	80,106	52.0	62,480	56.8	37,188	25.6

Licensing of broadcasting rights of TV series

The following table sets forth a breakdown of our gross profit and gross profit margin of TV series of which we acted as executive producer or purchased copyrights (or broadcasting rights) in the business segment of licensing of broadcasting rights of TV series during the Track Record Period:

	FY2016		FY2017		FY2018		1H2018		1H2019	
	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>
Acted as executive producer	59,008	58.1	14,219	17.4	4,660	52.6	2,658	57.3	27,468	25.1
Purchased copyrights (or broadcasting rights) .	—	N/A	5,471	51.4	62,859	48.4	47,235	52.5	13,755	49.5
Total	59,008	58.1	19,690	21.3	67,519	48.7	49,893	52.7	41,223	30.0

For our business of licensing of broadcasting rights of TV series, the lower gross profit margin in FY2017 was mainly attributable to the low gross profit margin of our self-produced TV series Jade* (女管家) of approximately 5.1% in FY2017. Jade* (女管家) had its first-run broadcast on two satellite channels in June 2017 and was originally expected to have its rerun broadcast on satellite channels afterwards according to the distribution plan. According to the relevant regulation, one TV series can only be broadcast on a maximum of two satellite channels at the same time. In order to maximise the revenue from the TV series for its rerun, our Group intended and had endeavored to arrange the rerun broadcast of Jade* (女管家) on two satellite channels at the same time. However, as we were not able to match the broadcasting schedules of two potential satellite channel customers, such efforts were unsuccessful. Becoming aware of the circumstances in late second quarter of 2018, we had been approaching potential customers for arranging the rerun broadcast of Jade* (女管家) without the dual-broadcast arrangement. However, since the popularity and marketability of Jade* (女管家) had declined over time, we were unable to find suitable customers for such rerun broadcast of Jade* (女管家) and therefore, the rerun of Jade* (女管家) had not been broadcast on satellite channels as at the Latest Practicable Date. According to the initial distribution plan of Jade* (女管家), the estimated revenue to be generated amounted to approximately RMB86.5 million, including approximately RMB46.7 million and RMB10.2 million from first-run and rerun on satellite channels respectively, RMB16.2 million from online platform, approximately

FINANCIAL INFORMATION

RMB12.9 million from terrestrial channels and RMB0.5 million from others. As we originally planned to license the broadcasting rights of Jade* (女管家) to an online media platform after its rerun broadcast on satellite channels, such licensing was not successful as a result of the failure to arrange the rerun broadcast of Jade* (女管家) on satellite channels. As a result of the foregoing, although there was no material shortfall in the revenue from first-run broadcast on satellite channels and from terrestrial channels, the actual total revenue from Jade* (女管家) was RMB60.5 million up to 30 June 2019, being RMB26.0 million lower than our original estimation. Accordingly, additional inventories of approximately RMB11.2 million, which would have been recognised as cost of sales in FY2018 based on the Revenue Proportion according to our original distribution plan for Jade* (女管家), was recognised as cost of sales in FY2017.

The following tables set forth the (i) total accumulated production costs; (ii) inventory balance; (iii) cost of sales; and (iv) revenue for Jade* (女管家) during the Track Record Period:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(note)</i>			
Total accumulated				
production costs	58,869	59,645	59,741	59,741
Inventory balance	43,303	2,182	2,278	—
	FY2016	FY2017	FY2018	1H2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	—	60,317	131	93
Cost of sales	—	57,236	—	2,278

Note: The difference between the total accumulated production costs and inventory as at 31 December 2016 represented the amount of investment made by third party investors under the co-investment arrangement.

Considering the insignificant amount of revenue recognised for Jade* (女管家) for FY2018 and 1H2019, our Company did not recognise the cost of sales with reference to the Revenue Proportion. As at 30 June 2019, in view of the fact that no revenue was expected to be recognised in the limited remaining life cycle of Jade* (女管家), the Company made full impairment provision of the carrying value of Jade* (女管家), which resulted in gross loss of approximately RMB2.2 million and negative gross profit margin of approximately 2,349.5% for 1H2019.

In order to avoid the unsatisfactory distribution performance of our TV series in the future, our management will exert more efforts in expanding our customer base by actively exploring business relationships with more TV stations which operate different tiers of satellite channels in the PRC in order to increase our chance of securing broadcasting schedule. We will also produce TV series according to the requirements and preference of our TV station customers, and invite them to (i) participate in the selection of topics of our

FINANCIAL INFORMATION

TV series; (ii) provide their advice on the production of our TV series and (iii) make investment in our TV series, so as to increase our chance of licensing the relevant broadcasting right to them. In addition to approaching TV stations for the distribution of our TV series, we will also expand our distribution network to new media channels, given the limited available broadcasting schedule of TV stations. Similar to the arrangement with our TV station customers, we will also produce TV series according to the requirements of our new media channel customers, and invite them to (i) provide their advice on the selection of topics and production of our TV series; and (ii) make investment in our TV series. Further, we will keep closer communications with each of our potential customers to understand their preferences about the production crew members (e.g. the director and the artists) and their requirement on the investment amount of the TV series. We will also catch up with the latest market trend and customers' demand in TV series by actively participating in various industry events such as TV festivals, so that we could have more efficient negotiation with different potential customers.

The lower gross profit margin for 1H2019 was mainly attributable to the low gross profit margin of our self-produced TV series National Spirit* (共和國血脈), which was due to (i) the adjustment of the total number of episodes broadcast by our customer, CCTV, in accordance with its policy and broadcasting schedule and (ii) the high production costs incurred in National Spirit* (共和國血脈) to satisfy CCTV's quality standard.

Distribution of broadcasting rights of TV series

Gross profit margin for our distribution business was 100% because revenue from provision of distribution services was recorded on a net basis.

Investment as non-executive producer

Gross profit for our business of investment in TV series/film/web series as non-executive producer was negative during the Track Record Period mainly because the TV series/film/web series we invested in did not achieve satisfactory distribution performance.

We recorded negative gross profit from two TV series for FY2017 and FY2018 respectively as we had not made any co-investment in TV series before and overestimated the distribution capabilities of the executive producers. These two TV series did not achieve satisfactory distribution performance as the executive producers of the two TV series didn't successfully arrange the first-run and/or rerun broadcast of the TV series on satellite channels. We recorded negative gross profit in 1H2019 from one film and one web series in which we made co-investment as non-executive producer. The unsatisfactory performance was mainly due to our lack of prior investment experiences in film and web series. As at the Latest Practicable Date, we had co-investment in three TV series and did not have any co-investment in film and web series.

For further discussion of our gross profit and gross profit margin during the Track Record Period, please refer to the paragraph headed "Period to period comparison of results of operations" in this section.

FINANCIAL INFORMATION

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>	<u>1H2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<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	709	—
Bank interest income	63	190	39	30	5
Investment income from financial assets at fair value through profit or loss	346	368	32	8	—
Interest income from loans receivables	302	2,301	1,538	1,370	—
Penalty income	—	206	325	325	—
Others	—	—	—	—	10
	<u>3,619</u>	<u>8,868</u>	<u>7,047</u>	<u>2,442</u>	<u>15</u>

Government grants primarily represented the award granted by the local government of Haining, 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 “Period to period comparison of results of operations” in this section.

Investment income from financial assets at fair value through profit or loss

During the Track Record Period, we purchased short term investment products issued by commercial banks to enhance the return of our temporarily unutilised cash. During each of FY2016, FY2017 and FY2018, we entered into twelve, five and three transactions with two commercial banks for the purchase of investment products with an aggregate principal amount of RMB125.0 million, RMB83.5 million and RMB11.5 million, respectively. The investment products were non-principal-guaranteed with floating returns. During the Track Record Period, these investment products were held for a range of 1 to 90 days and all principal amounts were redeemed within the same year in which the products were purchased. We financed the purchase of these short term investment products mainly from the proceeds from the capital injection into Values Culture by its equity holders in FY2016. As our working capital requirements for daily operations increased during the Track Record Period, we reduced the purchase of investment products in terms of both number and amount of transactions. During 1H2019 and up to the Latest Practicable Date, we did not purchase any short term investment products.

FINANCIAL INFORMATION

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:

	FY2016		FY2017		FY2018		1H2018		1H2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
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	502	48.7	3,035	79.7
Staff costs	299	5.7	805	35.8	615	19.1	198	19.2	554	14.5
Entertainment and travelling expenses	468	8.9	185	8.2	563	17.5	331	32.1	220	5.8
Others	179	3.4	25	1.2	151	4.7	—	—	—	—
Total	5,271	100.0	2,246	100.0	3,219	100.0	1,031	100.0	3,809	100.0

For each of FY2016, FY2017, FY2018 and 1H2019, our selling and distribution expenses were approximately RMB5.3 million, RMB2.2 million, RMB3.2 million and RMB3.8 million, representing approximately 5.2%, 2.3%, 2.1% and 2.6% of our total revenue, respectively.

Our 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, FY2018 and 1H2019.

Our 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 fewer broadcasting runs compared to 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.

Our advertising and marketing expenses were approximately RMB0.5 million and RMB3.0 million, respectively, representing approximately 48.7% and 79.7% of our selling and distribution expenses for 1H2018 and 1H2019, respectively. The increase in our advertising and marketing expenses for 1H2019 as compared to 1H2018 was mainly attributable to more advertising and marketing activities required for promoting our self-produced TV series National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) in 1H2019.

FINANCIAL INFORMATION

Our 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 our 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.

Our staff costs amounted to approximately RMB0.2 million and RMB0.6 million, respectively, representing approximately 19.2% and 14.5% of our total selling and distribution expenses for 1H2018 and 1H2019, respectively. The increase in our staff costs for 1H2019 was mainly due to the increase in the number of our marketing staff and their salary.

Our 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. Our 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. Our entertainment and travelling expenses remained stable at approximately RMB0.3 million for 1H2018 to RMB0.2 million for 1H2019.

Others mainly include office expenses and miscellaneous expenses which were not material during the Track Record Period.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses primarily consist of (i) staff costs; (ii) entertainment and travelling expenses; (iii) professional service fees; and (iv) office related expenses and listing expenses. The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2016		FY2017		FY2018		1H2018		1H2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	2,034	27.1	3,122	33.9	2,853	41.8	1,074	41.6	1,552	10.6
Entertainment and travelling expenses	1,851	24.7	1,762	19.1	1,845	27.0	735	28.5	996	6.8
Professional service fees	1,654	22.0	1,008	10.9	439	6.4	79	3.1	149	1.0
Office related expenses	1,185	15.8	1,879	20.5	1,404	20.5	606	23.5	952	6.4
Listing expenses	—	—	—	—	—	—	—	—	10,266	69.9
Miscellaneous taxes	506	6.7	961	10.4	197	2.9	9	0.3	353	2.4
Others	275	3.7	475	5.2	94	1.4	77	3.0	424	2.9
Total	<u>7,505</u>	<u>100.0</u>	<u>9,207</u>	<u>100.0</u>	<u>6,832</u>	<u>100.0</u>	<u>2,580</u>	<u>100.0</u>	<u>14,692</u>	<u>100.0</u>

Our administrative expenses were approximately RMB7.5 million, RMB9.2 million, RMB6.8 million and RMB14.7 million, representing approximately 7.4%, 9.3%, 4.4% and 10.1% of our total revenue for each of FY2016, FY2017, FY2018 and 1H2019, respectively.

Our staff costs mainly include Directors' remuneration, staff's base salaries, year-end bonus and other employee benefit and compensations. Our staff costs were approximately RMB2.0 million, RMB3.1 million and RMB2.9 million, respectively, representing approximately 27.1%, 33.9% and 41.8% of our administrative expenses for each of FY2016, FY2017 and FY2018, respectively. The increase in our staff costs in FY2017 was mainly because we paid a higher year-end bonus to our administrative staff in FY2017 than in FY2016. Our staff costs slightly decreased in FY2018 mainly because we did not pay year-end bonus in FY2018, which was partially offset by the increase in base salaries as a result of the increase in number of staff. Our staff costs were approximately RMB1.1 million and RMB1.6 million, representing approximately 41.6% and 10.6% of our administrative expenses for 1H2018 and 1H2019, respectively. The increase in our staff costs for 1H2019 was mainly attributable to the increase in the number of staff and increase in salary of our existing employees.

Our 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. Our entertainment and travelling expenses amounted to approximately RMB0.7 million and RMB1.0 million, which remained stable for each of 1H2018 and 1H2019.

FINANCIAL INFORMATION

Our listing expenses increased from nil to approximately RMB10.3 million, respectively, representing nil and approximately 69.9% of our total administrative expenses in 1H2018 and 1H2019, respectively, as a result of the engagement of various professional parties for our proposed Listing in 1H2019.

Our professional service fees were mainly related to legal consultancy services, audit services and continuing supervision fee upon listing on the NEEQ. Our professional services fee amounted to approximately RMB1.7 million, RMB1.0 million and RMB0.4 million, representing approximately 22.0%, 10.9% 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 on 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. Our professional services fees remained stable at approximately RMB0.1 million and RMB0.1 million for 1H2018 and 1H2019, respectively.

Our office related expenses represented office expense, rents, depreciation and amortisation. Our office related expenses were approximately RMB1.2 million, RMB1.9 million and RMB1.4 million, respectively, representing approximately 15.8%, 20.5% and 20.5% of our administrative expenses for each of FY2016, FY2017 and FY2018, respectively. The higher expenses for FY2017 was principally due to an extra office rented for temporary use. For 1H2018 and 1H2019, our office related expenses were approximately RMB0.6 million and RMB1.0 million, respectively, representing approximately 23.5% and 6.4% of our administrative expenses. The increase in our office related expenses for 1H2019 was mainly attributable to the newly rented offices in Beijing and Khorgas.

Other administrative expenses mainly include miscellaneous taxes 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 approximately 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. For 1H2019, we recorded a reversal of impairment loss on financial assets amounting to approximately RMB3.6 million. The reduction in impairment provision was primarily due to the settlement of long outstanding trade receivables by our customers in 1H2019. Please refer to paragraphs headed “Critical accounting policies, judgments and estimates — Provision for expected credit losses on trade receivables” and “Critical accounting policies, judgments and estimates — Provision for expected credit losses on other receivables” in this section for details.

FINANCIAL INFORMATION

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, (v) interest on trade receivables financing less interest capitalised, and (vi) interest on lease liabilities. For each of FY2016, FY2017, FY2018 and 1H2019, our finance costs were approximately RMB1.3 million, RMB1.8 million, RMB2.4 million and RMB1.5 million, respectively, which represented approximately 1.2%, 1.8%, 1.5% and 1.0% 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>	<u>1H2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	5	424	1,231	511	513
Interest on other borrowings	3,275	845	3,062	968	788
Interest on borrowings from a director and related parties	477	—	67	—	—
Interest on discounted notes receivables	—	—	44	44	190
Interest on trade receivables financing	—	442	23	23	—
Interest on lease liabilities	64	85	54	27	15
Less: Interest capitalised	(2,562)	—	(2,103)	(674)	—
	<u>1,259</u>	<u>1,796</u>	<u>2,378</u>	<u>899</u>	<u>1,506</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 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 represents 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.

FINANCIAL INFORMATION

Income tax expense

For each of FY2016, FY2017, FY2018 and 1H2019, we incurred income tax expense of approximately RMB12.3 million, RMB1.9 million, RMB3.4 million and RMB5.6 million, respectively. The following table sets forth the major components of our income tax expense during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<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	3,612	4,981
Deferred	(701)	(1,125)	(723)	435	580
Total tax charge for the year	<u>12,274</u>	<u>1,879</u>	<u>3,366</u>	<u>4,047</u>	<u>5,561</u>

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, 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.

According to the Several Opinions of the State Council on Supporting the Construction of Kashgar and Khorgas 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 Khorgas 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 Khorgas within the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) (the “**Catalogue of Income Tax Preferences**”) shall be granted the preferential treatment of five-year EIT exemption since the taxable year when the first business income is obtained. Two of our Consolidated Affiliated Entities, namely Khorgas Values and Xinjiang Values, enjoyed the benefit under the Catalogue of Income Tax Preferences and are entitled to such EIT exemption for the years starting from FY2017 and FY2018, respectively.

FINANCIAL INFORMATION

For FY2016, FY2017, FY2018 and 1H2019, the effective tax rates of our Group were approximately 27.2%, 21.9%, 5.0% and 26.9%, 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.

For 1H2018 and 1H2019, our net profit was approximately RMB54.9 million and RMB15.1 million, respectively. During the same period, our net profit margin was approximately 49.9% and 10.4%, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

1H2018 compared to 1H2019

Revenue

Our revenue increased by approximately RMB35.2 million or 32.0% from approximately RMB110.1 million for 1H2018 to approximately RMB145.3 million for 1H2019, primarily due to (i) the increase in contribution from rerun broadcast of TV series, primarily from our purchased TV series Mother Relative Uncle* (娘親舅大) and (ii) the higher average selling price of our self-produced TV series, namely National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) which had their first-run broadcast in 1H2019 as compared to those broadcast in 1H2018.

Cost of sales

Our cost of sales increased by approximately RMB60.5 million or 127.2% from approximately RMB47.6 million in 1H2018 to approximately RMB108.1 million in 1H2019, primarily due to (i) the increase in revenue and (ii) the high production costs of National Spirit* (共和國血脈) in order to satisfy the quality standard of our customer, being CCTV.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB25.3 million or 40.5% from approximately RMB62.5 million in 1H2018 to approximately RMB37.2 million in 1H2019. Our gross profit margin decreased from approximately 56.8% in 1H2018 to approximately 25.6% in 1H2019, primarily due to the low gross profit margin of our self-produced TV series National Spirit* (共和國血脈), which was due to (i) the adjustment of the total number of episodes broadcast by our customer, CCTV, in accordance with its policy and broadcasting schedule and (ii) the high production costs incurred in National Spirit* (共和國血脈) to satisfy CCTV's quality standard.

FINANCIAL INFORMATION

Other income and gains

Our other income and gains decreased by approximately 99.4% from approximately RMB2.4 million in 1H2018 to approximately RMB15,000 for 1H2019, primarily due to (i) the decrease in interest income from loans receivable as a result of the decrease in our outstanding Fixed Return Investment and (ii) the fact that we did not receive government grants in 1H2019.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB2.8 million or 269.4% from approximately RMB1.0 million in 1H2018 to approximately RMB3.8 million for 1H2019, which was attributed to more advertising and marketing activities required for promoting our self-produced TV series National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春).

Administrative expenses

Our administrative expenses increased by approximately RMB12.1 million or 469.5% from approximately RMB2.6 million for 1H2018 to approximately RMB14.7 million for 1H2019, principally due to the expenses incurred in relation to the proposed Listing.

Finance costs

Our finance costs increased by approximately RMB0.6 million or 67.5% from approximately RMB0.9 million for 1H2018 to approximately RMB1.5 million for 1H2019, principally due to the capitalisation of borrowing cost incurred from loans specifically for TV series production in 1H2018, whereas no borrowing cost was capitalised in 1H2019 upon the completion of production of such TV series.

Income tax expense

Our income tax expense increased by approximately RMB1.5 million or 37.4% from approximately RMB4.0 million for 1H2018 to approximately RMB5.6 million for 1H2019, primarily because in 1H2019 the majority of our taxable income was derived by Values Culture, which was not entitled to income tax exemption while in 1H2018 most of our taxable income was generated by Korgas Values, which was entitled to income tax exemption. 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 period decreased by approximately RMB39.8 million or 72.4% from approximately RMB54.9 million for 1H2018 to approximately RMB15.1 million for 1H2019. Our net profit margin decreased from approximately 49.9% for 1H2018 to approximately 10.4% for 1H2019.

FINANCIAL INFORMATION

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 because we did not succeed in securing the suitable broadcasting schedule for our self-produced TV series *Jade** (女管家)’s rerun broadcast on satellite channels and therefore recognised most of the production costs for *Jade** (女管家) 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% 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 low gross profit margin of *Jade** (女管家) of approximately 5.1% 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) 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 on the NEEQ.

FINANCIAL INFORMATION

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 the increase 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 distribution of TV series.

Administrative expenses

Our administrative expenses decreased by approximately RMB2.4 million or 25.8% from approximately RMB9.2 million for FY2017 to approximately RMB6.8 million for FY2018, principally due to the decrease in miscellaneous tax, office related expenses and professional fee.

Finance costs

Our finance costs increased by approximately RMB0.6 million or 32.4% from approximately RMB1.8 million for FY2017 to approximately RMB2.4 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 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.

FINANCIAL INFORMATION

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 mainly because we did not succeed in securing the suitable broadcasting schedules for our self-produced TV series Jade* (女管家)'s rerun broadcast on satellite channels and therefore recognised most of the production costs for Jade* (女管家) in FY2017.

Gross profit and gross profit margin

As a result of the forgoing, 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 low gross profit margin of Jade* (女管家) of approximately 5.1% in FY2017 and (ii) the relatively higher gross profit margin of the Furtherest Distance* (遙遠的距離) of approximately 58.4% for FY2016 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 the large amount of government award collected and recognised in FY2017 in relation to revenue derived from the Furtherest Distance* (遙遠的距離) in FY2016.

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.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased by approximately RMB1.7 million or 22.7% from approximately RMB7.5 million for FY2016 to approximately RMB9.2 million for FY2017, principally due to increases in office related expenses 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 42.7% from approximately RMB1.3 million for FY2016 to approximately RMB1.8 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 FY2016 to approximately RMB6.7 million for FY2017. Our net profit margin decreased from approximately 32.2% for FY2016 to approximately 6.7% for FY2017.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for investing in, operating and maintaining the business of 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 net proceeds from the Global Offering after the Listing. Any significant decrease in the demand for or pricing of our products, difficulty in collection of our licence fee or a significant decrease in the availability of bank loans and other borrowings, may adversely impact our liquidity.

