
SUMMARY

This summary is intended to give you an overview of the information contained in this document and should be read in conjunction with the full text of this document. As this is only a summary, it may not contain all the information that may be important to you. This document should be read in its entirety before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the specific risks involved in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before making any decision to invest in the [REDACTED].

Various expressions used in this Summary are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this document.

OVERVIEW

We are a music entertainment service provider in the PRC with over 10 years track record with a primary focus on the business of music copyright licensing and recording, which is self-reinforced and mutually complemented with organisation and production of concerts and artiste management.

Under the leadership of Mr. Li Hui, who is our Founder and Chairman and has over 20 years of experience in the China music entertainment industry, we have been gradually establishing a notable presence in the music entertainment industry in the PRC. According to the CIC Report, we ranked 14th among over 400 music recording companies in terms of revenue generated from music copyright licensing and recording in the PRC for 2022 with a market share of approximately 0.6%, and ranked 3rd among over 200 music recording companies with headquarters in the PRC, with a market share of approximately 1.5%.

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OUR BUSINESS MODEL AND OPERATIONS

Our Group has been adopting a mutually complementary business model comprising three main segments, namely (1) music copyright licensing and recording which we regard as our primary business segment; (2) concert organisation and production; and (3) artistes management. Each of our three business segments is independent and self-reinforcing, but at the same time each of their functions has complementary and enhancement effect on one another.

Music copyright licensing and recording: We have a diversified and growing music library which includes both self-produced and acquired music works which take form in single songs, digital and physical albums and videos, and we license them to (i) digital streaming platforms, (ii) album production companies, (iii) marketing and advertising companies, and (iv) other entertainment companies, such as film production companies. In return, we receive revenue by charging royalty and licensing fees to our customers pursuant to (i) a fixed minimum guarantee amount; (ii) revenue sharing arrangements; and/or (iii) key performance indicator income. Furthermore, we provide tailor-made music and video production services to our customers, such as our managed and external artistes and short video platforms, where we generate revenue through charging fixed production fee. During the Track Record Period, certain managed recording artistes of our Group engaged our Group to provide music production services outside the scope of the artiste management contract entered into between our Group and the relevant artiste, for details, please refer to the section headed “Business — Overlapping customers — suppliers” in this document.

Our comprehensive music production capabilities have been proved by our self-produced music works to the artistes over the years, and at the same time, we have also established mature production process and internal measures in order to protect our ownership and intellectual property rights over our music works. According to our PRC Legal Adviser, it is not required or necessary for our Group to register the copyrights as the producer is deemed to have the copyrights of music works. Notwithstanding this, our Group has been and will continue to proactively register our music works to protect our music library as a whole. In the event that we are aware of possible infringement of our copyrights, we will negotiate appropriate compensation with or initiate legal proceedings against the infringer. For further details of our music copyrights ownership and protection, please refer to the sections headed “Business — Our Business Model and Operations — (1) Music copyright licensing and recording — Copyright Ownership” and “Business — Intellectual Property” in this document.

Concert organisation and production: In our concert organisation business, we are in charge of the overall operation and management of our concerts. These include engagement and cooperation with a number of suppliers to procure the artistes, entertainment content creation, securement of concert venue and relevant permits, arrangement for ticket sales as well as stage management. We generate revenue from the proceeds of concert ticket sales, concert advertising and sponsorship income, and sales of concert related products. Our operation in concert production is similar with regard to the concert organisation, where we produce both concerts and commercial events for third party organisers and commercial enterprises and charge fixed production fee.

Artistes management: We generate revenue primarily from providing services to our customers, which include digital streaming platforms, marketing and advertising companies, commercial enterprises and TV broadcasting companies, by arranging our managed recording artistes to participate in (i) commercial events, (ii) advertising activities, and (iii) TV/online shows. In relation to our relationship with our managed recording artistes, we manage both their music and performing art career services under exclusive full-scope contracts while we only manage their music career services under exclusive music contracts. We manage and assist their career development within the music entertainment industry, including but not limited to, production of music, artiste market positioning,

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marketing strategy to sustain or increase their popularity, training and performance evaluation. Generally, the contract duration with our managed recording artistes is not less than four years. Depending on the scope under the respective exclusive artiste management contract, such as the agreed number of music works or the agreed type of music works to be produced, our managed recording artistes may engage our Group to provide additional artiste management and/or music production services to facilitate their career needs, for more details, please refer to the section headed “Business — Overlapping customers — suppliers” in this document.