FINANCIAL INFORMATION

Cash Flow

As at 31 December 2016, 2017 and 2018 and 30 June 2019, we had cash and cash equivalents of approximately RMB115.5 million, RMB30.1 million, RMB11.7 million and RMB3.2 million, respectively. The following table sets forth a summary of our consolidated statements of cash flows during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities before movements in working capital	50,374	13,469	80,108	64,118	22,917
Net cash flows (used in)/from operating activities	(29,884)	(28,246)	(85,546)	(61,989)	4,862
Net cash flows (used in)/from investment activities	(7,163)	(19,490)	27,927	5,257	—
Net cash flows from/(used in) financing activities	144,253	(37,746)	39,229	42,163	(13,240)
Net increase/(decrease) in cash and cash equivalents	107,206	(85,482)	(18,390)	(14,569)	(8,378)
Cash and cash equivalents at the beginning of year/period	8,331	115,537	30,055	30,055	11,665
Effect of foreign exchange rate changes, net	—	—	—	—	(122)
Cash and cash equivalents at end of year/period	<u>115,537</u>	<u>30,055</u>	<u>11,665</u>	<u>15,486</u>	<u>3,165</u>

Cash flows (used in)/from 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-investment (as non-executive producer).

For 1H2019, our net cash from operating activities was approximately RMB4.9 million. The difference between the profit before tax and net cash flows generated from operating activities was mainly attributable to (i) the increase in trade and note receivables by approximately RMB106.8 million, primarily due to the first-run broadcast of National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) and (ii) increase in prepayments, other receivables and other assets of approximately RMB19.7 million mainly from the prepayment under co-investment arrangement of TV Series A, which was partially offset by the decrease in inventories by approximately RMB78.8 million, mainly attributable to the first-run broadcast of National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春).

For FY2018, our net cash used in operating activities was approximately RMB85.5 million. The significant difference between the profit before tax and net cash flows used in operating activities was mainly attributable to (i) the increase in inventories by approximately RMB75.5 million, primarily due to production costs incurred for Yan Yang Chun* (燕陽春) and Love In The Mountains And Rivers* (愛在青山綠水間) and (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 mainly due to prepayment under co-investment arrangement of TV Series B and TV Series E.

FINANCIAL INFORMATION

For FY2017, our net cash used in operating activities was approximately RMB28.2 million. The difference between the profit before tax and net cash flows used in operating activities was mainly attributable to the increase in inventories by approximately RMB56.1 million, mainly due to production costs incurred for National Spirit* (共和國血脈) and Scrambling For Gold* (奪金戰); partially offset by the increase in trade payables by approximately RMB28.5 million primarily attributable to the purchase of broadcasting rights of The Golden Years of The Nursing Mother* (養母的花樣年華).

For FY2016, our net cash used in operating activities was approximately RMB29.9 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 as a result of successful broadcast of The Furthest Distance* (遙遠的距離); (ii) the increase in prepayments, other receivables and other assets by approximately RMB19.0 million attributable to the prepaid production costs for Scrambling For Gold* (奪金戰); and (iii) the increase in inventories by approximately RMB15.5 million during FY2016 as a result of costs incurred for the production of Jade* (女管家).

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 represent 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 — Prepayments, 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 in TV Series F. 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 in Pear Blossom* (又是一春梨花白) and TV Series F 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 in Super Father-In-Law & Son-In-Law* (超級翁婿) of approximately RMB7.5 million.

FINANCIAL INFORMATION

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 1H2019, our net cash flows used in financing activities were approximately RMB13.2 million, primarily reflecting our repayment of bank loans and other borrowings of approximately RMB30.0 million; partially offset by proceeds from bank loans of approximately RMB19.0 million.

For FY2018, our net cash flows generated from financing activities were approximately RMB39.2 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 RMB37.7 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 RMB144.3 million, primarily reflecting the (i) capital contribution from the then equity holders of Values Culture, which amounted to approximately RMB145.7 million and (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.

FINANCIAL INFORMATION

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 30 June 2019	As at 31 October 2019 (Unaudited)
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT ASSETS					
Inventories	74,230	130,367	203,918	121,159	117,092
Trade and notes receivables	68,058	68,253	99,291	209,727	188,844
Prepayments, other receivables and other assets	43,850	62,527	88,619	107,589	111,931
Cash and cash equivalents	115,537	30,055	11,665	3,165	8,411
Total current assets	<u>301,675</u>	<u>291,202</u>	<u>403,493</u>	<u>441,640</u>	<u>426,278</u>
CURRENT LIABILITIES					
Trade payables	—	28,514	34,865	55,935	50,531
Other payables and accruals	1,637	7,039	5,846	14,859	7,379
Lease liabilities	561	448	444	198	80
Interest-bearing bank loans and other borrowings	35,000	—	43,000	32,000	19,000
Tax payable	14,392	—	—	3,497	3,965
Total current liabilities	<u>51,590</u>	<u>36,001</u>	<u>84,155</u>	<u>106,489</u>	<u>80,955</u>
NET CURRENT ASSETS	<u><u>250,085</u></u>	<u><u>255,201</u></u>	<u><u>319,338</u></u>	<u><u>335,151</u></u>	<u><u>345,323</u></u>

As at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 October 2019, we recorded net current assets of approximately RMB250.1 million, RMB255.2 million, RMB319.3 million, RMB335.2 million and RMB345.3 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, tax payable and lease liabilities.

Our net current assets increased by approximately RMB5.1 million from approximately RMB250.1 million as at 31 December 2016 to approximately RMB255.2 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 mainly reflected, 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.

FINANCIAL INFORMATION

Our net current assets increased by approximately RMB64.1 million from approximately RMB255.2 million as at 31 December 2017 to approximately RMB319.3 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 mainly reflected, 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 RMB15.9 million from approximately RMB319.3 million as at 31 December 2018 to approximately RMB335.2 million as at 30 June 2019. Such increase was mainly due to the net profit for 1H2019 of approximately RMB15.1 million. The increase in net current assets mainly reflected, among others, (i) increase in trade and notes receivables of approximately RMB110.4 million, (ii) increase in prepayments, other receivables and other assets of approximately RMB19.0 million, (iii) decrease in inventories of approximately RMB82.8 million and (iv) the increase in trade payables of approximately RMB21.1 million.

Our net current assets increased by approximately RMB10.1 million from approximately RMB335.2 million as at 30 June 2019 to approximately RMB345.3 million as at 31 October 2019. Such increase was mainly due to the net profit for the four months ended 31 October 2019 of approximately RMB10.0 million. The increase in net current asset mainly reflected, among others, (i) decrease in interest-bearing bank loans and other borrowings of approximately 13.0 million, (ii) decrease in trade payables and other payables and accruals of approximately 12.9 million, (iii) decrease of trade and notes receivables of approximately RMB20.9 million and (iv) increase in cash and cash equivalents of approximately RMB5.2 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, RMB203.9 million and RMB121.2 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

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.

FINANCIAL INFORMATION

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, post-production, 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 recognised 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 the co-investment arrangement 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 handed “Description of principal components of our results of operations — Cost of sales” in this section.

The following table sets forth the breakdown of our inventories as at the respective dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,320	4,183	9,810	9,810
Work-in-progress	2,350	92,210	87,131	45,960
Finished goods	67,560	33,974	111,064	73,464
Less: Inventories provision	—	—	(4,087)	(8,075)
	74,230	130,367	203,918	121,159

FINANCIAL INFORMATION

Name of TV series/film/web series	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw material				
Scripts	4,320	4,183	9,810	9,810
Work-in-progress				
National Spirit* (共和國血脈)	—	44,249	—	—
Scrambling For Gold* (奪金戰)	2,350	27,302	—	—
Yan Yang Chun* (燕陽春)	—	17,062	37,452	—
Love In The Mountains And Rivers* (愛在青山綠水間)	—	—	45,921	45,960
Others (note)	—	3,597	3,758	—
	<u>2,350</u>	<u>92,210</u>	<u>87,131</u>	<u>45,960</u>
Finished goods				
— <i>Self-produced TV series</i>				
The Eagle Corps* (野山鷹)	5,504	687	—	—
The Furthest Distance* (遙遠的距離)	5,247	—	—	—
Jade* (女管家)	43,303	2,182	2,278	—
National Spirit* (共和國血脈)	—	—	49,051	9,339
Scrambling For Gold* (奪金戰)	—	—	23,903	23,459
Yan Yang Chun* (燕陽春)	—	—	—	6,636
— <i>Purchased copyright (or broadcasting rights) of TV series</i>				
The Golden Years Of The Nursing Mother* (養母的花樣年華)	—	20,769	—	—
Super Father-In-Law & Son-In-Law* (超級翁婿)	—	—	10,615	10,615
Wild Roses* (紅薔薇)	—	—	9,201	9,111
— <i>TV series under co-investment arrangement in which we act as non-executive producer</i>				
Magnificent Sword With Beauty* (美人如玉劍如虹)	9,906	991	991	—
— Others (note)	<u>3,600</u>	<u>9,345</u>	<u>10,938</u>	<u>6,229</u>
	<u>67,560</u>	<u>33,974</u>	<u>106,977</u>	<u>65,389</u>
	<u>74,230</u>	<u>130,367</u>	<u>203,918</u>	<u>121,159</u>

Note: Others represent TV series/films/web series the carrying value of which did not exceed 5% of the total balance of inventories as at the respective period end.

FINANCIAL INFORMATION

Our 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, which was primarily due to the production costs incurred in our self-produced TV series including Scrambling For Gold* (奪金戰), National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) and purchase costs of The Golden Years of the Nursing Mother* (養母的花樣年華), which was partially offset by the decrease in finished goods resulting from the first-run broadcast of Jade* (女管家).

Our inventories increased by approximately by RMB73.5 million or 56.4% from approximately RMB130.4 million as at 31 December 2017 to approximately RMB203.9 million as at 31 December 2018, which was primarily due to the production costs incurred in our self-produced TV series including Love In The Mountains And Rivers*(愛在青山綠水間) and Yan Yang Chun* (燕陽春).

The decrease in the inventories from approximately RMB203.9 million as at 31 December 2018 to approximately RMB121.2 million as at 30 June 2019 was primarily due to the first-run broadcasts of Yan Yang Chun* (燕陽春) and National Spirit* (共和國血脈) during 1H2019.

The following table sets forth the relevant total production or purchase cost, costs of sales and revenue recognised during the Track Record Period, and the estimated broadcasting schedule for the TV series of which the inventories balances exceeded 5% of the total balance of inventories as at 30 June 2019:

<u>Name of TV series</u>	<u>Total production/ purchase cost</u>	<u>Inventories as at 30 June 2019</u>	<u>Cost of sales recognised during Track Record Period</u>	<u>Revenue recognised during Track Record Period</u>	<u>Estimated broadcasting schedule as at the Latest Practicable Date</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
National Spirit* (共和國血脈) . . .	58,358	9,339	48,984	56,377	Rerun broadcast on satellite channel in December 2019
Love In The Mountains And Rivers* (愛在青山綠水間).	45,960	45,960	—	—	First-run broadcast on satellite channel in the first half of 2020
Yan Yang Chun* (燕陽春).	37,100	6,636	30,464	52,228	Rerun broadcast on satellite channel in December 2019 or the first quarter of 2020
Super Father-In-Law & Son-In-Law* (超級翁婿)	30,247	10,615	19,632	34,449	Rerun broadcast on satellite channel in December 2019 or the first quarter of 2020
Scrambling For Gold* (奪金戰) . . .	27,371	23,459	3,912	6,917	First-run broadcast on satellite channel in the first quarter of 2020
Wild Roses* (紅薔薇)	11,321	9,111	2,210	4,409	Rerun broadcast on satellite channel in the first quarter of 2020

FINANCIAL INFORMATION

Inventory ageing analysis

The following tables set forth the ageing analysis of our inventories as at the dates indicated:

As at 31 December 2016

	<u>Less than 1 year</u>	<u>1–2 years</u>	<u>Over 2 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,320	—	—	4,320
Work-in-progress	2,350	—	—	2,350
Finished goods				
— Self-produced TV series	48,550	5,504	—	54,054
— Purchased copyright (or broadcasting rights) of TV series	—	—	—	—
— Under co-investment arrangement [^]	13,506	—	—	13,506
	<u>62,056</u>	<u>5,504</u>	<u>—</u>	<u>67,560</u>
	68,726	5,504	—	74,230
Less: impairment	—	—	—	—
	<u><u>68,726</u></u>	<u><u>5,504</u></u>	<u><u>—</u></u>	<u><u>74,230</u></u>

As at 31 December 2017

	<u>Less than 1 year</u>	<u>1–2 years</u>	<u>Over 2 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,183	—	—	4,183
Work-in-progress	89,860	2,350	—	92,210
Finished goods				
— Self-produced TV series	—	2,182	687	2,869
— Purchased copyright (or broadcasting rights) of TV series	26,514	—	—	26,514
— Under co-investment arrangement [^]	—	4,591	—	4,591
	<u>26,514</u>	<u>6,773</u>	<u>687</u>	<u>33,974</u>
	120,557	9,123	687	130,367
Less: impairment	—	—	—	—
	<u><u>120,557</u></u>	<u><u>9,123</u></u>	<u><u>687</u></u>	<u><u>130,367</u></u>

FINANCIAL INFORMATION

As at 31 December 2018

	<u>Less than 1 year</u>	<u>1–2 years</u>	<u>Over 2 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	5,627	4,183	—	9,810
Work-in-progress	66,312	20,819	—	87,131
Finished goods				
— Self-produced TV series	72,954	—	2,278	75,232
— Purchased copyright (or broadcasting rights) of TV series	20,735	4,087	—	24,822
— Under co-investment arrangement [^]	9,300	—	1,710	11,010
	<u>102,989</u>	<u>4,087</u>	<u>3,988</u>	<u>111,064</u>
	174,928	29,089	3,988	208,005
Less: impairment	—	(4,087)	—	(4,087)
	<u>174,928</u>	<u>25,002</u>	<u>3,988</u>	<u>203,918</u>

As at 30 June 2019

	<u>Less than 1 year</u>	<u>1–2 years</u>	<u>Over 2 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,127	5,683	—	9,810
Work-in-progress	45,960	—	—	45,960
Finished goods				
— Self-produced TV series	15,974	23,458	2,278	41,710
— Purchased copyright (or broadcasting rights) of TV series	3,472	23,814	—	27,286
— Under co-investment arrangement [^]	2,758	—	1,710	4,468
	<u>22,204</u>	<u>47,272</u>	<u>3,988</u>	<u>73,464</u>
	72,291	52,955	3,988	129,234
Less: impairment	—	(4,087)	(3,988)	(8,075)
	<u>72,291</u>	<u>48,868</u>	<u>—</u>	<u>121,159</u>

[^]: Finished goods under co-investment arrangement refer to the TV series which were produced under co-investment arrangement in which we act as non-executive producer.

FINANCIAL INFORMATION

As at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 92.6%, 92.5%, 85.8% and 59.7% of our inventories were aged less than one year. As at 30 June 2019, approximately 40.3% of our inventories were aged from one to two years, which were mainly related to our self-produced TV series Scrambling For Gold* (奪金戰) and purchased TV series Super Father-In-Law & Son-In-Law* (超級翁婿) and Wild Roses* (紅薔薇).

As at the Latest Practicable Date, we are liaising with two TV stations respectively based in Sichuan province and Hubei province for the first-run broadcast of Scrambling For Gold* (奪金戰) on their satellite channels. Based on the latest communication, we expect that Scrambling For Gold* (奪金戰) will have its first-run broadcast on satellite channels in the first quarter of 2020. As at the Latest Practicable Date, we are also liaising with one TV station based in Jilin province for the rerun broadcast of Wild Roses* (紅薔薇) on its satellite channel. Based on the latest communication, we expect that Wild Roses* (紅薔薇) will have its rerun broadcast on satellite channel of such TV station in the first quarter of 2020. In addition, as at the Latest Practicable Date, we are liaising with one company engaged in the business of, among others, trading of copyrights and other TV stations for the licensing of rerun broadcasting rights of Super Father-In-Law & Son-In-Law* (超級翁婿), and we expect that Super Father-In-Law & Son-In-Law* (超級翁婿) will have its rerun broadcast on satellite channel in December 2019 or the first quarter of 2020.

The following table sets forth our average inventories turnover days:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2019</u>
Inventories turnover days ^(Note)	<u>392.0</u>	<u>457.7</u>	<u>824.7</u>	<u>272.1</u>

Note: Inventories turnover days were calculated based on the average of the opening and closing inventories divided by cost of sales for the relevant financial year/period multiplied by 365 or 181 days respectively.

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. According to the F&S Report, our Group's long inventories turnover days is in line with those of the industry peers which are principally engaged in production, distribution and investment in TV series, which normally range from 6 to 31 months.

FINANCIAL INFORMATION

The general increase in inventories turnover days from approximately 392.0 days for FY2016 and 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 we produced during the Track Record Period. The inventories turnover days dropped to 272.1 days in 1H2019 because a significant proportion of the inventories was recognised as cost of sales in 1H2019 as a result of the first-run broadcast of our self-produced TV series Yan Yang Chun* (燕陽春) and National Spirit* (共和國血脈).

The following table sets forth the average inventories turnover days by raw materials, work-in-progress and finished goods:

Inventories turnover days ^(Note)	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2019</u>
Raw materials	162.8	118.9	407.9	N/A
Work-in-progress	4.7	N/A	429.5	299.6
Finished goods	<u>316.1</u>	<u>279.8</u>	<u>347.7</u>	<u>161.7</u>

N/A: The turnover days is not applicable because there is no consumption of raw materials or work-in-progress during the relevant financial year/period.

Note: Inventories turnover days of raw materials/work-in-progress were calculated based on the average of the opening and closing balances of raw materials/work-in-progress by the amount of raw materials/work-in-progress consumed in production for the relevant financial year/period multiplied by 365 or 181 days respectively.

The turnover days of raw materials for each of FY2016, FY2017, FY2018 and 1H2019 were 162.8 days, 118.9 days, 407.9 days and N/A, respectively. The turnover days of raw materials for FY2016 were slightly higher than FY2017 mainly because we have stocked a relatively large number of scripts for future development of TV series before the Track Record Period and in FY2016. The high turnover days of raw materials for FY2018 were mainly due to the less consumption of raw materials as we generated substantial revenue of FY2018 from licencing the purchased TV series.

The turnover days of work-in-progress for each of FY2016, FY2017, FY2018 and 1H2019 were 4.7 days, N/A, 429.5 days and 299.6 days, respectively. The low turnover days of work-in-progress for FY2016 was mainly due to the significant amount of work-in-progress reclassified to finished goods upon the completion of production of our TV series The Furthest Distance* (遙遠的距離) and Jade* (女管家) before the end of FY2016. The higher turnover days of work-in-progress for FY2018 was mainly due to the continuous increasing cost incurred in the production of TV series in FY2017 and FY2018. The drop in turnover days of work-in-progress for 1H2019 was mainly due to the substantial amount of work-in-progress reclassified to finished goods upon the completion of production of our TV series Yan Yang Chun* (燕陽春) in 1H2019.

FINANCIAL INFORMATION

The turnover days of finished goods for each of FY2016, FY2017, FY2018 and 1H2019 were 316.1 days, 279.8 days, 347.7 days and 161.7 days, respectively. The turnover days of finished goods were relatively stable from FY2016 to FY2018. The turnover days of finished goods dropped to 161.7 days for 1H2019 mainly due to the increase in the cost of sales resulting from the increase in the number of self-produced and purchased TV series licenced in 1H2019.

We closely monitor our inventory level to meet our operation requirements and avoid stocking up obsolete inventory.

Inventory provision policy

Inventories are stated at lower of cost and net realisable value. Our Group carries out an inventory review on a project-by-project basis at the end of each reporting period and makes provision for obsolete projects accordingly. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and our historical experience in producing and distributing TV series of similar nature.

We make provision of nil, nil, RMB4.1 million and RMB8.1 million as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively.

As at 31 October 2019, approximately RMB4.1 million or 3.4% of our inventories as at 30 June 2019 were subsequently recognised as cost of sales.

Trade and notes receivables

Our trade receivables primarily consist of licence fee and distribution agent fee due from customers, and the investment return due from third party investors under co-investment arrangement (as non-executive producer). For further details of the arrangements, please refer to the paragraph headed “Business — Our business and revenue model — Our TV series business — (ii) Investment in TV series as non-executive producer” in this prospectus. 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.

FINANCIAL INFORMATION

The following table sets out the breakdown of our trade and notes receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019:

	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	68,045	76,972	112,704	219,545
Notes receivable	4,000	—	—	—
	<u>72,045</u>	<u>76,972</u>	<u>112,704</u>	<u>219,545</u>
Impairment	(3,987)	(8,719)	(13,413)	(9,818)
	<u><u>68,058</u></u>	<u><u>68,253</u></u>	<u><u>99,291</u></u>	<u><u>209,727</u></u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our trade and notes receivables were approximately RMB68.1 million, RMB68.3 million, RMB99.3 million and RMB209.7 million respectively, which were all due from Independent Third Parties. Our trade and notes receivables remained stable as at 31 December 2016 and 2017 and 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. Our trade and notes receivables further increased by approximately RMB110.4 million or 111.2% from approximately RMB99.3 million as at 31 December 2018 to RMB209.7 million as at 30 June 2019 which was mainly due to the first-run broadcast of Yan Yang Chun* (燕陽春) and National Spirit* (共和國血脈) in 1H2019.

The following tables set forth the breakdown of trade and notes receivables and subsequent settlement as at the Latest Practicable Date by (i) business segments and (ii) types of customers:

(i) *By business segments:*

	<u>As at 31 December</u>			<u>As at 30 June 2019</u>	<u>Subsequent settlement as at the Latest Practicable Date in respect of the trade receivables as at</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>30 June 2019</u>	<u>31 December 2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
Licensing of broadcasting rights of TV series	72,045	76,972	96,309	194,900	43,840	47,886
Distribution of broadcasting rights of TV series	—	—	13,715	6,715	—	7,000
Net licence fee received from investment in TV series/film/web series as non-executive producer	—	—	2,680	17,930	15,000	—
Impairment	(3,987)	(8,719)	(13,413)	(9,818)	—	—
	<u><u>68,058</u></u>	<u><u>68,253</u></u>	<u><u>99,291</u></u>	<u><u>209,727</u></u>	<u><u>58,840</u></u>	<u><u>54,886</u></u>

FINANCIAL INFORMATION

(ii) *By type of customers:*

	As at 31 December				Subsequent settlement as at the Latest Practicable Date in respect of the trade receivables as at	
	2016	2017	2018	As at 30 June 2019	30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Television stations (including their operating entities)	71,804	76,718	95,945	192,477	42,700	47,725
Online platforms	—	—	—	15,000	15,000	—
Executive producers of the TV series	—	—	6,464	6,714	—	—
Copyright owners of the TV series	—	—	9,931	2,931	—	7,000
Other customers	241	254	364	2,423	1,140	161
Impairment	(3,987)	(8,719)	(13,413)	(9,818)	—	—
	<u>68,058</u>	<u>68,253</u>	<u>99,291</u>	<u>209,727</u>	<u>58,840</u>	<u>54,886</u>

Our trade receivables amounting to RMB17,000,000, nil, RMB16,674,000 and RMB51,832,000 were pledged to secure the bank loan granted to our Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, 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 usually issues invoice according to the relevant milestone dates (such as on or within a certain period from the date of entry into contract, the date of provision of tapes of the TV series and the date of completion of broadcast, etc.) as stated in the agreements upon confirmation by our customers. 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 and 30 June 2019, our Group made provision for impairment of trade receivables of approximately RMB4.0 million, RMB8.7 million, RMB13.4 million and RMB9.8 million respectively. Impairment analysis is performed at the end of each reporting period using a provision matrix to measure expected credit losses (“ECLs”). The provision rates are based on aging period and days past due for groupings of various customer segments with similar loss patterns (i.e. by customer type).

FINANCIAL INFORMATION

The following table sets forth the provision matrix to calculate ECLs as at the end of each reporting period:

	As at 31 December			As at 30 June 2019
	2016	2017	2018	
Aged less than 1 year				
Current		<i>Note</i>		
Past due	9.72%	9.42%	10.13%	6.66%
Aged 1 to 2 years and past due	21.26%	13.37%	14.35%	11.98%
Aged 2 to 3 years and past due	Nil	23.06%	23.08%	18.27%
Aged more than 3 years and past due	Nil	Nil	100.00%	100.00%

Note: The Group estimated the expected credit loss rate to be minimal on current trade receivables.

Our Group did not incur any actual default in the trade receivables during the Track Record Period. However, to be consistent with how our Group defines normal credit risk management practices, we consider trade receivables aged over 3 years are similar to actual default and loss. The historical expected default rates are implied by an assumption of 100% losses for trade receivables aged over 3 years and to reflect a probability-weighted outcome based on historical collection records and aging profiles (including days past due) by grouping various customers that have similar loss pattern using the ECL provision matrix. The historical expected default rates are multiplied by the forward looking information to arrive at the final ECL rates in the provision matrix above. For further details, please refer to note 16 to the Accountants' Report in Appendix I to this prospectus.

The following table sets forth the ageing analysis of our trade and notes receivables, based on the transaction dates, and respective loss allowance as at the dates indicated and subsequent settlement as at the Latest Practicable Date:

	As at 31 December			As at 30 June 2019	Subsequent settlement as at the Latest Practicable Date in respect of the trade receivables as at	
	2016	2017	2018		30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	53,075	14,565	58,735	141,364	42,780	29,005
3 to 6 months	391	—	1,471	1,632	—	604
6 to 12 months	—	10,476	—	32,759	5,830	—
1 to 2 years	18,579	34,852	20,936	20,105	4,214	11,363
2 to 3 years	—	17,079	27,694	22,715	5,046	10,046
Over 3 years	—	—	3,868	970	970	3,868
Impairment	(3,987)	(8,719)	(13,413)	(9,818)	—	—
Total	<u>68,058</u>	<u>68,253</u>	<u>99,291</u>	<u>209,727</u>	<u>58,840</u>	<u>54,886</u>

FINANCIAL INFORMATION

The following table sets forth the analysis of our trade and notes receivables based on days past due, and respective loss allowance as at the dates indicated and subsequent settlement as at the Latest Practicable Date:

	As at 31 December				Subsequent settlement as at the Latest Practicable Date in respect of the trade receivables as at	
	2016	2017	2018	As at 30 June 2019	30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	53,075	23,736	58,735	141,364	40,358	29,005
Past due less than 1 year	3,361	36,137	22,236	43,747	11,402	11,817
Past due 1 to 2 years	15,609	1,990	27,845	21,685	6,026	10,176
Past due 2 to 3 years	—	15,109	990	12,749	1,054	990
Past due over 3 years	—	—	2,898	—	—	2,898
Impairment	(3,987)	(8,719)	(13,413)	(9,818)	—	—
Total	68,058	68,253	99,291	209,727	58,840	54,886

As at 30 June 2019, approximately RMB36.3 million, representing approximately 17.3% of our net trade and notes receivables were aged over one 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 communications with the customers and legal actions, depending on the specific circumstances, after regularly reviewing the monitoring reports from the finance staff. As a result of the implementation of stringent credit control procedures, approximately RMB54.9 million or approximately 55.3% of our outstanding trade receivables as at 31 December 2018 had been settled as at the Latest Practicable Date.

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 TV stations is relatively low as they are state-owned entities.

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, FY2018 and 1H2019.

FINANCIAL INFORMATION

The following table sets forth our average trade receivables turnover days for the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2019</u>
Average trade receivables turnover days ^(Note)	<u>187.7</u>	<u>243.3</u>	<u>198.4</u>	<u>192.5</u>

Note: Average trade receivables turnover days were calculated based on the average of beginning and ending trade receivables balances divided by revenue for the relevant financial year/period multiplied by 365 and 181 days respectively.

Our average trade receivables turnover days remained stable for FY2016, FY2018 and 1H2019. Our average trade receivables turnover days were relatively higher for FY2017 mainly because certain trade receivables resulted from the licensing of broadcasting rights in FY2016 remained unsettled as at 31 December 2017, resulting in the higher balance of trade receivables as at 31 December 2017 unproportional to the revenue for FY2017. 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 the Latest Practicable Date, approximately RMB58.8 million and RMB54.9 million, representing approximately 28.1% and 55.3% of our outstanding trade receivables as at 30 June 2019 and 31 December 2018, respectively, had been settled.

Prepayments, other receivables and other assets

Our prepayments, other receivables and other assets primarily consist of prepayments under the co-investment arrangement, prepayments, loans receivables and deposits and other receivables.

FINANCIAL INFORMATION

The following table sets forth the breakdown of our prepayment, other receivables and other assets as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments under the co-investment arrangement . . .	500	3,140	79,272	77,797
Prepayments	24,189	14,785	842	8,289
Deposits and other receivables . .	9,311	9,993	351	16,622
Loans receivables	8,500	28,700	3,774	3,774
Prepaid listing expenses	—	—	1,106	—
Deductible input — VAT	2,048	1,911	4,945	—
Income tax recoverable	—	3,311	717	—
Deferred listing expenses	—	—	—	3,495
Interest receivables	302	1,687	761	761
Less: Impairment allowance	(1,000)	(1,000)	(3,149)	(3,149)
Total	43,850	62,527	88,619	107,589

Prepayments under the co-investment arrangement

Prepayments under the co-investment arrangement represent the investment we made in TV series/film/web series 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 — Our TV series business — (ii) Investment in TV series as non-executive producer” in this prospectus.

Details of our prepayments under the co-investment arrangement during the Track Record Period are as follows:

TV series/film/web series	Total investment cost	Group's minority interest under the co-investment arrangement	As at 31 December			As at 30 June
			2016	2017	2018	2019
	<i>RMB'000</i>	%	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
True Or Dare* (真心話太冒險即你好壞先生) . .	500	33%	500	500	—	—
Evil Nights* (罪夜無間)	8,800	40%	—	2,640	—	—
TV Series A	60,000	21%	—	—	19,950	44,797
TV Series E	26,000	10%	—	—	26,322	—
TV Series B	22,000	10%	—	—	22,000	22,000
TV Series C	11,000	20%	—	—	11,000	11,000
			<u>500</u>	<u>3,140</u>	<u>79,272</u>	<u>77,797</u>

FINANCIAL INFORMATION

Our prepayments under the co-investment arrangement increased significantly from approximately RMB0.5 million as at 31 December 2016 to approximately RMB79.3 million as at 31 December 2018, which was mainly attributable to our investment as non-executive producer in TV Series A, TV Series E, TV Series B and TV Series C. As at 30 June 2019, our Group had total prepayment under co-investment arrangement of approximately RMB77.8 million comprising of investment in three TV series, namely TV Series A, TV Series B and TV Series C. After discussing with the respective executive producers of the relevant TV series, it is expected that TV Series A will have its first-run broadcast on satellite channel in the second quarter of 2020, whereas TV Series B and TV Series C will have their first-run broadcasts on satellite channels in or after 2020.

Our prepayments under the co-investment arrangement slightly decreased from RMB79.3 million as at 31 December 2018 to RMB77.8 million as at 30 June 2019, which was primarily due to the termination of our investment arrangement in TV Series E; partially offset by the additional investment made in TV Series A during 1H2019. We terminated our investment arrangement in TV Series E because the executive producer of this TV series decided to suspend its production as the executive producer cannot reach an agreement with the leading actor on his fees for acting in this TV series. Our Directors believe that the termination of our investment arrangement in TV Series E will not have any material adverse financial impact on our Group as we have entered into a termination agreement in respect of our investment in TV Series E with the executive producer of the TV series, pursuant to which we expect to recover our investment amount in full by the end of 2019.

Our management assessed whether there are any indicators of impairment for our inventories and prepayments under the co-investment arrangement on a project-by-project basis at the end of each reporting period. The assessments are based on (i) the estimated revenue in the ordinary business, less estimated costs of completion and selling expenses after making due enquiries with the relevant executive producer; (ii) whether there is any restriction from government policy on the content of TV series related to the Group's invested TV series; (iii) the production and/or distribution status of the invested TV series; and (iv) the life cycle of the invested TV series. Based on such assessment, our Directors considered that, at the end of each reporting period, (i) adequate impairment has been provided for our Group's inventories and prepayments under the co-investment arrangements and (ii) revenue expected to be received from each invested TV series exceeded the unavoidable cost of meeting the obligations and commitments under the co-investment arrangements.

FINANCIAL INFORMATION

Prepayments

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. Our prepayments increased from approximately RMB0.8 million as at 31 December 2018 to approximately RMB8.3 million as at 30 June 2019, primarily due to the upfront payment made to our suppliers for engaging their services on scripts and production of our self-produced TV series.

Deposits and other receivables

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 as at 31 December 2018 was mainly due to the collection of the advance made to a third party in FY2018. The significant increase in deposits and other receivables from approximately RMB0.4 million as at 31 December 2018 to approximately RMB16.6 million as at 30 June 2019 was mainly due to the outstanding amount due from our investee as a result of the termination of the co-investment arrangement in respect of TV Series E.

Loans receivables

Loans receivables represent the Fixed Return Investment and loan we made to third parties. Our loans 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 one TV series and one film in FY2017 with a total investment amount of RMB20.2 million. As we recovered most of our Fixed Return Investment in FY2018 and 1H2019, our Fixed Return Investment decreased to approximately RMB1.0 million (net of impairment allowance) as at 30 June 2019.

FINANCIAL INFORMATION

Details of the Fixed Return Investment we made as an investor are as follows:

TV series/film	Name of investee	Amount of Fixed Return Investment made by our Group during the Track Record Period	Amount of Fixed Return Investment repaid by the investee during the Track Record Period	Outstanding balance				Amount of fixed contractual cash flows received during the Track Record Period (Note 5)	Amount of cash flows expected to be received after the Track Record Period (Note 5)
				As at 31 December		As at 30 June			
				2016	2017	2018	2019		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Super Father-In-Law & Son-In Law* (超級翁婿) (Note 1)	Supplier H (Note 1)	7,500	7,500	7,500	7,500	—	—	9,963	—
Pear Blossom* (又是一春梨花白) (Note 2)	Investee A (Note 2)	3,000	1,000	—	3,000	2,000	2,000	1,000	1,381
TV Series F (Note 3)	Investee B (Note 3)	17,200	17,200	—	17,200	—	—	18,920	—
TV Series D (Note 4)	Investee C (Note 4)	—	—	1,000	1,000	1,000	1,000	—	—
Less: Impairment allowance				(1,000)	(1,000)	(2,000)	(2,000)	—	—
		<u>27,700</u>	<u>25,700</u>	<u>7,500</u>	<u>27,700</u>	<u>1,000</u>	<u>1,000</u>	<u>29,883</u>	<u>1,381</u>

Notes:

- Our Group initially invested into the TV series under Fixed Return Investment and then acquired the copyrights from Supplier H. Our Group is in the process of distribution of its rerun broadcast as at the Latest Practicable Date. Supplier H is a private company providing television and film related services and was one of our five largest supplier in FY2018.
- This is a film which has been screened in cinema as at the Latest Practicable Date. Investee A is a private company which, to the best knowledge of our Directors, engages in the business of, among others, production of TV programmes and film related services.
- This is a TV series the production of which had been completed and our investment had been fully recovered. Investee B is a private company which, to the best knowledge of our Directors, engages in the business of, among others, production of TV series. In addition to making Fixed Return Investment in this TV series, we also entered into a co-investment arrangement with Investee B in TV Series B as non-executive producer and purchased the broadcasting rights of a TV series from Investee B during the Track Record Period.
- This is a TV series which is ready for distribution as at the Latest Practicable Date. Investee C is a private company which, to the best knowledge of our Directors, engages in the business of, among others, providing planning services of TV series and film.
- Fixed contractual cash flows refer to the sum of the principal investment amount and the expected return under the Fixed Return Investment.

We have established a set of investment policies which require the responsible departments to take appropriate measures to ensure the investment funds made are used for prescribed purpose and require our management to make periodic assessments on the recoverability of the Fixed Return Investment and the credit risk exposures relating to the investees. By implementing measures such as visiting the shooting sites and following up by phone calls, we constantly monitor the production and distribution status of the TV series/film in which we made Fixed Return Investment, settlement record of the investees and use of funds by our investees in order to ensure the recoverability of the funds and that the funds are only used in the production of the relevant TV series/films.

FINANCIAL INFORMATION

During the Track Record Period, we failed to recover the principal amount of our Fixed Return Investment in TV Series D of RMB1.0 million and the film Pear Blossom* (又是一春梨花白) of RMB2.0 million which was due before the Track Record Period and in FY2018, respectively. Having considered the financial condition of the investees, we have made impairment provision of RMB1.0 million, RMB1.0 million, RMB2.0 million and RMB2.0 million in our financial statements as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively. Save as disclosed above, we did not experience any material difficulty in recovering the principal and return of our Fixed Return Investment and were not aware of any incident of non-compliant use of our invested funds during the Track Record Period and up to the Latest Practicable Date.

The Fixed Return Investment contracts usually set out the following terms: (i) the production plan of TV series; (ii) the amount of investment, investment period and return rate; (iii) the rights and obligations of all parties with regard to the production and distribution of TV series; (iv) the intended use of the investment funds and the method of managing and monitoring of the funds and (v) the arrangement in relation to the ownerships of the copyright. As advised by our PRC Legal Advisers, such Fixed Return Investment contracts, which are arrangements between our Group and other parties for the purpose of the production of TV series or film, do not fall under the definition of a loan agreement under the PRC Contract Law. Thus, the General Provisions on Lending (貸款通則), which was promulgated by the People's Bank of China (the "PBOC") and effective from 1 August 1996, is inapplicable and the Fixed Return Investment contracts are in compliance with applicable PRC laws and regulations.

In addition to Fixed Return Investment, we also granted a loan to the co-producer of the TV series Super Father-In-Law & Son-In-Law* (超級翁婿), an Independent Third Party which, to the best knowledge of our Directors, engages in the business of, among others, providing TV series and film related services, in the amount of approximately RMB5.3 million in June 2018 for working capital purpose. Based on the financial statements provided by the borrower, it had total assets of over RMB7 million as at the end of May 2018. The interest rate for the loan was 7.5% per annum which was determined by the parties after arm's length negotiation. As at 31 December 2018 and 30 June 2019, a balance of approximately RMB774,000 remained unpaid and we have made full impairment provision of the unpaid amount in our financial statements as at 31 December 2018 and 30 June 2019.

The following table sets forth the fund flows between our Group and the borrower during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances of loan	—	—	(5,291)	—
Repayment of loan	—	—	4,517	—
Interest received	—	—	—	—

FINANCIAL INFORMATION

As advised by our PRC Legal Advisers, the loan granted by our Group to the borrower does not comply with the General Provisions on Lending. Pursuant to the General Provisions on Lending, the institution which engages in loan business is required to be approved by the PBOC and obtain and maintain the financial institution's legal person licence or the financial institution's operation licence issued by the PBOC. Loans granted by companies that are not licensed financial institutions are prohibited. The PBOC may impose penalties on the lender to the amount equivalent to one to five times of the income generated from loan advancing activities and shall suppress such lending activity. However, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the "Provisions"), which became effective on 1 September 2015, except under the circumstances as set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions, the people's court shall support a claim made by the claimant by upholding the validity of a private lending contract signed among legal entities and other organisations for the purpose of production or business operation. Furthermore, the Provisions provided that where the interest rate agreed on by the borrower and the lender does not exceed 24% per annum, and the lender requests the borrower to pay the interest based on the agreed interest rate, the people's court shall support such request. Since the loan granted by our Group to the borrower did not involve the circumstances as set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions, such loan arrangement is not in violation of PRC laws and administrative regulations. Therefore, the loan agreement is valid and enforceable under the PRC laws. Moreover, since the interest rate of the loan granted by our Group to the borrower does not exceed 24% per annum, the people's court will support our request to the borrower to pay the interest based on the agreed interest rate.

Having considered the advice from our PRC Legal Advisers, our Directors considered that the non-compliance of our Group's loan with the General Provisions on Lending does not have material adverse impact on the business and financial condition of our Group.

To the best of our Directors' knowledge after making enquiries, save as disclosed above, there is no past and present relationship and arrangement between each of the investees/borrower and our Company, the Consolidated Affiliated Entities/subsidiaries, their shareholders, directors, senior management or any of their respective associates.

An impairment analysis is performed at the end of each of the Track Record Period. Our Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. Our Group considers the historical default rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group made provision for impairment for loans receivables and interest receivables of RMB1,000,000, RMB1,000,000, RMB3,149,000 and RMB3,149,000, respectively. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group estimated the expected loss rate for deposits and other receivables is minimal under the 12-month expected loss method.

FINANCIAL INFORMATION

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 the co-investment arrangement (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 *The Golden Years of the Nursing Mother**. (養母的花樣年華) in FY2017. Our trade payables further increased by approximately RMB6.4 million or 22.3% to approximately RMB34.9 million as at 31 December 2018 mainly attributable to purchase of broadcasting rights of *Super Father-In-Law & Son-In-Law** (超級翁婿). Our trade payables further increased by approximately RMB21.1 million or 60.4% to approximately RMB55.9 million as at 30 June 2019 mainly due to the outstanding share of licence fee due to the investors of *National Spirit** (共和國血脈) under co-investment arrangement and the purchase of broadcasting rights of several TV series in 1H2019.

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 ageing analysis of our trade payables, as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	—	20,431	6,211	34,533
3 to 6 months	—	—	12,666	—
6 to 12 months	—	8,083	6,000	10,414
1 to 2 years	—	—	9,988	7,000
2 to 3 years	—	—	—	3,988
	—	28,514	34,865	55,935

As at 31 December 2018 and 30 June 2019, we had trade payables of approximately RMB10.0 million and RMB11.0 million aged over 1 year, respectively, which was mainly due to our strong capability to negotiate for a prolonged payment schedule with our suppliers and investors.

As at the Latest Practicable Date, approximately RMB18.4 million, representing approximately 32.9% of our trade payables as at 30 June 2019 had been settled.

FINANCIAL INFORMATION

The following table sets forth our average trade payables turnover days for the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2019</u>
Average trade payables turnover days (Note)	<u>—</u>	<u>63.8</u>	<u>156.4</u>	<u>76.0</u>

Note: 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 financial year/period and multiplied by 365 and 181 days respectively.

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. For 1H2019, we had average trade payables turnover days of around 76.0 days. The lower average trade payables turnover days for 1H2019 was mainly attributable to the significant increase in cost of sales as a result of first-run broadcast of National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春).

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 and 30 June 2019:

	<u>As at 31 December</u>			
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount received under the co-investment arrangement (as executive producer)	—	3,500	3,000	2,000
Other tax payables	8	560	237	2,737
Interest payable	5	—	1,175	789
Payroll and welfare payable	932	2,464	937	950
Accrued listing expenses	—	—	—	7,623
Accrued expenses	141	170	—	—
Others	551	345	497	760
	<u>1,637</u>	<u>7,039</u>	<u>5,846</u>	<u>14,859</u>

FINANCIAL INFORMATION

Our other payables and accruals mainly comprise amounts received under the co-investment arrangement, interest payables, payroll and welfare payable, and accrued listing expenses which were non-interest-bearing and repayable on demand.

Amount received under the co-investment 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 — Our TV series business — (i) Licensing of broadcasting rights of TV series — (a) Licensing of broadcasting rights of self-produced TV series” in this prospectus. Interest payables are related to bank loans and Fixed Return Investments made by third party investors.

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 the co-investment 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.

Our other payables increased by approximately RMB9.0 million or 154.2% from approximately RMB5.8 million as at 31 December 2018 to approximately RMB14.9 million as at 30 June 2019, primarily due to the listing expenses incurred in 1H2019.

Deferred tax assets/liabilities

Deferred taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

We had deferred tax assets of RMB1.0 million, RMB2.2 million, RMB3.5 million and RMB3.1 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, as a result of impairment provision on trade receivables, other receivables and inventories during the Track Record Period. We had deferred tax liabilities of RMB0.4 million, RMB0.5 million, RMB1.1 million and RMB1.3 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, representing the withholding taxes that would be payable on unremitted earnings that are subject to taxes of the Consolidated Affiliated Entities established in Mainland China.

We have accumulated tax losses in the PRC of approximately RMB2.0 million, RMB4.7 million, RMB7.6 million and RMB9.1 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, for which deferred tax assets have not been recognised. The accumulated tax losses in the PRC was resulted from our operating loss of a subsidiary,

FINANCIAL INFORMATION

Beijing Values, which is operated as our management centre and the operating loss of Beijing Values was mainly resulted from our general and administrative expenses incurred for operation.

For further details, please refer to note 22 to the Accountants' Report in Appendix I to this prospectus.

INDEBTEDNESS

The table below sets forth our indebtedness balances as of the dates indicated:

	As at 31 December			As at	As at
	2016	2017	2018	30 June 2019	31 October 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Interest-bearing bank loans — secured	20,000	—	25,000	19,000	19,000
Other borrowings — unsecured.	15,000	—	18,000	13,000	—
Lease liabilities	561	1,011	546	198	80
	35,561	1,011	43,546	32,198	19,080

Bank loans

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, 5.10% to 7.92% and 5.22% per annum as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively.

The bank loans are guaranteed by joint and several personal guarantees given by the Core Shareholders and secured by pledged trade receivables. For the details, please refer to note 21 to the Accountants' Report in Appendix I to this prospectus. Upon Listing, these personal guarantees provided will be replaced by corporate guarantees to be provided by WFOE or the loans will be repaid.

Other borrowings

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, 10.0% to 15.0%, and 10.0% to 16.0% per annum as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our other borrowings as at 31 December 2016 and 2018 and 30 June 2019 were unsecured.

FINANCIAL INFORMATION

Details of the Fixed Return Investment made by third party investors are as follows:

Name of TV series	Name of investor	Total production/ investment cost	Cost of production expected to be incurred subsequent to Track Record	Principal amount received by our Group during the Track Record	Principal amount repaid by our Group during the Track Record	Outstanding balance					Amount of fixed contractual cash flows paid during the Track Record	Amount of fixed contractual cash flows to be paid after the Track Record
						As at 31 December		As at 30 June		As at 31 October		
						2016	2017	2018	2019	2019		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	(Note 8)	(Note 8)
Jade* (女管家)	Investor A ^(note 1)	59,741	—	10,000	10,000	10,000	—	—	—	—	11,800	—
The Furthest Distance* (遙遠的距離)	Investor B ^(note 2)	47,353	—	5,000	5,000	5,000	—	—	—	—	5,900	—
	Customer C ^(note 3)			5,000	5,000	—	—	—	—	—	6,000	—
Evil Nights* (罪夜無間)	Investor D ^(note 4)	8,301	—	5,000	5,000	—	—	5,000	—	—	5,750	—
Yan Yang Chun* (燕陽春)	Customer I ^(note 5)	37,100	—	10,000	10,000	—	—	—	—	—	12,000	—
National Spirit* (共和國血脈)	Investor E ^(note 6)	58,358	—	3,000	—	—	—	3,000	3,000 ^(note 7)	—	450	3,240
				38,000	35,000	15,000	—	8,000	3,000	—	41,900	3,240

Notes:

- Investor A is an indirect subsidiary of a TV station in Guangdong province, which, to the best knowledge of our Directors, engages in the business of, among others, distribution of TV programmes.
- Investor B is an indirect subsidiary of Customer A which is a major TV station in Anhui province operating 10 TV channels. Customer A was one of our five largest customers in FY2016.
- Customer C is an indirect wholly-owned subsidiary of a major TV station in Guizhou province operating 10 TV channels and was one of our five largest customers in FY2016.
- Investor D is a private company which, to the best knowledge of our Directors, engages in the business of, among others, production of TV programmes.
- Customer I is an indirect subsidiary of a major TV station in Tianjin operating 11 TV channels and was one of our five largest customers in FY2018 and 1H2019.
- Investor E is a subsidiary of a TV station in Sichuan province, which, to the best knowledge of our Directors, engages in the business of, among others, production of TV series. Investor E and its parent company were our Group's customers during the Track Record Period.
- The maturity date of the amount under Fixed Return Investment with Investor E during the Track Record Period is 1 August 2019 and it has been fully settled.
- Fixed contractual cash flows refer to the sum of the principal investment amount and the expected return under the Fixed Return Investment.

FINANCIAL INFORMATION

In determining whether to enter into the Fixed Return Investment arrangement as investee, we usually consider various factors including (i) the capital requirements for the relevant TV series; (ii) the working capital status of the Group; (iii) the cost of funding from the Fixed Return Investment; (iv) the alternative source of funding such as available banking facilities and its corresponding costs and (v) other business considerations. During the Track Record Period, our costs of Fixed Return Investment ranged from 15% to 40% per annum. Having considered (i) our tight working capital status during the Track Record Period; (ii) there was no other source of financing available which offered a lower cost of funding; and (iii) some investors are our potential customers and their investment in our TV series could tighten the business relationship with each other and increase the likelihood of these potential customers purchasing our TV series, our Directors are of view that entering into the Fixed Return Investment arrangement as investee was beneficial to our Group as a whole.

We have established a set of investment policies which require the responsible departments to take appropriate measures to ensure the investment funds received are used for prescribed purpose and the finance department to produce a repayment schedule for each investment received according to the investment period stated in the agreement so that our management could make periodic assessments on our ability to generate sufficient cash flow for the timely repayment of our obligations under the Fixed Return Investment as an investee during investment period. Under such policies, the responsible departments should ensure the use of the received investment funds to comply with the contractual terms in the agreements with relevant investors and regularly update the production and distribution status of the TV series/web series with the relevant investors. Our Directors confirm that we did not experience any material difficulty in repaying the obligations under the Fixed Return Investment and there was no incidents of non-compliant use of the investment funds received by us during the Track Record Period and up to the Latest Practicable Date.

As advised by our PRC Legal Advisers, such Fixed Return Investment contracts, which are arrangements between our Group and other parties for the purpose of the production of TV series or web series, do not fall under the definition of a loan agreement under the PRC Contract Law, and thus the General Provisions on Lending (貸款通則) is inapplicable and the Fixed Return Investment contracts are in compliance with applicable PRC laws and regulations.

Apart from the Fixed Return Investment made by third party investors, our other borrowings from Independent Third Parties were nil, nil, RMB10.0 million and RMB10.0 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

FINANCIAL INFORMATION

The following table sets forth the details of our Group's other borrowings from Independent Third Parties during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>1H2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proceeds from other borrowings				
Lender A <i>(note 1)</i>	—	—	10,000	—
Lender B <i>(note 2)</i>	—	—	1,500	—
Lender C <i>(note 3)</i>	7,000	—	—	—
Mr. Sun Fuqiu <i>(note 4)</i>	—	—	—	—
Total	<u>7,000</u>	<u>—</u>	<u>11,500</u>	<u>—</u>
Repayment of other borrowings				
Lender A	—	—	—	—
Lender B	—	—	(1,500)	—
Lender C	(25,000)	—	—	—
Mr. Sun Fuqiu	(2,000)	—	—	—
Total	<u>(27,000)</u>	<u>—</u>	<u>(1,500)</u>	<u>—</u>
Interest paid				
Lender A	—	—	—	—
Lender B	—	—	—	—
Lender C	634	—	—	—
Mr. Sun Fuqiu	125	—	—	—
Total	<u>759</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

- The loan was obtained by our Group from Lender A in November 2018 for working capital purpose. The interest rate for the loan was 10% per annum which was determined by the parties after arms' length negotiation. To the best knowledge of our Directors, Lender A was principally engaged in investment with self-own funds and had registered capital of RMB5 million as at the Latest Practicable Date.
- The loan was obtained by our Group from Lender B in November 2018 for working capital purpose. The interest rate for the loan was nil per annum which was determined by the parties after arms' length negotiation. To the best knowledge of our Directors, Lender B was principally engaged in, among others, real estate development and had registered capital of RMB50 million as at the Latest Practicable Date.
- The interest rate for the loan was 6% per annum which was determined by the parties after arms' length negotiation. Lender C is an individual.
- The loan was obtained by our Group from Mr. Sun Fuqiu before the Track Record Period for the production of The Eagle Corps* (野山鷹). The interest rate for the loan was 6% per annum which was determined by the parties after arms' length negotiation. Mr. Sun Fuqiu is a Relevant Shareholder and is interested in 45% of SLZW Investment, which holds approximately 1.33% of the issued share capital of our Company as at the Latest Practicable Date. Mr. Sun Fuqiu was the supervisor of several subsidiaries of our Company during the Track Record Period.

FINANCIAL INFORMATION

As advised by our PRC Legal Advisers, the loans granted by the lenders to our Group do not comply with the General Provisions on Lending (貸款通則). However, the General Provisions on Lending (貸款通則) did not specify any penalties on the borrower of loans. Besides, since the loans granted by the lenders to our Group did not involve the circumstances as set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions, such loan arrangements are not in violation of PRC laws and administrative regulations. Therefore, the loan agreements are valid and enforceable under the PRC laws. For details on the discussion regarding the loan granted by our Group to the borrower, please refer to the paragraph headed “Discussion on certain financial position items — Prepayments, other receivables and other assets — Loans receivables” in this section.

Having considered the advice from our PRC Legal Advisers, our Directors considered that the non-compliance of our Group’s borrowing with the General Provisions on Lending (貸款通則) does not have material adverse impact on the business and financial condition of our Group.

To the best of our Directors’ knowledge after making enquiries, save as disclosed above there is no past and present relationship and arrangement between each of the investors/lenders and our Company, the Consolidated Affiliated Entities/subsidiaries, their shareholders, directors, senior management or any of their respective associates.

Our bank loans and other borrowings as at 31 December 2016 and 2018 and 30 June 2019 were repayable within one year.

As at 31 October 2019, we had outstanding indebtedness of approximately RMB19.1 million. We had no unutilised banking facilities as at 31 October 2019.

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 31 October 2019 and up to the date of this prospectus.

Save as disclosed above, as at 31 October 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.

FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Other commitments

The Group had the following commitments as of the dates indicated:

	As at 31 December			As at	As at
	2016	2017	2018	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019	2019
Contracted, but not provided for:				<i>RMB'000</i>	<i>RMB'000</i>
Co-investment arrangement	—	6,160	40,050	15,203	15,203

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:

	FY2016	FY2017	FY2018	1H2018	1H2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Electronic equipment	9	83	8	8	—
Office equipment	—	127	—	—	—
Leasehold improvements	—	654	—	—	—
Total	9	864	8	8	—

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.

FINANCIAL INFORMATION

We had net cash outflows in operating activities of approximately RMB29.9 million, RMB28.2 million and RMB85.5 million and inflow of approximately RMB4.9 million for each of FY2016, FY2017, FY2018 and 1H2019, 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, RMB11.7 million and RMB3.2 million as at 31 December 2017 and 2018 and 30 June 2019, 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 for each of FY2016, FY2017 and FY2018 mainly due to our high capital requirement in production of and investment in TV series for licensing, long inventories turnover days 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. We recorded positive operating cash flow in 1H2019 mainly as a result of the collection of certain long aged trade receivables from our customers. For detailed analysis, please refer to the paragraph headed “Liquidity and capital resources — Cash flow — Cash flows (used in)/from operating activities” in this section.

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 Directors/senior management would convene regular internal meetings with our finance department to discuss our Group’s financial performance and cash flow status and report to the Board periodically.

FINANCIAL INFORMATION

(ii) Closely monitor the collection status of our trade receivables and develop business relationships with TV stations operating first-tier satellite channels

As our negative cash flow from operating activities status during FY2016, FY2017 and FY2018 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 by performing ageing analysis of our receivables on a monthly basis and take appropriate actions according to the length of the overdue period. It is also our strategy to develop business relationships with TV stations operating first-tier satellite channels. We believe that such TV stations will settle our payment within a shorter period of time than other TV stations. Therefore, developing business relationships with these TV stations could help improve our cashflow position. For detailed discussion, please refer to the paragraph headed “Discussion on certain financial position items — Trade and notes receivables” in this section.

(iii) Request for longer credit period from our suppliers

Our trade payables are normally settled within 90 to 180 days. In order to improve our liquidity, we will negotiate with our suppliers for a longer credit period before we enter into contracts with them.

(iv) Invite other parties (including our potential customers) 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 (including our potential customers) to invest in the TV series we produce in order to alleviate our working capital pressure and diversify our operational risk.

(v) 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 FY2016, FY2017 and FY2018, 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 prospectus, taking into account the following basis:

- We have maintained stable relationships with major commercial banks and financial institutions in the PRC. Our Directors believe that our Group is able to renew or roll over its bank loans upon maturity as (i) our Group has managed to do so during the Track Record Period and (ii) our Group has obtained a confirmation letter from the commercial bank in respect of the outstanding bank loans as at 31 October 2019, which confirmed that the bank agreed to grant banking facilities to us based on our then business situation after our repayment

FINANCIAL INFORMATION

of the loans that fall due. 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 prospectus. Under certain circumstances, we are granted prolonged repayment schedule after negotiation with the creditors.
- As at Latest Practicable Date, approximately RMB54.9 million, representing approximately 55.3% 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. Subsequent to the Track Record Period, our purchased TV series All Is Well* (都挺好), The Thunder* (破冰行動) and Wild Roses* (紅薔薇) had their rerun broadcast on satellite channels of different TV stations. All Is Well* (都挺好) had its rerun broadcast on satellite channel of Tianjin Radio & Television Station* (天津廣播電視台) in July 2019, The Thunder* (破冰行動) had its rerun broadcast on satellite channels of Tianjin Radio & Television Station* (天津廣播電視台) and Jilin Radio & Television Station* (吉林廣播電視台) in August 2019, and Wild Roses* (紅薔薇) had its rerun broadcast on satellite channel of Tianjin Radio & Television Station* (天津廣播電視台) in December 2019. Moreover, our self-produced TV series National Spirit* (共和國血脈) also had its rerun broadcast on satellite channel of Heilongjiang Broadcast TV Station* (黑龍江廣播電視台) in November 2019.

In view of the above sales performance, we expect our revenue for the year ending 31 December 2019 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 proceeds from the Global Offering upon the Listing.

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 net proceeds available to us from the Global Offering, our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

LISTING EXPENSES

Our listing expenses 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 for the Listing. We expect to incur a total of approximately RMB35.3 million in listing expenses (based on the mid-point of the indicative price range for the Global Offering) in connection with the Global Offering and the Listing, of which (i) approximately RMB10.3 million has been recognised in our consolidated statements of profit or loss for 1H2019; (ii) approximately RMB7.5 million is expected to be charged to the profit or loss of our Group for the six months ending 31 December 2019; and (iii) approximately RMB17.5 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 listing expenses to be charged to our statements of profit or loss.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed “Summary — Recent development subsequent to the Track Record Period and no material adverse change” in this prospectus, our Directors, after performing reasonable due diligence works which they consider appropriate, confirm that since 30 June 2019 and up to the date of this prospectus, (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 Accountants’ Report in Appendix I to this prospectus.

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.

FINANCIAL INFORMATION

ANALYSIS OF OTHER KEY FINANCIAL RATIOS

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

	As at 31 December			As at 30 June
	2016	2017	2018	2019
Return on total assets ^(Note 1)	15.4%	2.2%	18.4%	7.1%
Return on equity ^(Note 2)	20.2%	2.6%	22.2%	9.2%
Current ratio ^(Note 3)	5.9	8.1	4.8	4.2
Quick ratio ^(Note 4)	4.4	4.5	2.4	3.0
Gearing ratio ^(Note 5)	13.9%	N/A	13.3%	9.5%
Debt to equity ratio ^(Note 6)	-32.1%	-11.7%	9.7%	8.5%
Interest coverage ^(Note 7)	36.8	5.8	29.5	14.7
Net profit margin ^(Note 8)	32.2%	6.7%	41.8%	10.4%

Notes:

1. Return on total assets is calculated based on our (i) net profit for the year attributable to the owners of the parent for FY2016, FY2017 and FY2018; or (ii) annualised net profit for the period attributable to the owners of the parent for 1H2019 divided by our average total assets as at the beginning and the end of the corresponding periods and multiplied by 100%.
2. Return on equity is calculated based on our (i) net profit for the year attributable to the owners of the parent for FY2016, FY2017 and FY2018; or (ii) annualised net profit for the period attributable to the owners of the parent for 1H2019 divided by our average total equity attributable to owners of the parent as at the beginning and the end of the corresponding periods and multiplied by 100%.
3. Current ratio is calculated as total current assets divided by total current liabilities as at the end of the corresponding period.
4. Quick ratio is calculated as current assets (net of inventories) divided by total current liabilities as at the end of the corresponding period.
5. Gearing ratio is calculated as total debt (of which debt is defined as interest-bearing bank loans and other borrowings) divided by total equity multiplied by 100% as at the end of the corresponding period.
6. Debt to equity ratio is calculated as total debt (of which debt is defined as interest-bearing bank loans and other borrowings) net of cash and cash equivalents divided by total equity multiplied by 100% as at the end of the corresponding period.
7. Interest coverage is calculated as profit for the year before income tax expenses and interest expenses divided by interest expenses multiplied by 100%.
8. Net profit margin is calculated by the net profit for the year/period divided by the revenue for the respective year/period multiplied by 100%.

FINANCIAL INFORMATION

Return on total assets

For FY2016, FY2017, FY2018 and 1H2019, our return on total assets was approximately 15.4%, 2.2%, 18.4% and 7.1%, respectively. The return on total assets remained stable for FY2016 and FY2018, while the lower return on total assets for FY2017 and 1H2019 was primarily due to low gross profit margin of our self-produced TV series, namely Jade* (女管家) and National Spirit* (共和國血脈), broadcast in the respective year/period as discussed above.

Return on equity

For FY2016, FY2017, FY2018 and 1H2019, our return on equity was approximately 20.2%, 2.6%, 22.2% and 9.2% 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 and 30 June 2019, our current ratio was approximately 5.9, 8.1, 4.8 and 4.2, respectively. The increase in current ratio as at 31 December 2017 compared to 31 December 2016 was mainly due to (i) the increase in inventories as a result of costs of production incurred in our self-produced TV series; and (ii) the decrease in current liabilities 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 mainly due to increase in bank loans and other borrowings. The decrease in current ratio as at 30 June 2019 as compared to 31 December 2018 was mainly because of the increase in trade payables as at 30 June 2019.

Quick ratio

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our quick ratio was approximately 4.4, 4.5, 2.4 and 3.0, 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 in quick ratio as at 31 December 2018 was mainly due to increase in bank loans in FY2018. The increase in quick ratio as at 30 June 2019 as compared to 31 December 2018 was mainly because of the decrease in bank loans and increase in trade and note receivables as a result of the successful licensing of TV series in 1H2019.

FINANCIAL INFORMATION

Gearing ratio

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our gearing ratio was approximately 13.9%, N/A, 13.3% and 9.5%, respectively. The gearing ratios as at 31 December 2016 and 31 December 2018 remained stable because of the bank loans and other borrowings utilised for production of TV series increased roughly in proportion to the total equity which increased by accumulation of profit for the relevant years. The decrease in gearing ratio as at 30 June 2019 as compared to 31 December 2018 was mainly because of the decrease in bank loans and other borrowings.

Debt to equity ratio

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our debt to equity ratio was approximately -32.1%, -11.7%, 9.7% and 8.5%, respectively. The negative debt to equity ratio as at 31 December 2016 and 2017 resulted from our higher level of cash and cash equivalents mainly from the equity contribution from the then equity holders of Values Culture in FY2016. With the increasing utilisation of the cash and cash equivalent in carrying out our business activities, the cash position narrowed during the Track Record Period, leading to an increasing debt to equity ratio in the subsequent financial years/period.

Interest coverage

For FY2016, FY2017, FY2018 and 1H2019, our interest coverage was approximately 36.8, 5.8, 29.5 and 14.7, respectively. The lower interest coverage in FY2017 and 1H2019 was mainly due to the lower gross profit margin in the respective year/period as discussed in “Return on Total Assets” above.

FINANCIAL INFORMATION

RELATED PARTIES TRANSACTIONS

The following table sets forth the major transactions with related parties during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Borrowings from a director					
Mr. Liu	3,000	—	—	—	—
Borrowings from related parties					
Ms. Yan Bei	250	—	—	—	—
Mr. Shao Chengwu	400	—	—	—	—
Mr. Bai	—	—	—	—	10,000
Qingdao Fuhe	10,000	—	—	—	—
Suiyong Ronghui Holdings Company Limited ("Suiyong Ronghui").	—	—	10,000	—	—
	10,650	—	10,000	—	10,000
Interest expenses to					
Mr. Liu	65	—	—	—	—
Ms. Yan Bei	5	—	—	—	—
Mr. Shao Chengwu	7	—	—	—	—
Qingdao Fuhe	407	—	—	—	—
Suiyong Ronghui.	—	—	67	—	—
	484	—	67	—	—
Repayment of borrowings from a director					
Mr. Liu	3,000	—	—	—	—
Repayment of borrowings from related parties					
Ms. Yan Bei	250	—	—	—	—
Mr. Shao Chengwu	400	—	—	—	—
Mr. Bai	—	—	—	—	10,000
Qingdao Fuhe	21,000	—	—	—	—
Suiyong Ronghui.	—	—	10,000	—	—
	21,650	—	10,000	—	10,000
Repayment of interests					
Mr. Liu	65	—	—	—	—
Ms. Yan Bei	5	—	—	—	—
Mr. Shao Chengwu	7	—	—	—	—
Mr. Bai	—	—	—	—	—
Qingdao Fuhe	407	—	—	—	—
Suiyong Ronghui.	—	—	67	—	—
	484	—	67	—	—
Purchases of goods from					
Yongkang City Wenxin Diaolong Film and Television Culture Studio ("Wenxin Diaolong").	4,689	—	—	—	—

FINANCIAL INFORMATION

In FY2016, the borrowing of RMB3,000,000, RMB400,000 and RMB10,000,000 from Mr. Liu, Mr. Shao Chengwu and Qingdao Fuhe respectively were utilised by our Group for the production of *The Furthest Distance** (遙遠的距離) and the borrowing of RMB250,000 from Ms. Yan Bei was utilised by our Group for the production of *Jade** (女管家). In FY2018, the borrowing of RMB10,000,000 from Suiyong Ronghui was utilised by our Group for the production of *Love In The Mountains And Rivers** (愛在青山綠水間). In 1H2019, the borrowing of RMB10,000,000 from Mr. Bai was utilised by our Group as our working capital for the repayment of our bank loan granted in 2018. Amounts due to the related parties have been fully repaid as at 31 December 2016, 2017 and 2018 and 30 June 2019.

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.

As advised by our PRC Legal Advisers, our Group's borrowings from our Director and related parties do not comply with the General Provisions on Lending (貸款通則). However, the General Provisions on Lending (貸款通則) did not specify any penalties on the borrower of loans. Besides, similar to the loan granted by our Group to other third party, since our Group's borrowings from our Director and related parties did not involve the circumstances as set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions, such borrowing arrangements are not in violation of PRC laws and administrative regulations. Therefore, the loan agreements are valid and enforceable under the PRC laws. For details on the discussion regarding the loan granted by our Group to other third party, please refer to the paragraph headed "Discussion on certain financial position items — Prepayments, other receivables and other assets — Loans receivables" in this section.

Having considered the advice from our PRC Legal Advisers, our Directors considered that the non-compliance of our Group's borrowings with the General Provisions on Lending (貸款通則) does not have material adverse impact on the business and financial condition of our Group.

For further details, please refer to note 28 to the Accountants' Report in Appendix I to this prospectus. 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.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

Our Company was incorporated on 11 March 2019. As at 30 June 2019, 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/period-end staging as at 31 December 2016, 2017, 2018 and 30 June 2019

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/period-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>Simplified approach</u>	<u>Total</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>approach</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>Simplified approach</u>	<u>Total</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>approach</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>	

FINANCIAL INFORMATION

As at 31 December 2018	12-month ECLs		Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	RMB'000	
	<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>—</u>	<u>1,386</u>	<u>99,291</u>	<u>112,693</u>	
As at 30 June 2019	12-month ECLs		Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	RMB'000	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Trade receivables*	—	—	—	209,727	209,727	
Financial assets included in prepayments, other receivables and other assets						
— Normal**	16,622	—	—	—	16,622	
— Doubtful**	—	—	1,386	—	1,386	
Cash and cash equivalents						
— Not yet past due.	3,165	—	—	—	3,165	
	<u>19,787</u>	<u>—</u>	<u>1,386</u>	<u>209,727</u>	<u>230,900</u>	

* For trade receivables to which our Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the Accountants' Report in Appendix I to this prospectus.

** 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".

FINANCIAL INFORMATION

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					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	—	10,531	25,852	—	—	36,383
Lease liabilities	—	175	410	—	—	585
Financial liabilities included in other payables and accruals .	556	—	—	—	—	556
	<u>556</u>	<u>10,706</u>	<u>26,262</u>	<u>—</u>	<u>—</u>	<u>37,524</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
Lease liabilities	—	107	378	610	—	1,095
Financial liabilities included in other payables and accruals .	345	—	—	—	—	345
	<u>8,428</u>	<u>20,538</u>	<u>378</u>	<u>610</u>	<u>—</u>	<u>29,954</u>

FINANCIAL INFORMATION

	31 December 2018					
	On	Less than	3 to less	1 to 3	Over 3	Total
	demand	3 months	than 12	years	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	—	33,486	10,247	—	—	43,733
Trade payables	28,654	6,211	—	—	—	34,865
Lease liabilities	—	101	367	108	—	576
Financial liabilities included in other payables and accruals .	1,672	—	—	—	—	1,672
	<u>30,326</u>	<u>39,798</u>	<u>10,614</u>	<u>108</u>	<u>—</u>	<u>80,846</u>
	30 June 2019					
	On	Less than	3 to less	1 to 3	Over 3	Total
	demand	3 months	than 12	years	years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	—	3,542	29,600	—	—	33,142
Trade payables	21,402	34,533	—	—	—	55,935
Lease liabilities	—	—	199	—	—	199
Financial liabilities included in other payables and accruals .	9,172	—	—	—	—	9,172
	<u>30,574</u>	<u>38,075</u>	<u>29,799</u>	<u>—</u>	<u>—</u>	<u>98,448</u>

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.

FINANCIAL INFORMATION

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, 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.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED TANGIBLE ASSETS

Please refer to the paragraph headed “A. Unaudited pro forma adjusted consolidated net tangible assets” in Appendix II to this prospectus for our unaudited pro forma financial information.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the paragraph headed “Business — Business strategies” in this prospectus for detailed description of our future plans.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and an Offer Price of HK\$0.62 per Offer Share, being the mid-point of the proposed Offer Price range of HK\$0.50 to HK\$0.74 per Offer Share, the net proceeds to our Company from the issue of the Offer Shares, after deducting underwriting fees and other expenses paid and payable by us in connection with the Global Offering in the aggregate amount of approximately HK\$39.9 million (equivalent to approximately RMB35.3 million), are estimated to be approximately HK\$115.1 million. We intend to apply such proceeds from the Global Offering as follows:

- (a) approximately HK\$100.0 million (equivalent to approximately RMB88.5 million) or 86.9% of the net proceeds will be applied for production of the following TV series. As the total estimated investment amount of these TV series is approximately RMB177.0 million, we will finance the remaining investment amount of the following TV series by reaching co-investment arrangement with other investors or by utilising our internal resources:

Genre of the TV series	Estimated investment amount				Total (RMB)	Estimated investment amount from the net proceeds from the Global Offering	Current status and implementation plan as at the Latest Practicable Date	Estimated shooting period	Estimated time for first-run broadcast on satellite channel
	Cost of scripts (RMB)	Cast personnel costs (RMB)	Production costs (RMB)	Post-production costs (RMB)					
1. Revolution	3.0 million	12.8 million	17.6 million	2.0 million	35.4 million	HK\$18.0 million (equivalent to approximately RMB16.0 million)	As at the Latest Practicable Date, we have spent approximately RMB1.8 million for the production of this TV series which has been used for purchasing of the script	February 2020 to April 2020	Second half of 2020
							<ul style="list-style-type: none"> — The process of record-filing and announcing of the production of the TV series has been completed — We are in the process of revising and finalising the script and selecting the production crew — We are liaising with our potential customer regarding their preference about the relevant production crew members (e.g. the director and the artists). As the price that our potential customers may offer for our TV series depends on the members of the production crew engaged by us for the relevant TV series, we have not discussed with our potential customer regarding the price they may offer and their available broadcasting schedule for our TV series pending the determination of the relevant members of the production crew — We expect to complete the process of selecting the production crew and formulate a detailed production plan by February 2020 		

FUTURE PLANS AND USE OF PROCEEDS

Genre of the TV series	Estimated investment amount					Estimated investment amount from the net proceeds from the Global Offering	Current status and implementation plan as at the Latest Practicable Date	Estimated shooting period	Estimated time for first-run broadcast on satellite channel
	Cost of scripts (RMB)	Cast personnel costs (RMB)	Production costs (RMB)	Post-production costs (RMB)	Total (RMB)				
2. Family drama	6.0 million	20.0 million	27.4 million	4.1 million	57.5 million	HK\$31.0 million (equivalent to approximately RMB27.4 million)	<ul style="list-style-type: none"> — As at the Latest Practicable Date, we have spent approximately RMB6.0 million for the production of this TV series which has been used for purchasing of the script — The process of record-filing and announcing of the production of the TV series has been completed — We are in the process of finalising the script and selecting the production crew — We are liaising with our potential customer regarding their preference about the relevant production crew members (e.g. the director and the artists). As the price that our potential customers may offer for our TV series depends on the members of the production crew engaged by us for the relevant TV series, we have not discussed with our potential customer regarding the price they may offer and their available broadcasting schedule for our TV series pending the determination of the relevant members of the production crew — We expect to complete the process of selecting the production crew and formulate a detailed production plan between January 2020 and March 2020 	March 2020 to June 2020	First half of 2021
3. Revolution	6.0 million	18.1 million	24.9 million	4.1 million	53.1 million	HK\$26.0 million (equivalent to approximately RMB23.0 million)	<ul style="list-style-type: none"> — The process of record-filing and announcing of the production of the TV series has been completed — We are in the process of revising and finalising the script and will commence selecting the production crew in May 2020 — We expect to complete the process of selecting the production crew and formulate a detailed production plan between July 2020 and September 2020 — Since this TV series is still at an early development stage, we have not approached any potential customers for licensing of this TV series 	September 2020 to December 2020	Second half of 2021
4. Legend	3.0 million	11.0 million	15.0 million	2.0 million	31.0 million	HK\$25.0 million (equivalent to approximately RMB22.1 million)	<ul style="list-style-type: none"> — As at the Latest Practicable Date, we have spent approximately RMB1.8 million for the production of this TV series which has been used for purchasing of the script — We have engaged scriptwriter to develop the script, which is expected to be finished by June 2020 — We will arrange for record-filing and announcing of the production of the TV series in June 2020 — We will commence selecting the production crew in July 2020 and expect to complete the selection process and formulate a detailed production plan between October 2020 to December 2020 — Since this TV series is still at an early development stage, we have not approached any potential customers for licensing of this TV series 	December 2020 to February 2021	Second half of 2021

FUTURE PLANS AND USE OF PROCEEDS

- (b) approximately HK\$15.1 million (equivalent to approximately RMB13.4 million) or 13.1% of the net proceeds will be applied for purchasing of copyrights (or broadcasting rights) associated with the TV series. As at the Latest Practicable Date, our Group does not have any target TV series. We are in the process of searching for suitable TV series and we intend to select TV series with high audience rating in their first-run broadcast on TV stations.

If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, assuming the Over-allotment Option is not exercised, the net proceeds to our Company from the Global Offering will increase or decrease by approximately HK\$27.5 million. We will adjust the allocation of the net proceeds for the abovementioned purposes on a pro rata basis.

If the Over-allotment Option is exercised in full, the additional net proceeds received from the offer of the additional Shares allotted and issued will be allocated in accordance with the above allocations on a pro rata basis. For details of the Over-allotment Option, please refer to the section headed “Structure and Conditions of the Global Offering” in this prospectus.

To the extent that the net proceeds of the Global Offering 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 net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

REASONS FOR THE GLOBAL OFFERING

Our Directors consider that the Listing may act as a fund-raising platform for our Group. Given that our business is capital intensive, our Directors believe that we have need for fund-raising. The Global Offering 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 prospectus. 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 Global Offering will enhance the liquidity of the Shares by achieving the listing status of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the Shares that are privately held before the Listing.

The Global Offering 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.

FUTURE PLANS AND USE OF PROCEEDS

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 prospectus. Our Group’s actual course of business may vary from the business objectives set out in this prospectus. 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 use of proceeds as described in this prospectus, 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 consolidated audited financial statements of our Group for the Track Record Period;
- the Global Offering will be completed in accordance with and as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus;

FUTURE PLANS AND USE OF PROCEEDS

- 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 prospectus 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 prospectus;
- 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.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

Zhongtai International Securities Limited

Head & Shoulders Securities Limited

Guosen Securities (HK) Capital Company Limited

Bradbury Securities Limited

I Win Securities Limited

Grand China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

UNDERWRITING

Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed to procure subscribers to subscribe for, or failing which they shall subscribe for their respective applicable proportions of the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering severally (and not jointly nor jointly and severally), subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers to subscribe for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

- (1) there comes to the notice of the Sole Global Coordinator that:
 - (a) any matter or event showing any of the representations, warranties and undertakings given to the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager and the Hong Kong Underwriters under the Hong Kong Underwriting Agreement (the “**Warranties**”) to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the Warranties or any other provisions of the Hong Kong Underwriting Agreement by any party to the Hong Kong Underwriting Agreement other than the Hong Kong Underwriters which, in any such cases, is considered, in the reasonable opinion of the Sole Global Coordinator, to be material in the context of the Hong Kong Public Offering; or
 - (b) any statement contained in this prospectus, the Application Forms, any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering and/or the International Placing (including any supplement or amendment to any of the documents) (collectively, the “**Offer Documents**”) has become or been discovered to be untrue, incorrect or misleading in any material respect which is considered, in the reasonable opinion of the Sole Global Coordinator, to be material in the context of the Hong Kong Public Offering; or

UNDERWRITING

- (c) any event, series of events, matters or circumstances occurs or arises on or after the date of the Hong Kong Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Hong Kong Underwriting Agreement, would have rendered any of the Warranties untrue, incorrect or misleading in any material respect, and which is considered, in the reasonable opinion of the Sole Global Coordinator to be material in the context of the Hong Kong Public Offering; or
- (d) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of the Sole Global Coordinator, a material omission in the context of the Hong Kong Public Offering; or
- (e) any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company and any of our executive Directors and our Controlling Shareholders arising out of or in connection with the breach of any of the Warranties; or
- (f) any breach by any party to the Hong Kong Underwriting Agreement other than the Hong Kong Underwriters of any provision of the Hong Kong Underwriting Agreement which, in the reasonable opinion of the Sole Global Coordinator, is material; or
- (g) any material adverse change or development or prospective material adverse change or development in the conditions, business, general affairs, management, prospects, assets, liabilities, shareholders' equity, profits, losses, operating results, the financial or trading position or performance of any member of our Group; or
- (h) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (i) our Company withdraws any of the Offer Documents (and any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (j) any person (other than the Sole Global Coordinator and any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in the Offer Documents or to the issue of the Offer Documents;

UNDERWRITING

- (2) there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing on and/or after the date of the Hong Kong Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of our Group; or
 - (b) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions relevant to the business of our Group, the local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or
 - (c) any adverse change in the conditions of Hong Kong or international equity securities or other financial markets; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances; or
 - (e) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to our Group's business; or
 - (f) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of any member of our Group; or
 - (g) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the U.S. or by the European Union (or any member thereof) on Hong Kong or the PRC; or
 - (h) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or
 - (i) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out;

UNDERWRITING

which in the reasonable opinion of the Sole Global Coordinator acting in good faith:

- (a) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of our Group taken as a whole; or
- (b) has or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering or the level of the Offer Shares being applied for or accepted, or the distribution of the Offer Shares; or
- (c) makes it impracticable or inadvisable for the Hong Kong Underwriters to proceed with the Hong Kong Public Offering as a whole.

For the above purpose:

- (a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or a material devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and
- (b) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

UNDERTAKINGS TO THE STOCK EXCHANGE

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, except pursuant to the Global Offering, the Over-allotment Option and the Share Option Scheme as described and contained in this prospectus, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 10.08(1) to (5) of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company respectively that (except pursuant to the Stock Borrowing Agreement, the Global Offering and save as permitted under the Listing Rules):

- (a) he/she/it shall not and shall procure that the relevant registered Shareholders shall not in the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”),

UNDERWRITING

dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner; and

- (b) in the First Six-month Period, (i) the shareholders constituting the group of Controlling Shareholders shall not change (i.e. no addition or departure of shareholders); (ii) there shall be no material changes in the voting interests held by each shareholder constituting the group of Controlling Shareholders in the Company (or among the shareholders of BLW Investment as the case may be); and (iii) the group of Controlling Shareholders must maintain the same aggregate voting interests in the Company.

Each of our Controlling Shareholders has further undertaken to the Stock Exchange and our Company that within a period commencing on the date by reference to which disclosure of the shareholding of such persons is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it shall:

- (i) when he/she/it pledges or charges any Shares beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he/she/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager and the Hong Kong Underwriters that, except for the issue of the Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares upon exercise of any such options or as otherwise with the Sole Global Coordinator's prior written consent, and unless in compliance with the Listing Rules, our Company will not, and will procure none of our subsidiaries will, unless with the prior written consent of the Sole Global Coordinator (for itself and on behalf of

UNDERWRITING

the Hong Kong Underwriters) and such consent not to be unreasonably withheld or delayed and in compliance with the requirements of the Listing Rules, at any time during the First Six-month Period:

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of the share capital, debt capital or any securities of the Company or any of its subsidiaries or any interest therein or any voting right or any other right attaching thereto (including but not limited to, any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto; or
- (iii) enter into any transaction with the same economic effect as any forgoing transaction described in paragraphs (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any forgoing transaction described in paragraphs (i), (ii) or (iii) above,

whether any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period).

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-month Period, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager, our Company and the Hong Kong Underwriters that during the First Six-month Period, he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, without the prior written consent of the Sole Global Coordinator and unless pursuant to the Stock Borrowing Agreement, the Share

UNDERWRITING

Option Scheme or any exercise of the Over-allotment Option or otherwise in compliance with the requirements of the Listing Rules:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of our Shares in respect of which he/she/it is shown in this prospectus to be directly or indirectly interested in; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of our Shares in respect of which he/she/it is shown in this prospectus to be directly or indirectly interested in, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise; or
- (iii) enter or agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
- (iv) publicly announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has further undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager, our Company and the Hong Kong Underwriters that within the first 12 months from the Listing Date, he/she/it will:

- (i) when he/she/it pledges or charges any securities or interests in the securities of our Company beneficially owned by him/her/it directly or indirectly, immediately inform our Company and the Sole Global Coordinator in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and
- (ii) when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of the matters above (if any) by our Controlling Shareholders and disclose such matters by way of a public announcement.

Each of the holders of Shares whose names appear on the register of members of our Company at the close of business as at the Latest Practicable Date has jointly and severally undertaken to each of the Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager and the Hong Kong Underwriters that during the 6 months immediately following the Listing Date, he/she/it shall not, without the

UNDERWRITING

prior written consent of the Sole Global Coordinator and unless pursuant to the Stock Borrowing Agreement, the Share Option Scheme or any exercise of the Over-allotment Option or otherwise in compliance with the requirements of the Listing Rules:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares in respect of which he/she/it is shown in this prospectus to be directly or indirectly interested in (the “**Relevant Securities**”); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities or such other securities, in cash or otherwise; or
- (iii) enter or agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

THE INTERNATIONAL PLACING

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, among other parties, the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or procure subscribers for the International Placing Shares being offered pursuant to the International Placing.

It is expected that, pursuant to the International Underwriting Agreement, our Company, our executive Directors, our Controlling Shareholders and each of the holders of Shares whose names appear on the register of members of our Company at the close of business as at the Latest Practicable Date will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement, as described in the paragraph headed “Undertakings pursuant to the Hong Kong Underwriting Agreement” in this section.

COMMISSIONS AND EXPENSES

The Hong Kong Underwriters will receive an underwriting commission at the rate of 8.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commissions. Furthermore, our Company agrees, at its sole and absolute discretion, to pay to the Hong Kong Underwriters a discretionary incentive fee. The underwriting commissions (excluding the incentive fees), together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy,

UNDERWRITING

legal and other professional fees, printing, and other expenses relating to the Global Offering, is currently estimated to be approximately HK\$39.9 million (equivalent to approximately RMB35.3 million) in aggregate (based on an Offer Price of HK\$0.62 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.50 per Offer Share and HK\$0.74 per Offer Share and the assumption that none of the Over-allotment Option is exercised) and is paid or payable by our Company with reference to the number of Offer Shares under the Global Offering.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

INDEPENDENCE OF THE SOLE SPONSOR

Zhongtai International Capital, being the Sole Sponsor, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong.

Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Zhongtai International Capital is the Sole Sponsor. Zhongtai International Securities is the Sole Global Coordinator.

The Global Offering consists of (subject to reallocation and the Over-allotment Option):

- the Hong Kong Public Offering of 25,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described under the paragraph headed “The Hong Kong Public Offering” in this section; and
- the International Placing of 225,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) in Hong Kong as described under the paragraph headed “The International Placing” in this section.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to institutional, professional and other investors. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described in the paragraph headed “Pricing and allocation” in this section.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$0.74 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK0.74 per Hong Kong Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

total of HK\$3,737.29 for one board lot of 5,000 Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$0.74 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about Thursday, 9 January 2020.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Thursday, 9 January 2020 and in any event, no later than 6:00 p.m. on Monday, 13 January 2020.

If, for any reason, our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 6:00 p.m. on Monday, 13 January 2020, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the Underwriters) considers it appropriate and together with our consent, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, the Sole Sponsor shall assist our Company in arranging for, and our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published by our Company on the websites of our Company and the Stock Exchange at www.yuanshimedia.com and www.hkexnews.hk, respectively, notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that if an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering have been submitted, applicants will not be allowed to subsequently withdraw their application. However, if the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the International Placing and the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares are expected to be published on Wednesday, 15 January 2020 on our Company's website at www.yuanshimedia.com and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Offer Shares successfully applied for under WHITE and YELLOW application forms, or by giving electronic application

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

instructions to HKSCC or by applying online through the HK eIPO White Form Service Provider under the HK eIPO White Form service, will be made available through a variety of channels as described in the paragraph headed “How to Apply for Hong Kong Offer Shares — 11. Publication of results” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional upon, among other things:

- the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be made available pursuant to the Capitalisation Issue, the exercise of the Over-allotment Option and any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (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 prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by our Company on the website of our Company and the Stock Exchange at www.yuanshimedia.com and www.hkexnews.hk, respectively, on the next day following such lapse.

Share certificates for the Offer Shares are expected to be issued on Wednesday, 15 January 2020 but will only become valid certificates of title at 8:00 a.m. on Thursday, 16 January 2020, provided that (i) the Global Offering has become unconditional in all respects

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

and (ii) the right of termination as described in the paragraph headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised.

THE HONG KONG PUBLIC OFFERING

Number of Shares initially offered

Our Company is initially offering 25,000,000 Shares at the Offer Price, representing 10% of the 250,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to reallocation as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 2.5% of the total issued share capital of our Company immediately after completion of the Capitalisation Issue and the Global Offering (assuming that none of the Over-allotment Option is exercised). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional, professional and other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any reallocation in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Placing) will be divided equally (subject to adjustment of odd lot size) into two pools: Pool A and Pool B, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee) or less will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) and up to the total value of Pool B, will fall into Pool B.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 12,500,000 Hong Kong Offer Shares.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation. If both the Hong Kong Offer Shares and the International Placing Shares are undersubscribed, the Global Offering shall not proceed unless the Underwriters would subscribe or procure subscribers to subscribe for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions in this prospectus, the Application Forms and the Underwriting Agreements.

If the International Placing Shares are fully subscribed or oversubscribed and if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to a maximum of 75,000,000 Shares, 100,000,000 Shares and 125,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate.

If the Hong Kong Offer Shares are not fully subscribed, and provided that the International Placing Shares are fully subscribed, the Sole Global Coordinator (for itself and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any of the unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offering to the International Placing in such amount as the Sole Global Coordinator deems appropriate to satisfy the demand under the International Placing. If (i) the International Placing Shares are fully subscribed or oversubscribed, and if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 100% or more, but less than 15 times, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering; or (ii) the International Placing Shares are not fully subscribed, and if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 100% or more of the number of Hong Kong Offer Shares initially available under the Hong Kong

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Public Offering, the Sole Global Coordinator may, at its discretion, reallocate the Offer Shares to the Hong Kong Public Offering from the International Placing, increasing the total number of Offer Shares available under the Hong Kong Public Offering to a maximum of 50,000,000 Shares (which is not more than double the initial allocation to the Hong Kong Offer Shares under the Global Offering), representing 20% of the total number of Offer Shares initially available under the Global Offering. In the event of reallocation of the Offer Shares between the Hong Kong Public Offering and the International Placing in accordance with the circumstances as stated in (i) or (ii) above, the final Offer Price will be fixed at HK\$0.50, being the low-end of the indicative Offer Price range in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

Applications

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of Offer Shares offered

The number of Shares to be initially offered for subscription under the International Placing will be 225,000,000 Shares, representing 90% of the Offer Shares under the Global Offering. The International Placing is subject to the Hong Kong Public Offering being unconditional.

Allocation

The International Underwriters are soliciting from prospective professional, institutional and other investors, indications of interest in subscribing for the International Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of International Placing Shares they would be prepared to subscribe for at the Offer Price. This process is known as "book building". In Hong Kong, retail investors should apply for the Hong Kong Offer Shares, as retail

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

investors applying for the International Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any International Placing Shares.

Allocation of International Placing Shares is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of our Company and our Shareholders as a whole.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company has granted the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) under the International Underwriting Agreement.

The Sole Global Coordinator (for itself or on behalf of the International Underwriters) can exercise the Over-allotment Option, which will be exercisable at any time from the Listing Date to the 30th day from the last day for lodging applications under the Global Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to an aggregate of 37,500,000 additional Shares representing 15% of the Offer Shares initially available under the Global Offering. These Shares will be allotted and issued at the Offer Price.

If the Over-allotment Option is exercised in full, the additional 37,500,000 Shares and the 250,000,000 Shares initially offered in the Global Offering will represent approximately 3.6% and 24.1% of our Company's enlarged share capital respectively immediately after completion of the Capitalisation Issue, the Global Offering and the exercise in full of the Over-allotment Option.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Shares at such prices, in such amounts and in such manner as the Stabilising Manager may determine at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely, 37,500,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) (the “**Securities and Futures (Price Stabilising) Rules**”) includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period. Such stabilisation action, if commenced, may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws, rules and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules, as amended, made under the SFO.

All stabilising actions will be taken in accordance with the laws, rules and regulation in place in Hong Kong on stabilisation.

STOCK BORROWING AGREEMENT

The Stabilising Manager, or any person acting for it may choose to borrow 37,500,000 Shares from BLW Investment, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with BLW Investment will only be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from BLW Investment under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to BLW Investment or its nominees within three business day after the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the date on which the Over-allotment Option is exercised in full, and (iii) such earlier time as the parties may from time to time agree in writing;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to BLW Investment by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR CCASS

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

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 16 January 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 16 January 2020. The Shares will be traded in board lots of 5,000 Shares. The stock code of the Shares will be 1740.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service by the IPO App or at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator and the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply for the Offer Shares online through the **HK eIPO White Form** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for or indicated an interest in any International Placing Shares under the International Placing or otherwise participated in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply only to the **HK eIPO White Form** Service Provider by the IPO App or at www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 December 2019 to 12:00 noon on Wednesday, 8 January 2020 from:

- (i) the following office of the Hong Kong Underwriters:

**Zhongtai International
Securities Limited**

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

**Head & Shoulders
Securities Limited**

Room 2511, 25/F, Cosco Tower,
183 Queen's Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Guosen Securities (HK) Capital Company Limited	42/F Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong
Bradbury Securities Limited	Unit 5106–07, 51/F, The Center, 99 Queen’s Road Central, Central, Hong Kong
I Win Securities Limited	Room 1916 Hong Kong Plaza, 188 Connaught Road West, Sai Wan, Hong Kong
Grand China Securities Limited	Room 503, 5/F, Loke Yew Building, 50–52 Queen’s Road Central, Central, Hong Kong

(ii) any of the following branches of receiving bank:

Bank of China (Hong Kong) Limited

	<u>Branch</u>	<u>Address</u>
Hong Kong Island.	Central District (Wing On House) Branch	B/F-2/F, Wing On House, 71 Des Voeux Road Central, Hong Kong
Kowloon	Telford Plaza Branch	Shop Unit P2-P7, Telford Plaza, No.33 Wai Yip Street, Kowloon Bay, Kowloon
	Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon
New Territories.	Kau Yuk Road Branch	18–24 Kau Yuk Road, Yuen Long, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 December 2019 until 12:00 noon on Wednesday, 8 January 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — VALUES CULTURAL INVESTMENT PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Monday, 30 December 2019	—	9:00 a.m. to 5:00 p.m.
Tuesday, 31 December 2019	—	9:00 a.m. to 5:00 p.m.
Thursday, 2 January 2020	—	9:00 a.m. to 5:00 p.m.
Friday, 3 January 2020	—	9:00 a.m. to 5:00 p.m.
Saturday, 4 January 2020	—	9:00 a.m. to 1:00 p.m.
Monday, 6 January 2020	—	9:00 a.m. to 5:00 p.m.
Tuesday, 7 January 2020	—	9:00 a.m. to 5:00 p.m.
Wednesday, 8 January 2020	—	9:00 a.m. to 12:00 noon

The application for the Hong Kong Offer Shares will commence on Monday, 30 December 2019 up to Wednesday, 8 January 2020, being longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 8 January 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening and the closing of the application lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form service**, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person of whom you act:

- (i) **undertake** to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) **agree** that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) **agree** to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) (if the laws of any place outside Hong Kong apply to your application) **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;
- (xii) **represent, warrant** and **undertake** that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorise** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) **understand** that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to sign the Application Form or give electronic application **instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE HK EIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "2. Who can apply" in this section above may apply through the HK eIPO White Form service for the Offer Shares to be allocated and registered in their own names through the IPO App or the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** service are in the IPO App or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the IPO App or the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** service through the IPO App or the designated website at www.hkeipo.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Monday, 30 December 2019 until 11:30 a.m. on Wednesday, 8 January 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 8 January 2020, the last day for applications, or such later time as described in the paragraph headed “10. Effect of bad weather on the opening and the closing of the application lists” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for the Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- **confirm** that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- **authorise** our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- **agree** that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **agree** to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of our Company; and
- **agree** that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 30 December 2019	—	9:00 a.m. to 8:30 p.m.
Tuesday, 31 December 2019	—	8:00 a.m. to 8:30 p.m.
Thursday, 2 January 2020	—	8:00 a.m. to 8:30 p.m.
Friday, 3 January 2020	—	8:00 a.m. to 8:30 p.m.
Saturday, 4 January 2020	—	8:00 a.m. to 1:00 p.m.
Monday, 6 January 2020	—	8:00 a.m. to 8:30 p.m.
Tuesday, 7 January 2020	—	8:00 a.m. to 8:30 p.m.
Wednesday, 8 January 2020	—	8:00 a.m. to 12:00 noon

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 December 2019 until 12:00 noon on Wednesday, 8 January 2020 (24 hours daily, except on Wednesday, 8 January 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 8 January 2020, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening and the closing of the application lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Offer Shares through the **HK eIPO White Form** service is only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our

HOW TO APPLY FOR HONG KONG OFFER SHARES

Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 8 January 2020 or such later time as described in the paragraph headed "10. Effect of bad weather on the opening and the closing of the applications lists" in this section of the prospectus.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the IPO App or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the paragraph headed “Structure and Conditions of the Global Offering — Pricing and allocation — Offer Price” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING AND THE CLOSING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 8 January 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 8 January 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

HOW TO APPLY FOR HONG KONG OFFER SHARES

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 15 January 2020 on our Company's website at www.yuanshimedia.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.yuanshimedia.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 15 January 2020;
- from "Allotment Result" function in the IPO App or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 15 January 2020 to 12:00 midnight on Tuesday, 21 January 2020;
- by telephone enquiry line by calling (852) 3691-8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 15 January 2020 to Monday, 20 January 2020 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 15 January 2020 to Friday, 17 January 2020 at the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

HOW TO APPLY FOR HONG KONG OFFER SHARES

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the IPO App or on the designated website at www.hkeipo.hk;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.74 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 15 January 2020.

HOW TO APPLY FOR HONG KONG OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Wednesday, 15 January 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 16 January 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 January 2020 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 15 January 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 15 January 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 15 January 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

HOW TO APPLY FOR HONG KONG OFFER SHARES

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "11. Publication of results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 15 January 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through HK eIPO White Form service:

- If you apply for 1,000,000 Offer Shares or more through the **HK eIPO White Form** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 January 2020, or any other place or date notified by our Company as the place or date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.
- If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Offer Shares through the **HK eIPO White Form** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 15 January 2020 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 15 January 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of results" in this section on Wednesday, 15 January 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 15 January 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 15 January 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 15 January 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountants, Ernst & Young, for the purpose of incorporation in this prospectus.



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-5 to I-63, which comprises the consolidated statements of profit or loss, statements of 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 and the six months ended 30 June 2019 (the “**Relevant Periods**”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, the statement of financial position of the Company as at 30 June 2019, 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-5 to I-63 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 December 2019 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

DIRECTORS’ RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, and the financial position of the Company as at 30 June 2019, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the six months ended 30 June 2018 and other explanatory information (the “Interim Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-5 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

30 December 2019

I HISTORICAL FINANCIAL INFORMATION**PREPARATION OF HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	5	101,975	99,266	154,085	110,070	145,303
Cost of sales	6	(42,495)	(81,575)	(73,979)	(47,590)	(108,115)
Gross profit		59,480	17,691	80,106	62,480	37,188
Other income and gains	5	3,619	8,868	7,047	2,442	15
Selling and distribution expenses		(5,271)	(2,246)	(3,219)	(1,031)	(3,809)
Administrative expenses		(7,505)	(9,207)	(6,832)	(2,580)	(14,692)
Reversal of impairment loss/(impairment losses) on financial assets		(3,987)	(4,732)	(6,843)	(1,437)	3,595
Other expenses		—	(8)	(32)	—	(85)
Finance costs	7	(1,259)	(1,796)	(2,378)	(899)	(1,506)
PROFIT BEFORE TAX	6	45,077	8,570	67,849	58,975	20,706
Income tax expense . . .	10	(12,274)	(1,879)	(3,366)	(4,047)	(5,561)
PROFIT FOR THE YEAR/PERIOD		<u>32,803</u>	<u>6,691</u>	<u>64,483</u>	<u>54,928</u>	<u>15,145</u>
Attributable to: Owners of the parent		<u>32,803</u>	<u>6,691</u>	<u>64,483</u>	<u>54,928</u>	<u>15,145</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>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR/ PERIOD	32,803	6,691	64,483	54,928	15,145
OTHER COMPREHENSIVE LOSS					
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of the Company's financial statements	—	—	—	—	(122)
OTHER COMPREHENSIVE LOSS FOR THE YEAR/ PERIOD, NET OF TAX . .	—	—	—	—	(122)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD	32,803	6,691	64,483	54,928	15,023
Attributable to:					
Owners of the parent	32,803	6,691	64,483	54,928	15,023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	19	582	209	129
Right-of-use assets	14	557	1,007	542	310
Deferred tax assets	22	997	2,180	3,486	3,105
Total non-current assets		<u>1,573</u>	<u>3,769</u>	<u>4,237</u>	<u>3,544</u>
CURRENT ASSETS					
Inventories	15	74,230	130,367	203,918	121,159
Trade and notes receivables	16	68,058	68,253	99,291	209,727
Prepayments, other receivables and other assets	17	43,850	62,527	88,619	107,589
Cash and cash equivalents	18	115,537	30,055	11,665	3,165
Total current assets		<u>301,675</u>	<u>291,202</u>	<u>403,493</u>	<u>441,640</u>
CURRENT LIABILITIES					
Trade payables	19	—	28,514	34,865	55,935
Other payables and accruals	20	1,637	7,039	5,846	14,859
Lease liabilities	14	561	448	444	198
Interest-bearing bank loans and other borrowings	21	35,000	—	43,000	32,000
Tax payable		14,392	—	—	3,497
Total current liabilities		<u>51,590</u>	<u>36,001</u>	<u>84,155</u>	<u>106,489</u>
NET CURRENT ASSETS		<u>250,085</u>	<u>255,201</u>	<u>319,338</u>	<u>335,151</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>251,658</u>	<u>258,970</u>	<u>323,575</u>	<u>338,695</u>
NON-CURRENT LIABILITIES					
Lease liabilities	14	—	563	102	—
Deferred tax liabilities	22	415	473	1,056	1,255
Total non-current liabilities		<u>415</u>	<u>1,036</u>	<u>1,158</u>	<u>1,255</u>
Net assets		<u>251,243</u>	<u>257,934</u>	<u>322,417</u>	<u>337,440</u>
EQUITY					
Equity attributable to owners of the parent					
Share capital	23	—	—	—	—
Reserves	24	251,243	257,934	322,417	337,440
Total equity		<u>251,243</u>	<u>257,934</u>	<u>322,417</u>	<u>337,440</u>

CONSOLIDATED 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	11,821	72,756
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	—	205,684*	4,443*	41,116*	251,243
Year ended 31 December 2017					
At 1 January 2017	—	205,684	4,443	41,116	251,243
Total comprehensive income for the year	—	—	—	6,691	6,691
Transfer from retained profits	—	—	960	(960)	—
At 31 December 2017	—	205,684*	5,403*	46,847*	257,934
Year ended 31 December 2018					
At 1 January 2018	—	205,684	5,403	46,847	257,934
Total comprehensive income for the year	—	—	—	64,483	64,483
Transfer from retained profits	—	—	6,806	(6,806)	—
At 31 December 2018	—	205,684*	12,209*	104,524*	322,417
Six months ended 30 June 2018					
At 1 January 2018	—	205,684	5,403	46,847	257,934
Total comprehensive income for the period (Unaudited)	—	—	—	54,928	54,928
Transfer from retained profits (Unaudited)	—	—	5,669	(5,669)	—
At 30 June 2018 (Unaudited)	—	205,684	11,072	96,106	312,862

Six months ended 30 June 2019

	Attributable to owners of the parent					Total equity
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	—	205,684	12,209	—	104,524	322,417
Profit for the period	—	—	—	—	15,145	15,145
Other comprehensive income for the period:						
Exchange differences on translation of the Company's financial statement	—	—	—	(122)	—	(122)
Total comprehensive income for the period	—	—	—	(122)	15,145	15,023
Transfer from retained profits	—	—	2,486	—	(2,486)	—
At 30 June 2019	—	205,684*	14,695*	(122)*	117,183*	337,440

* These reserve accounts comprise the consolidated reserves of RMB251,243,000, RMB257,934,000, RMB322,417,000 and RMB337,440,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		45,077	8,570	67,849	58,975	20,706
Adjustments for:						
Depreciation of property, plant and equipment	13	30	293	381	191	80
Depreciation of right-of-use assets	14	669	945	465	232	232
Finance costs	7	1,259	1,796	2,378	899	1,506
Interest income from loans receivable	5	(302)	(2,301)	(1,538)	(1,370)	—
Penalty income	5	—	(206)	(325)	(325)	—
Investment income from financial assets at fair value through profit or loss	5	(346)	(368)	(32)	(8)	—
Loss on disposal of items of property, plant and equipment	6	—	8	—	—	—
Write-down of inventories to net realisable value	6	—	—	4,087	4,087	3,988
Impairment/(reversal of impairment) of trade receivables	16	3,987	4,732	4,694	1,437	(3,595)
Impairment of other receivables	17	—	—	2,149	—	—
		<u>50,374</u>	<u>13,469</u>	<u>80,108</u>	<u>64,118</u>	<u>22,917</u>
(Increase)/decrease in inventories		(15,450)	(56,137)	(75,535)	(29,314)	78,771
Increase in trade and notes receivables		(31,203)	(4,927)	(35,732)	(80,660)	(106,841)
(Increase)/decrease in prepayments, other receivables and other assets		(18,978)	6,135	(56,875)	(37,052)	(19,687)
Increase in trade payables		—	28,514	6,351	15,377	21,070
(Decrease)/increase in other payables and accruals		<u>(11,251)</u>	<u>5,407</u>	<u>(2,368)</u>	<u>6,965</u>	<u>9,399</u>
Cash generated from/(used in) operations		(26,508)	(7,539)	(84,051)	(60,566)	5,629
Income tax paid		<u>(3,376)</u>	<u>(20,707)</u>	<u>(1,495)</u>	<u>(1,423)</u>	<u>(767)</u>
Net cash flows from/(used in) operating activities		<u>(29,884)</u>	<u>(28,246)</u>	<u>(85,546)</u>	<u>(61,989)</u>	<u>4,862</u>

Notes	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(9)	(864)	(8)	(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)	(8,500)	—
Disposal of financial assets at fair value through profit or loss	125,000	83,500	11,500	5,000	—
Investment income received from financial assets at fair value through profit or loss	346	368	32	8	—
Interest received from loans receivable and penalty income	—	1,206	2,977	1,257	—
Repayment of advances of loans to third parties . .	—	—	30,217	7,500	—
Net cash flows from/(used in) investing activities . .	<u>(7,163)</u>	<u>(19,490)</u>	<u>27,927</u>	<u>5,257</u>	<u>—</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	35,000	19,000
Proceeds from other borrowings	27,000	25,508	30,868	19,368	—
Repayment of bank loans	—	(20,000)	(10,000)	(10,000)	(25,000)
Repayment of other borrowings	(32,000)	(40,508)	(12,868)	(1,368)	(5,000)
Interest paid	(4,762)	(1,801)	(3,306)	(605)	(1,892)
Borrowings from a director	3,000	—	—	—	—
Borrowings from related parties	10,650	—	10,000	—	10,000
Repayment of borrowings from a director	(3,000)	—	—	—	—
Repayment of borrowings from related parties . .	(21,650)	—	(10,000)	—	(10,000)
Repayment of principal portion of lease liabilities	<u>(669)</u>	<u>(945)</u>	<u>(465)</u>	<u>(232)</u>	<u>(348)</u>
Net cash flows from/(used in) financing activities . .	<u>144,253</u>	<u>(37,746)</u>	<u>39,229</u>	<u>42,163</u>	<u>(13,240)</u>

	<i>Notes</i>	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		107,206	(85,482)	(18,390)	(14,569)	(8,378)
Cash and cash equivalents at beginning of year/ period		8,331	115,537	30,055	30,055	11,665
Effect of foreign exchange rate changes, net		—	—	—	—	(122)
CASH AND CASH EQUIVALENT AT END OF YEAR/ PERIOD		<u>115,537</u>	<u>30,055</u>	<u>11,665</u>	<u>15,486</u>	<u>3,165</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances . .	18	<u>115,537</u>	<u>30,055</u>	<u>11,665</u>	<u>15,486</u>	<u>3,165</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>	<u>15,486</u>	<u>3,165</u>

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<i>Notes</i>	As at 30 June 2019 <i>RMB'000</i>
NON-CURRENT ASSETS		
Investment in a subsidiary		—
TOTAL NON-CURRENT ASSETS		<u>—</u>
CURRENT ASSETS		
Prepayments, other receivables and other assets	17	<u>2,377</u>
TOTAL CURRENT ASSETS		<u>2,377</u>
CURRENT LIABILITIES		
Other payables and accruals	20	6,254
Due to a subsidiary		<u>3,253</u>
TOTAL CURRENT LIABILITIES		<u>9,507</u>
NET CURRENT LIABILITIES		<u>(7,130)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(7,130)</u>
NET LIABILITIES		<u>(7,130)</u>
EQUITY		
Share capital	23	—
Reserves	24	<u>(7,130)</u>
TOTAL EQUITY		<u>(7,130)</u>

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 Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, 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 Group Structure" in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

<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 ") (note (a)) . . .	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) (note (b))	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)* (note (e))	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)* (note (c)) . . .	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)* (note (d))	PRC/Mainland China 3 April 2014	RMB3,000,000	—	100%	Investments in, production, distribution and licensing of TV series

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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 (特殊普通合伙)) and Zhongxi Certified Public Accountants Special LLP (中喜會計師事務所 (特殊普通合伙)), 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.

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 Group Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group 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 consolidated in the Historical Financial Information for the Relevant Periods. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in the Prospectus. The Group does not have any equity interests in the Consolidated Affiliated Entities.

The consolidated statements of profit or loss, statements of 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 consolidated statements of financial position of the Group as of 31 December 2016, 2017 and 2018 and 30 June 2019 have been prepared to present the assets and liabilities of the subsidiaries now comprising the Group using the existing book values. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with 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 2019, including HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* and HKFRS16 *Lease* 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 and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial instruments which have been measured at fair value.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Definition of a Business</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> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ 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:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investments retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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 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.

(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.

Net licence fee received from investment in TV series, films and web series as non-executive producer 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.

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.

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.

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 consolidated statements of profit or loss 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 consolidated 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.

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.

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.

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.

Lease***Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and

payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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 of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses.

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 the co-investment arrangement

The co-investment 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 the co-investment arrangement to the third-party investors by the Group was recognised as prepayments under the co-investment arrangement 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 consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; 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, which is different than the Company's functional currency, HK\$. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the Historical Financial Information. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the Relevant Periods and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in 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 consolidated 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.

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.

Provision and write-down of inventories to net realisable value

The Group's management reviews the conditions of inventories of the Group and make provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a project-by-project basis at the end of each reporting period and makes provision for obsolete projects. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of producing and distributing TV series of a similar nature. The Group's management reassesses the estimation at the end of each reporting period.

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 ageing period and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical expected default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as the debtors and the economic environment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The provision for impairment of trade receivables at 31 December 2016, 2017 and 2018 and 30 June 2019 amounted to RMB3,987,000, RMB8,719,000, RMB13,413,000 and RMB9,818,000, respectively, details of which are set out in note 16 to the Historical Financial Information.

Provision for expected credit losses on other receivables

The Group has applied the general approach to provide for expected credit losses for other receivables and considered the default event, historical loss rate and adjusted for forward looking macroeconomic data in calculating the expected credit loss rate, details of which are set out in note 17 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 and the six months ended 30 June 2018, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in Mainland China. All of the non-current assets of the Group were located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the Relevant Periods and the six months ended 30 June 2018 is set out below:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Customer 1	36,249	24,344	60,858	60,858	23,868
Customer 2	N/A*	N/A*	22,182	22,182	42,360
Customer 3	N/A*	N/A*	N/A*	N/A*	54,340
Customer 4	38,522	N/A*	N/A*	N/A*	N/A*
Customer 5	N/A*	N/A*	27,295	N/A*	N/A*
Customer 6	N/A*	23,622	N/A*	N/A*	N/A*
Customer 7	N/A*	19,270	N/A*	N/A*	N/A*
Customer 8	11,321	N/A*	N/A*	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 and the six months ended 30 June 2018.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue from contracts with customers					
Licensing of broadcasting rights of TV series	101,503	92,350	138,618	94,603	137,411
Distribution of broadcasting rights of TV series	472	—	12,939	12,939	—
Revenue from other sources					
Net licence fee received from investment in TV series, films and web series as non-executive producer.	—	6,916	2,528	2,528	7,892
	<u>101,975</u>	<u>99,266</u>	<u>154,085</u>	<u>110,070</u>	<u>145,303</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 and the six months ended 30 June 2018.

Timing of revenue recognition

All of the Group's revenue was recognised at a point in time in during the Relevant Periods and the six months ended 30 June 2018.

(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.

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 and 30 June 2019.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	—	1,439	—

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the aggregate amount of transaction price allocated to performance obligation that are unsatisfied was nil, nil, RMB1,439,000 and nil, respectively. 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:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income and gains					
Government grants					
— related to income					
<i>(note a)</i>	2,908	5,803	5,113	709	—
Bank interest income.	63	190	39	30	5
Investment income					
from financial assets					
at fair value through					
profit or loss.	346	368	32	8	—
Interest income from					
loans receivable. . .	302	2,301	1,538	1,370	—
Penalty income.	—	206	325	325	—
Others	—	—	—	—	10
	<u>3,619</u>	<u>8,868</u>	<u>7,047</u>	<u>2,442</u>	<u>15</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.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Six months ended 30 June	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
					(Unaudited)	
Cost of inventories sold . . .		42,495	81,575	73,979	47,590	108,115
Listing expenses		—	—	—	—	10,266
Depreciation of property, plant and equipment . . .	13	30	293	381	191	80
Depreciation of right-of-use assets	14	669	945	465	232	232
Minimum lease payments under leases exemption . .		167	337	324	144	594
Auditor's remuneration . . .		377	170	—	—	—
Government grants	5	(2,908)	(5,803)	(5,113)	(709)	—
Interest income from loans receivable	5	(302)	(2,301)	(1,538)	(1,370)	—
Bank interest income	5	(63)	(190)	(39)	(30)	(5)
Investment income from financial assets at fair value through profit or loss	5	(346)	(368)	(32)	(8)	—
Employee benefit expense (excluding directors' and chief executive's remuneration (<i>note 8</i>)):						
Wages and salaries		1,391	2,555	2,301	799	1,443
Pension scheme contributions		132	203	270	130	190
Staff welfare expenses		114	130	214	69	68
		<u>1,637</u>	<u>2,888</u>	<u>2,785</u>	<u>998</u>	<u>1,701</u>
Loss on disposal of items of property, plant and equipment		—	8	—	—	—
Write-down of inventories to net realisable value* . .		—	—	4,087	4,087	3,988
Impairment/(reversal of impairment) of trade receivables	16	3,987	4,732	4,694	1,437	(3,595)
Impairment of other receivables	17	—	—	2,149	—	—

* Write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statements of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank loans	5	424	1,231	511	513
Interest on other borrowings	3,275	845	3,062	968	788
Interest on borrowings from a director and related parties	477	—	67	—	—
Interest on discounted notes receivable	—	—	44	44	190
Interest on trade receivable financing	—	442	23	23	—
Interest on lease liabilities	64	85	54	27	15
Less: Interest capitalised	(2,562)	—	(2,103)	(674)	—
	<u>1,259</u>	<u>1,796</u>	<u>2,378</u>	<u>899</u>	<u>1,506</u>

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 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 12 December 2019.

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			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind . . .	655	973	606	239	365
Pension scheme contributions	41	66	77	35	40
	<u>696</u>	<u>1,039</u>	<u>683</u>	<u>274</u>	<u>405</u>

Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive directors during the Relevant Periods and six months ended 30 June 2018.

Executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
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
	RMB'000	RMB'000	RMB'000	RMB'000
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>

	<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>
Six months ended 30 June 2018				
(Unaudited)				
Executive directors:				
Mr. Liu Naiyue	—	123	19	142
Ms. Li Fang	—	75	10	85
Ms. Liu Peiyao	—	41	6	47
Ms. Wei Xian	—	—	—	—
	<u>—</u>	<u>239</u>	<u>35</u>	<u>274</u>
Six months ended 30 June 2019				
Executive directors:				
Mr. Liu Naiyue	—	186	23	209
Ms. Li Fang	—	126	11	137
Ms. Liu Peiyao	—	53	6	59
Ms. Wei Xian	—	—	—	—
	<u>—</u>	<u>365</u>	<u>40</u>	<u>405</u>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2018. During the Relevant Periods and the six months ended 30 June 2018, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the six months ended 30 June 2018 included two, two, 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, three, three and three highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods and the six months ended 30 June 2018 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, bonuses, allowances and benefits in kind . . .	639	1,477	896	312	584
Pension scheme contributions	56	68	114	45	64
	<u>695</u>	<u>1,545</u>	<u>1,010</u>	<u>357</u>	<u>648</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	(Unaudited)				
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Relevant Periods and the six months ended 30 June 2018, 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.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the Relevant Periods and the six months ended 30 June 2018.

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 and the six months ended 30 June 2018 are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current — Mainland					
China charge for the year/period	12,975	3,004	4,089	3,612	4,981
Deferred tax (note 22)	(701)	(1,125)	(723)	435	580
Total tax charge for the year/period . . .	<u>12,274</u>	<u>1,879</u>	<u>3,366</u>	<u>4,047</u>	<u>5,561</u>

(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			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	45,077	8,570	67,849	58,975	20,706
Tax at the statutory tax rate of 25% in Mainland China . . .	11,269	2,143	16,963	14,744	5,177
Tax effect of tax exemption granted to subsidiaries	—	(1,188)	(15,149)	(11,566)	(2,016)
Effect of tax rate differences in other jurisdiction	—	—	—	—	1,752
Expenses not deductible for tax	240	187	253	73	57
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries (note 22)	296	58	583	498	199
Effect of tax losses not recognised	469	679	716	298	392
Tax charge at the Group's effective tax rate	12,274	1,879	3,366	4,047	5,561

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 and the six months ended 30 June 2018 as disclosed in note 2.1 to the Historical Financial Information.

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>

	Electronic equipment	Office equipment	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30 June 2019				
At 1 January 2019:				
Cost	177	136	654	967
Accumulated depreciation	(123)	(35)	(600)	(758)
Net carrying amount	<u>54</u>	<u>101</u>	<u>54</u>	<u>209</u>
At 1 January 2019, net of accumulated depreciation	54	101	54	209
Depreciation provided during the period (note 6)	(14)	(12)	(54)	(80)
At 30 June 2019, net of accumulated depreciation	<u>40</u>	<u>89</u>	<u>—</u>	<u>129</u>
At 30 June 2019:				
Cost	177	136	654	967
Accumulated depreciation	(137)	(47)	(654)	(838)
Net carrying amount	<u>40</u>	<u>89</u>	<u>—</u>	<u>129</u>

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Right-of-use assets	Lease Liabilities
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	1,226	1,230
Depreciation provided during the year (note 6)	(669)	—
Interest expenses	—	64
Payment during the year	—	(733)
As at 31 December 2016 and 1 January 2017	557	561
Additions	1,395	1,395
Depreciation provided during the year (note 6)	(945)	—
Interest expenses	—	85
Payment during the year	—	(1,030)
As at 31 December 2017 and 1 January 2018	1,007	1,011
Depreciation provided during the year (note 6)	(465)	—
Interest expenses	—	54
Payment during the year	—	(519)
As at 31 December 2018 and 1 January 2019	542	546
Depreciation provided during the period (note 6)	(232)	—
Interest expenses	—	15
Payment during the year	—	(363)
At 30 June 2019	<u>310</u>	<u>198</u>

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:				
Lease liability:				
Current	561	448	444	198
Non-current	—	563	102	—
	<u>561</u>	<u>1,011</u>	<u>546</u>	<u>198</u>

The consolidated statements of profit or loss and the consolidated statements of cash flows contain the following amounts relating to leases:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Depreciation of right-of-use assets	669	945	465	232	232
Interest expenses	64	85	54	27	15
Expenses relating to short term lease	167	337	324	144	594
The cash flow for leases as					
Financing activities	<u>(733)</u>	<u>(1,030)</u>	<u>(519)</u>	<u>(259)</u>	<u>(363)</u>

15. INVENTORIES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	4,320	4,183	9,810	9,810
Work-in-progress	2,350	92,210	87,131	45,960
Finished goods	<u>67,560</u>	<u>33,974</u>	<u>106,977</u>	<u>65,389</u>
	<u>74,230</u>	<u>130,367</u>	<u>203,918</u>	<u>121,159</u>

16. TRADE AND NOTES RECEIVABLES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	68,045	76,972	112,704	219,545
Notes receivable	<u>4,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	72,045	76,972	112,704	219,545
Impairment	<u>(3,987)</u>	<u>(8,719)</u>	<u>(13,413)</u>	<u>(9,818)</u>
	<u>68,058</u>	<u>68,253</u>	<u>99,291</u>	<u>209,727</u>

The Group's trade receivables, amounting to RMB17,000,000, nil, RMB16,674,000 and RMB51,832,000 were pledged to secure the bank loan granted to the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 (note 21), 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:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	49,075	14,565	58,735	141,364
3 to 6 months	353	—	1,322	1,079
6 to 12 months	—	10,353	—	31,022
1 to 2 years	14,630	30,194	17,932	17,697
2 to 3 years	—	13,141	21,302	18,565
	<u>64,058</u>	<u>68,253</u>	<u>99,291</u>	<u>209,727</u>

An impairment analysis is performed at the end of each of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates are based on ageing period and 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.

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

	Trade receivables ageing:					Total
	Current	Aged less than 1 year past due	Aged 1 to 2 years past due	Aged 2 to 3 years past due	Aged more than 3 years past due	
Expected credit loss rate	note	9.72%	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

	Trade receivables ageing:					Total
	Current	Aged less than 1 year past due	Aged 1 to 2 years past due	Aged 2 to 3 years past due	Aged more than 3 years past due	
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

	Trade receivables ageing:					Total
	Current	Aged less than 1 year past due	Aged 1 to 2 years past due	Aged 2 to 3 years past due	Aged more than 3 years past due	
Expected credit loss rate	note	10.13%	14.35%	23.08%	100.00%	11.90%
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

As at 30 June 2019

	Trade receivables ageing:					Total
	Current	Aged less than 1 year past due	Aged 1 to 2 years past due	Aged 2 to 3 years past due	Aged more than 3 years past due	
Expected credit loss rate	note	6.66%	11.98%	18.27%	100.00%	4.47%
Gross carrying amount						
<i>RMB'000</i>	141,364	34,391	20,105	22,715	970	219,545
Expected credit losses						
<i>RMB'000</i>	—	2,290	2,408	4,150	970	9,818

Note: The Group estimated the expected credit loss rate to be minimal on current trade receivables.

The movements in the loss allowance for impairment of trade receivables were as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	—	3,987	8,719	13,413
Impairment losses recognised/ (reversal of impairment loss), net (<i>note 6</i>) . . .	3,987	4,732	4,694	(3,595)
At end of year/period	3,987	8,719	13,413	9,818

The Group's notes receivable were all aged within one year and were neither past due nor impaired.

Transferred financial assets that are derecognised in their entirety

At 31 December 2016, 2017 and 2018 and 30 June 2019, certain notes receivable accepted by banks in Mainland China (the “**Derecognised Notes**”) was discounted to the banks in Mainland China with a carrying amount in aggregate of nil, nil and RMB1,000,000 and RMB5,600,4000, respectively. The Derecognised Notes had a maturity of nil, nil, two months and four to eleven months at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the “**Continuing Involvement**”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated notes receivables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Notes are not significant. During the Relevant Periods, the Group has recognised the interest expense on the discounted notes receivables amounting to nil, nil and RMB44,000 and RMB190,000, respectively.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS**The Group**

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments under the co-investment arrangement	500	3,140	79,272	77,797
Prepayments	24,189	14,785	842	8,289
Prepaid listing expenses	—	—	1,106	—
Deferred listing expenses	—	—	—	3,495
Deductible input-VAT	2,048	1,911	4,945	—
Income tax recoverable	—	3,311	717	—
Deposits and other receivables	9,311	9,993	351	16,622
Loans receivable (<i>note a</i>)	8,500	28,700	3,774	3,774
Interest receivables (<i>note a</i>)	302	1,687	761	761
Impairment allowance	(1,000)	(1,000)	(3,149)	(3,149)
	<u>43,850</u>	<u>62,527</u>	<u>88,619</u>	<u>107,589</u>

The Company

	As at 30 June
	2019
	<i>RMB'000</i>
Deferred listing expenses	<u>2,377</u>

The movements in the loss allowance for impairment of other receivables were as follows:

The Group

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	1,000	1,000	1,000	3,149
Impairment losses (<i>note 6</i>)	—	—	2,149	—
At end of year/period	<u>1,000</u>	<u>1,000</u>	<u>3,149</u>	<u>3,149</u>

Note (a):

Loans receivable represent the Fixed Return Investment and a loan provided to third parties. Interest receivables represent interest derived from the aforementioned Fixed Return Investment and a loan to third parties. Included in the loans receivables, RMB8,500,000, RMB28,700,000 and RMB3,000,000 and RMB3,000,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, were the Fixed Return Investment provided to third parties. The Group made investment into certain TV series under arrangements, among which the Group are entitled to fixed investment return based on principal investment amount, agreed rate of return and investment period rather than exposure to the risk of variable returns of the invested TV series.

	<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, RMB4,535,000 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 and 30 June 2019, 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 and 30 June 2019, the Group estimated the expected losses for loans receivable and interest receivables to be RMB1,000,000, RMB1,000,000, RMB3,149,000 and RMB3,149,000, respectively. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group estimated the expected loss rate for deposits and other receivables is minimal under the 12-month expected loss method.

18. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	115,537	30,055	11,665	3,165
Cash and cash equivalents	115,537	30,055	11,665	3,165

At 31 December 2016, 2017 and 2018 and 30 June 2019, 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.

19. TRADE PAYABLES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	—	28,514	34,865	55,935

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	—	20,431	6,211	34,533
3 to 6 months	—	—	12,666	—
6 to 12 months	—	8,083	6,000	10,414
1 to 2 years	—	—	9,988	7,000
2 to 3 years	—	—	—	3,988
	—	28,514	34,865	55,935

The trade payables are non-interest-bearing and are normally settled on 90 to 180 days' terms.

20. OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount received under the co-investment arrangement	—	3,500	3,000	2,000
Other tax payables	8	560	237	2,737
Interest payable	5	—	1,175	789
Payroll and welfare payable	932	2,464	937	950
Accrued listing expenses	—	—	—	7,623
Accrued expenses	141	170	—	—
Others	551	345	497	760
	<u>1,637</u>	<u>7,039</u>	<u>5,846</u>	<u>14,859</u>

The Company

	As at 30 June 2019
	<i>RMB'000</i>
Accrued listing expenses	<u>6,254</u>

Other payables are non-interest-bearing and repayable on demand.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	31 December 2016 <i>RMB'000</i>
Current			
Bank loans — secured	5.30	2017	20,000
Other borrowings — unsecured	18.00	2017	15,000
			<u>35,000</u>

	Effective interest rate (%)	Maturity	31 December 2018 <i>RMB'000</i>
Current			
Bank loans — secured	5.10–7.92	2019	25,000
Other borrowings — unsecured	10.00–15.00	2019	18,000
			<u>43,000</u>

	Effective interest rate (%)	Maturity	30 June 2019 <i>RMB'000</i>
Current			
Bank loans — secured	5.22	2020	19,000
Other borrowings — unsecured	10.00–16.00	2019	13,000
			<u>32,000</u>

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	20,000	—	25,000	19,000
Other borrowings repayable:				
Within one year	15,000	—	18,000	13,000

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 16).

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 16).

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) As at 30 June 2019, the Group's trade receivables, which had an aggregate net carrying value of approximately RMB51,832,000 were pledged to secure the bank loans granted to the Group (note 16).

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 30 June 2019.

- (d) The Group's other borrowings as at 31 December 2016 and 2018 and 30 June 2019 were unsecured and repayable within one year.

- (e) Included in the Group's other borrowings, RMB15,000,000, nil and RMB8,000,000 and RMB3,000,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, was the Fixed Return Investment received from the investors, the third parties.

22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Impairment of trade receivables	Impairment of other receivables	Write-down of inventories	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	—	—	—	—
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	997	—	—	997
At 31 December 2016 and 1 January 2017	997	—	—	997
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	1,183	—	—	1,183
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>)	769	537	—	1,306
At 31 December 2018 and 1 January 2019	2,949	537	—	3,486
Deferred tax (charged)/credited to profit or loss during the period (<i>note 10</i>) . .	(1,378)	—	997	(381)
At 30 June 2019	<u>1,571</u>	<u>537</u>	<u>997</u>	<u>3,105</u>

Deferred tax liabilities — withholding taxes

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	119	415	473	1,056
Deferred tax charged to profit or loss during the year/period (<i>note 10</i>)	296	58	583	199
At end of year	<u>415</u>	<u>473</u>	<u>1,056</u>	<u>1,255</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, RMB7,561,000 and RMB9,130,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, 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 and 30 June 2019, deferred taxes of RMB415,000, RMB473,000, RMB1,056,000 and RMB1,255,000 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 RMB37,378,000, RMB42,588,000, RMB95,022,000 and RMB112,901,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, 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.

23. SHARE CAPITAL

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid:				
100,000 ordinary shares of USD0.0001 each	—	—	—	—

A summary of movements in the Company's share capital is as follows:

	<u>Number of shares in issue</u>	<u>Share capital</u> <i>RMB'000</i>
Issued and fully paid:		
At incorporation on 11 March 2019	8,665	—
Issue of shares on 14 June 2019	<u>91,335</u>	<u>—</u>
At 30 June 2019	<u>100,000</u>	<u>—</u>

The 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. As at 30 June 2019, 100,000 ordinary shares was allotted and issued and fully paid. There was no authorised and issued capital presented as at 31 December 2016, 2017 and 2018 since the Company has not yet been incorporated.

24. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital and share premium of the companies comprising the Group, details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, 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.

The Company

	Exchange fluctuation reserves	Accumulated loss	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 11 March 2019 (date of incorporation)	—	—	—
Loss for the period	—	(7,008)	(7,008)
Exchange differences on translation of the Company's financial statements	(122)	—	(122)
At 30 June 2019	<u>(122)</u>	<u>(7,008)</u>	<u>(7,130)</u>

25. CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had no significant contingent liabilities.

26. NOTES TO THE CONSOLIDATED 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	Lease liabilities
	<i>RMB'000</i>	<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	1,230
Changes from financing cash flows	15,000	(11,000)	—	—	(669)
Interest accrued	—	412	65	3,280	64
Interest paid	—	(979)	(65)	(3,654)	(64)
At 31 December 2016	<u>35,000</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>561</u>
At 1 January 2017	35,000	—	—	5	561
Additions	—	—	—	—	1,395
Changes from financing cash flows	(35,000)	—	—	—	(945)
Interest accrued	—	—	—	1,711	85
Interest paid	—	—	—	(1,716)	(85)
At 31 December 2017	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,011</u>
At 1 January 2018	—	—	—	—	1,011
Changes from financing cash flows	43,000	—	—	—	(465)
Interest accrued	—	67	—	4,360	54
Interest paid	—	(67)	—	(3,185)	(54)
At 31 December 2018	<u>43,000</u>	<u>—</u>	<u>—</u>	<u>1,175</u>	<u>546</u>
At 1 January 2019	43,000	—	—	1,175	546
Changes from financing cash flows	(11,000)	—	—	—	(348)
Interest accrued	—	—	—	1,491	15
Interest paid	—	—	—	(1,877)	(15)
At 30 June 2019	<u>32,000</u>	<u>—</u>	<u>—</u>	<u>789</u>	<u>198</u>

27. COMMITMENTS

The Group had the following commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for the co-investment arrangement	—	6,160	40,050	15,203

28. RELATED PARTY TRANSACTIONS

Details of the Company's related parties are as follows:

Name	Relationship with the Company
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
Mr. Shao Chengwu	A close member of Ms. Li Fang
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

- (a) The Group had the following transactions with related parties during the Relevant Periods and the six months ended 30 June 2018:

The Group

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Borrowings from a director					
Mr. Liu Naiyue*	3,000	—	—	—	—
Borrowings from related parties					
Ms. Yan Bei*	250	—	—	—	—
Mr. Shao Chengwu	400	—	—	—	—
Mr. Bai Yang*	—	—	—	—	10,000
Qingdao Fuhe*	10,000	—	—	—	—
Suiyong Ronghui**	—	—	10,000	—	—
	10,650	—	10,000	—	10,000
Interest expenses to:					
Mr. Liu Naiyue	65	—	—	—	—
Ms. Yan Bei	5	—	—	—	—
Mr. Shao Chengwu	7	—	—	—	—
Qingdao Fuhe	407	—	—	—	—
Suiyong Ronghui	—	—	67	—	—
	484	—	67	—	—
Purchases of goods from:					
Wenxin Diaolong***	4,689	—	—	—	—

* The borrowings from Mr. Liu Naiyue, Ms. Yan Bei, Mr. Shao Chengwu and Qingdao Fuhe were unsecured, which bore interest rate at 6% per annum. The borrowing from Mr. Bai Yang was unsecured, interest-free and repayable on demand. The borrowings from a director and related parties has been fully settled as at 31 December 2016, 2017 and 2018 and 30 June 2019.

** The borrowings from Suiyong Ronghui were secured by pledge of trade receivables of RMB21,674,000, which bore interest rate at 8% per annum and the borrowing was fully settled as at 31 December 2018.

*** 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 and 30 June 2019, 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, RMB20,000,000 and RMB20,000,000, respectively.

(c) Compensation of key management personnel

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	498	1,068	692	243	451
Pension scheme contributions	43	56	84	32	52
Total compensation paid to key management personnel	541	1,124	776	275	503

Further details of directors' emoluments are included in note 8 to the Historical Financial Information.

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 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and notes receivables	68,058	68,253	99,291	209,727
Financial assets included in prepayments, other receivables and other assets	17,113	39,380	1,737	18,008
Cash and cash equivalents	115,537	30,055	11,665	3,165
	<u>200,708</u>	<u>137,688</u>	<u>112,693</u>	<u>230,900</u>

Financial liabilities — at amortised cost

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans and other borrowings	35,000	—	43,000	32,000
Trade payables	—	28,514	34,865	55,935
Lease liabilities	561	1,011	546	198
Financial liabilities included in other payables and accruals	556	345	1,672	9,172
	<u>36,117</u>	<u>29,870</u>	<u>80,083</u>	<u>97,305</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 and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for lease liabilities as at the end of each of the Relevant Periods was assessed to be insignificant.

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.

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
30 June 2019		
RMB	50	(58)
RMB	(50)	58

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/period-end staging as at 31 December 2016, 2017 and 2018 and 30 June 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs		Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
As at 31 December 2016	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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>
	12-month ECLs		Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
As at 31 December 2017	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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>
	12-month ECLs		Lifetime ECLs		Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
As at 31 December 2018	RMB'000	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>—</u>	<u>1,386</u>	<u>99,291</u>	<u>112,693</u>

As at 30 June 2019	12-month	Lifetime ECLs			Simplified approach	Total
	ECLs	Stage 1	Stage 2	Stage 3		
	Stage 1	Stage 2	Stage 3	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	—	209,727	209,727
Financial assets included in prepayments, other receivables and other assets						
— Normal**	16,622	—	—	—	—	16,622
— Doubtful**	—	—	1,386	—	—	1,386
Cash and cash equivalents						
— Not yet past due	3,165	—	—	—	—	3,165
	<u>19,787</u>	<u>—</u>	<u>1,386</u>	<u>—</u>	<u>209,727</u>	<u>230,900</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 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”.

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					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	
	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
Lease liabilities	—	175	410	—	—	585
Financial liabilities included in other payables and accruals	556	—	—	—	—	556
	<u>556</u>	<u>10,706</u>	<u>26,262</u>	<u>—</u>	<u>—</u>	<u>37,524</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
Lease liabilities	—	107	378	610	—	1,095
Financial liabilities included in other payables and accruals	345	—	—	—	—	345
	<u>8,428</u>	<u>20,538</u>	<u>378</u>	<u>610</u>	<u>—</u>	<u>29,954</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 . .	—	33,486	10,247	—	—	43,733
Trade payables	28,654	6,211	—	—	—	34,865
Lease liabilities	—	101	367	108	—	576
Financial liabilities included in other payables and accruals	1,672	—	—	—	—	1,672
	<u>30,326</u>	<u>39,798</u>	<u>10,614</u>	<u>108</u>	<u>—</u>	<u>80,846</u>
30 June 2019						
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans and other borrowings . .	—	3,542	29,600	—	—	33,142
Trade payables	21,402	34,533	—	—	—	55,935
Lease liabilities	—	—	199	—	—	199
Financial liabilities included in other payables and accruals	9,172	—	—	—	—	9,172
	<u>30,574</u>	<u>38,075</u>	<u>29,799</u>	<u>—</u>	<u>—</u>	<u>98,448</u>

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 total debt (of which debt is defined to include interest-bearing payables) divided by total equity multiplied by 100% as at the date indicated. Total debt includes lease liabilities and interest-bearing bank loans and other borrowings. 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:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans and other borrowings	35,000	—	43,000	32,000
Lease liabilities	561	1,011	546	198
Total debt	<u>35,561</u>	<u>1,011</u>	<u>43,546</u>	<u>32,198</u>
Equity attributable to owners of the parent	<u>251,243</u>	<u>257,934</u>	<u>322,417</u>	<u>337,440</u>
Gearing ratio	<u>14.2%</u>	<u>0.4%</u>	<u>13.5%</u>	<u>9.5%</u>

32. EVENTS AFTER THE REPORTING PERIOD

No other significant events that require additional disclosure or adjustments occurred after the Relevant Periods.

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 30 June 2019.

The following information does not form part of the Accountants' Report from Ernst & Young, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the Historical Financial Information set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the parent as at 30 June 2019 as if Global Offering had taken place on 30 June 2019.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the parent has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to owners of the parent had the Global Offering been completed as at 30 June 2019 or any future date.

	Consolidated net tangible assets attributable to owners of the parent as at 30 June 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent as at 30 June 2019	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per share as at 30 June 2019	
	<i>RMB'000</i> (Note 1)	<i>RMB'000</i> (Note 2)	<i>RMB'000</i>	<i>RMB</i> (Note 3)	<i>HK\$ equivalent</i> (Note 4)
Based on an Offer Price of HK\$0.50 per Share	337,440	87,815	425,225	0.43	0.49
Based on an Offer Price of HK\$0.74 per Share	337,440	136,399	473,839	0.47	0.53

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the parent as at 30 June 2019 is extracted from the Historical Financial Information, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are calculated based on the offer price of HK\$0.50 per Share or HK\$0.74 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and related expenses payable by the Company (excluding listing expense of RMB10,266,000 which have been charged to profit or loss prior to 30 June 2019) and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix IV — Statutory and General Information”.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.13.

The following is the text of a report received from our reporting accountants, Ernst & Young, prepared for the purposes of incorporation in this prospectus, in respect of the pro forma financial information of the Group.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Values Cultural Investment Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Values Cultural Investment Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2019, and related notes as set out on pages II-1 to II-2 of the prospectus dated 30 December 2019 (the “**Prospectus**”) issued by the Company (the “**Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II(A) to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Global Offering of shares of the Company on the Group’s financial position as at 30 June 2019 as if the transaction had taken place at 30 June 2019. As part of this process, information about the Group’s financial position, has been extracted by the Directors from the Group’s financial statements for the period ended 30 June 2019, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the Global Offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

30 December 2019

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 12 December 2019 with effect from the Listing Date. 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

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.

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.

(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

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 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.

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

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.

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

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

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.

(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.

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

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.

(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.

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

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.

(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

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

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.

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.

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.

(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 21 October 2019.

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

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

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.

(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. The register of members shall contain such particulars as required by Section 40 of the Companies Law. 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 thirty (30) 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 listed 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.

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.

(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.

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 prospectus. 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.

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 changed our registered office to Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands on 30 July 2019. 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 prospectus.

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.

Pursuant to the written resolutions of our Shareholders passed on 11 December 2019, each issued and unissued share in our Company at a par value of US\$0.0001 each was subdivided into 20 Shares at a par value of US\$0.000005 each such that the authorised share capital of the Company became US\$50,000 divided into 10,000,000,000 Shares at a par value of US\$0.000005 each and the issued share capital became US\$10 divided into 2,000,000 Shares at a par value of US\$0.000005 each.

Immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option 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 Capitalisation Issue and the Global Offering will be US\$5,000 divided into 1,000,000,000 Shares of US\$0.000005 each, fully-paid or credited as fully-paid, with 9,000,000,000 Shares which our Company is authorised to issue, remaining unissued.

Other than pursuant to the exercise of the Over-allotment Option 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. Further information about our Group and the subsidiaries — 1.3 Resolutions in writing of our Shareholders passed on 12 December 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 above and in the paragraph headed “History, Reorganisation and Group Structure — Corporate history and development — Establishment and shareholding changes of the major members of our Group — Our Company” in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

1.3 Resolutions in writing of our Shareholders passed on 12 December 2019

Pursuant to the written resolutions passed by all of our Shareholders on 12 December 2019 among others:

- (a) the Memorandum and the Articles were conditionally approved and adopted to take effect from the Listing Date;

- (b) conditional on (A) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be made available pursuant to the Capitalisation Issue, the exercise of the Over-allotment Option and any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; (B) the Offer Price having been duly agreed upon between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company and the delivery of the Price Determination Agreement on or around the Price Determination Date; (C) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; (D) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements, in each case on or before the dates and times specified in such Underwriting Agreements (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 prospectus:
- (i) the Global Offering and the grant of the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
- (ii) conditional on the share premium account of our Company being credited as a result of the allotment and issue of new Shares pursuant to the Global Offering, the Directors were authorised to capitalise US\$3,740 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 748,000,000 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 12 December 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;

- (iii) the rules of the Share Option Scheme (the principal terms of which are set forth in the paragraph headed “4. Share Option Scheme” in 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 in the 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;
- (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 a rights issue, or scrip dividend schemes or similar arrangements providing for allotment and issue 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 Global Offering or the Capitalisation Issue, or pursuant to the exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, or pursuant to any specific authority granted by the Shareholders in general meeting, a total number of Shares of not more than the aggregate of (a) 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding (where applicable) any Shares which may be issued upon the exercise of the Over-allotment Option 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 for and on behalf 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 the completion of the Global Offering and the Capitalisation Issue, but excluding (where applicable) any Shares which may be issued upon the exercise of the Over-allotment Option 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 in the Shares pursuant to sub-paragraph (iv) above by the addition of such Shares repurchased by our Company pursuant to sub-paragraph (v) above.

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

(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 holdings

(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	(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
(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)
Registered Capital	RMB3,000,000
Shareholder	Values Culture Media Co., Ltd. (100%)
Principal business activity	Investment in 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	(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
(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	Licensing of broadcasting rights of TV series

1.5 Reorganisation

In preparing for Listing, 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 prospectus.

1.6 Changes in share capital of the subsidiaries

The subsidiaries are listed in the Accountants' Report set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "History, Reorganisation and Group Structure — Reorganisation" in this prospectus, 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 prospectus.

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 prospectus concerning the repurchase by our Company of our own securities.

(a) Provisions of the Listing Rules

The 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 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 Law any repurchases by our Company may be made out of our Company's profits, out of our Company's 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 Law, 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 Law, 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 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 Listing Rules) for the approval of a listed company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its 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 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 Listing Rules and the applicable laws of the Cayman Islands.

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 prospectus) 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 1 billion Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-Allotment Option 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 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 issue could only be implemented if the Stock Exchange agreed to waive the 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 any member of our Group within two years preceding the date of this prospectus and are or may be material:


- (a) the exclusive business co-operation agreement (獨家業務合作協議) dated 26 June 2019 entered into between WFOE and Values Culture, as further described in the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this prospectus;
- (b) the exclusive option agreement (獨家購買權協議) dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders, as further described in the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Option Agreement” in this prospectus;
- (c) the equity pledge agreement (股權質押協議) dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders, as further described in the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Equity Pledge Agreement” in this prospectus;
- (d) the shareholders’ rights proxy agreement (股東權利委託協議) dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders, as further described in the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement” in this prospectus;
- (e) the Deed of Indemnity; and
- (f) the Hong Kong Underwriting Agreement.

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) Trademark

As at the Latest Practicable Date, our Group had applied for the registration of the following trademark in the PRC which, in the opinion of our Directors, is material to our business:

<u>Trademark</u>	<u>Application Number</u>	<u>Class</u>	<u>Name of Applicant</u>	<u>Place of Application</u>	<u>Date of Application</u>
 原石文化 VALUES CULTURE MEDIA	39070077	41	Values Culture	PRC	24 June 2019

(b) Domain names

As at the Latest Practicable Date, a member of our Group had owned the following domain names which are material to our business:

<u>No.</u>	<u>Domain name</u>	<u>Owner</u>	<u>Expiry date</u>
1.	www.yuanshimedia.com	Values Culture	2 March 2023
2.	www.yuanshiwenhua168.com	Values Culture	26 May 2021

(c) Copyrights

As at the Latest Practicable Date, a member of our Group had owned the following copyrights which are material to our business:

(i) TV series copyrights

<u>No.</u>	<u>Name of copyright</u>	<u>Ownership</u>	<u>Owner</u>
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 Side Story of the Taoist of Mount Lao* (嶗山道士外傳)	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

<u>No.</u>	<u>Name of Copyright</u>	<u>Ownership</u>	<u>Owner</u>
1	Little Rain Boots* (小雨靴)	Shared copyright	Values Culture
2	True Or Dare* (真心話太冒險)	Proportionally owned copyright	Values Culture
3	Pear Blossom* (又是一春梨花白)	The right of authorship	Values Culture

(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

No.	Name of Copyright	Licensor	Licensee	Permitted Areas	Period
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
7	The VI Group of Fatal Case IV* (重案六組第四部)	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
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	Wild Roses* (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
18	The Thunder* (破冰行動)	Ningbo Runying Culture Media Co., Ltd* (寧波潤影文化傳媒有限公司)	Khorgas Values	PRC	From 20 June 2019 to 3 years from first broadcast and no later than 30 September 2022

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 Global Offering and the Capitalisation Issue and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Share Option 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 listed will be as follows:

<u>Name of Director</u>	<u>Nature of interest/Capacity</u>	<u>Number of shares held (L) (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu	Interest of a controlled corporation (Note 2)	239,002,500	23.90%
Ms. Liu	Interest of a controlled corporation (Note 2)	239,002,500	23.90%
Ms. Wei	Interest of a controlled corporation (Note 2)	239,002,500	23.90%
Mr. Shao Hui .	Interest of a controlled corporation (Note 3)	90,622,500	9.06%

Notes:

- The letter “L” denotes long position in our Shares.
- The issued shares of BLW Investment are owned as to approximately 43.44%, 23.17%, 15.44%, 9.65% and 8.30% by Mr. Bai, Ms. Liu, Mr. Wu, Mr. Liu and Ms. Wei (i.e. the Core Shareholders) respectively. 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. The Core Shareholders have also decided to restrict their ability to exercise direct control over our Company by holding their interest through BLW Investment. Accordingly, 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.

3. The issued shares of SDJZ Investment are owned as to approximately 91.00%, 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 our Controlling Shareholders” and the paragraph headed “3. Further information about our Directors and substantial shareholders — 3.2 Directors’ service contracts and letters of appointment” in this Appendix to this prospectus, 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 prospectus.

(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 Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option 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 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 prospectus.

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 Listing Date 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:

<u>Executive Directors</u>	<u>Annual salary</u> (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 annual 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.

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, FY2018 and 1H2019 were approximately RMB0.7 million, RMB1.0 million, RMB0.7 million and RMB0.4 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 non-executive Directors and independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2019 are expected to be approximately RMB0.2 million.
- (iii) None of the Directors or any past directors of any member of our Group had been paid any sum of money for each of FY2016, FY2017, FY2018 and 1H2019 (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 had been no arrangement under which a Director has waived or agreed to waive any emoluments for each of FY2016, FY2017, FY2018 and 1H2019.

3.4 Disclaimers

- (a) Save as disclosed in the paragraph headed “3. Further information about our Directors and substantial shareholders — 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/she 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 listed 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 substantial shareholders” in this Appendix and in the section headed “Substantial Shareholders” in this prospectus, 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 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 listed on the Stock Exchange;
- (c) save as disclosed in the paragraph headed “2. Further information about our business — 2.1 Summary of material contracts” in this Appendix and the sections headed “History, Reorganisation and Group Structure” and “Relationship with our Controlling Shareholders” in this prospectus, none of our Directors or the experts named in the paragraph headed “6. Other information — 6.6 Qualifications 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 prospectus, 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 the paragraph headed “2. Further information about our business — 2.1 Summary of material contracts” in this Appendix and the sections headed “History, Reorganisation and Group Structure” and “Relationship with our Controlling Shareholders” in this prospectus, none of our Directors is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus 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 the Underwriting Agreements, none of the experts named in the paragraph headed “6. Other information — 6.6 Qualifications 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 Underwriting Agreements, none of the experts named in the paragraph headed “6. Other information — 6.6 Qualifications of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group 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 contracts 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
- (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 Shareholders on 12 December 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.

(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.

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 Listing Date, representing 100,000,000 Shares on the basis of 1 billion Shares in issue immediately following the completion of the Global Offering (“**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 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;

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.

(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.

(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.

(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 re-purchase 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 of 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 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 fall 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 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, open offer 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 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
- (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.

(iii) Grant of options

As at the date of this prospectus, 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 Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

5. ESTATE DUTY, TAX AND OTHER INDEMNITIES

Our Controlling 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 subsidiaries and consolidated affiliated entities) (being the material contract (e) 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 Listing Date; and
- (b) tax liabilities (including all actual fines, penalties, liabilities, costs, charges, expenses and interest relation to taxation or deprivation of relief) which any member of our Group may properly incur in connection with (i) the investigation, the assessment or the contesting of any taxation claim taken by or on behalf of the Inland Revenue Department of Hong Kong or any other statutory or governmental authority whatsoever in Hong Kong or any other part of the world; or (ii) the settlement of any claim under the Deed of Indemnity; or (iii) any legal proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or (iv) the enforcement of any such settlement or judgment, falling on any member of our Group resulting from or by reference to any income, profits, gains earned, accrued, received on or before the Listing Date, or any transactions, events, matters or things entered into or occurring on or before the Listing Date, 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.

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 30 June 2019;
- (b) to the extent that such taxation or liability falling on any member of our Group in respect of their accounting periods commencing on 1 July 2019 and ending on the Listing Date, 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 30 June 2019 or pursuant to any statement of intention made in this prospectus; 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 Inland Revenue Department of Hong Kong, 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 30 June 2019 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 he/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.

Pursuant to the Deed of Indemnity, each of the Indemnifiers has 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 member of our Group arising from or in connection with any non-compliance of such member of our Group on or before the Listing Date, 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 prospectus, or all litigation, arbitration, claims, counter-claims, actions, complaints, demands, judgments and/or legal proceedings by or against any member of our Group which was issued, accrued and/or arising from any act of any member of our Group at any time on or before the Listing Date; and
- (b) any penalty which may be imposed on any member of our Group, or any costs, expenses and losses which such member of our Group may suffer in connection with such penalty, due to such member of our Group'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; and

- (c) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings arising from the relocation by such member of our Group 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 of our Group.

The provisions contained in the Deed of Indemnity are conditional on the conditions stated in the paragraph headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" in this prospectus 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 prospectus, 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. Such conditions shall be deemed to be fulfilled on the Listing Date.

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 the members of our Group.

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 listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and the Over-allotment Option. 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 Listing is HK\$5,000,000 (excluding any disbursements).

6.2 Litigation

Save as disclosed in the paragraph headed "Business — Legal proceedings" of this prospectus, 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 prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

6.5 Agency fees or commissions received

Except as disclosed in the paragraph headed “Underwriting — Commissions and expenses” in this prospectus, 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 prospectus.

6.6 Qualifications of experts

The following are the qualifications of the experts who have given their opinion or advice which are contained in, or referred to in this prospectus:

<u>Name</u>	<u>Qualification</u>
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
Ernst & Young	Certified public accountants
Conyers Dill & Pearman	Legal advisers as to Cayman Islands law
Jingtian & Gongcheng	Legal advisers as to PRC law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant

6.7 Consents of experts

Each of the experts referred to in the paragraph headed “6.6 Qualifications of experts” above, has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report(s) and/or letter(s) and/or opinion(s) (as the case may be) and references to its name included in the form and context in which they respectively appear.

6.8 Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance 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.

(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 Global Offering 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 prospectus:
- (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 prospectus;
 - (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 Underwriters) 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 listed or dealt with in any other stock exchange nor is any listing or permission to deal 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, Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands. 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 prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2019 (being the date to which the latest audited consolidated financial statements of our Group were made up).
- (d) None of the equity and debt securities of our Company is listed or dealt with on any other stock exchange nor is any listing or permission to deal 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 prospectus.
- (g) There is no arrangement under which future dividends are waived or agreed to be waived.

6.11 Bilingual prospectus

The English language and Chinese language versions of this prospectus 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).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (i) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;
- (ii) a copy of each 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 prospectus; and
- (iii) the written consents referred to under the paragraph headed “6. Other information — 6.7 Consents of experts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Li & Partners at 22/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young for FY2016, FY2017, FY2018 and 1H2019, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for FY2016, FY2017, FY2018 and 1H2019;
- (d) the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC legal opinion issued by Jingtian & Gongcheng, our PRC Legal Advisers, in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (f) the Companies Law;
- (g) the letter of advice prepared by Conyers Dill & Pearman, summarising certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;
- (h) the F&S Report, the summary of which is set forth in the section headed “Industry Overview” in this prospectus;

- (i) 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 prospectus;
- (j) the written consents referred to under the paragraph headed “6. Other information — 6.7 Consents of experts” in Appendix IV to this prospectus;
- (k) the rules of the Share Option Scheme; and
- (l) the service contracts and letters of appointment 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 prospectus.

Values Cultural Investment Limited
新石文化投資有限公司