In response to the recent market development, we have also established and adopted comprehensive internal measures and policies in monitoring the conduct of our artistes. For details, please refer to the section headed “Business — Internal Control and Risk Management Systems — Corporate Governance Measures — Internal policies on our artiste management business” in this document.

Our Business Sustainability

Due to COVID-19 pandemic and the stringent social distancing measures enforced by the PRC Government, our originally scheduled large scale physical concerts for the Group’s recording artistes in FY2020 and FY2021 were all cancelled.

Notwithstanding the above, our Directors believe that our Group’s business model and business are sustainable considering the following:

1. Our strong and robust historical growth

Since the commencement of our business in 2010, we have established and developed our mutually complementary business model. We began to build up our music library since 2011 and there is currently 907 music works as at the Latest Practicable Date, which covers a diverse range of genres such as rock, pop, pop rock, ballad and others. We also have in our track record the organisation and management of some landmark concerts, such as Heibao Band’s 30th Anniversary “True Color Concert* (30週年本色演唱會)” in 2017, and Mr. Lu Han’s series of concert tours and online concert tours (in 2016, 2018 and 2022 respectively), and enlistments of some notable artistes as our managed recording artistes, including Heibao Band* (黑豹樂隊) (since 2012), Mr. Lu Han (since 2015), Mr. Hao Yun (郝雲) (since 2016) and Mr. Jeffrey Tung (董又霖) (since 2022).

We witnessed strong and robust growth in our business operation and financial condition during the Track Record Period, which has attracted Huaian Sanqi as our [REDACTED]. Please refer to the section headed “History, Reorganisation and Corporate Structure” in this document for further details.

2. Our primary business segment of music copying licensing and recording

This business segment accounted for approximately RMB68.8 million (97.5%), RMB73.7 million (90.1%) and RMB90.6 million (95.5%) respectively of the revenue of our Group during the Track Record Period. Our music copyright licensing stems from our music library, which has been expanding throughout the Track Record Period, with the number of music works growing from 413 to 680 and 885 as at the end of FY2020, FY2021 and FY2022 respectively. This business segment is not adversely affected by the onset of COVID-19 pandemic and the ensuing social distancing measures.

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The anti-trust control implemented by the PRC Government in July 2021 thereby disallowing exclusive contracts has led to a decrease in the contract sum under the 2020 Customer X Contract, and such decrease, in terms of the average annualised minimum guaranteed copyright licensing fee, amounts to approximately 38%. In March 2023, our Group has entered into 2023 Customer X Contracts with Customer X, under which, the average annual minimum guaranteed copyright licensing fee our Group is entitled to receive is approximately 38% less as compared with the 2020 Customer X Contract, but approximately 1% more as compared with the supplemented 2020 Customer X Contract. Nevertheless, in our Directors’ view, the policy has given our Group more opportunities to enter into music copyright licensing contracts with various customers and in turn expand our customer base, reduce our reliance on a particular customer and generate more revenue as a whole from the multiple non-exclusive music copyright licensing agreements, as illustrated by the fact that since the implementation and up to the Latest Practicable Date, our Group has entered into new music copyright licensing agreements with two digital streaming platforms, which include Customer Y Contract and Customer Z Contracts. The aforesaid decrease in the copyright licensing fee under 2020 Customer X Contract and/or 2023 Customer X Contracts is offset by the copyright licensing fee under the new agreements. Further, leveraging on our music library and our experience in music copyright licensing, we have extended our business to short video platforms and social entertainment platforms. For more details, please refer to the section headed “Business” in this document.

3. Our business segment of artistes management

We have proven track record in unleashing potentials of our artistes and assisting them to promote and develop their careers, as evidenced by the numerous awards gained over the years as recognition of the achievement of our Group and its artistes — please refer to the section headed “Business — Awards and Certifications” in this document.

The COVID-19 pandemic and the social distancing measures have restricted the organisation of sizeable physical concerts during the Track Record Period. Nevertheless, we managed to organise a few online and mini concerts for our managed recording artistes. Moreover, we strived to get appearance opportunities for our artistes on TV/online shows and commercial events. During FY2021, our Group arranged for Mr. Zhang Qi (who was the then lead singer of Heibao Band) to appear in a popular TV/online show in the PRC called “哥哥的滚烫人生” (currently known as “Call me by Fire (披荆斩棘的哥哥)”). The event increased the popularity of Heibao Band and Mr. Zhang and brought them various offers of commercial events and advertising activities, which contributed to the significant increase in revenue generated from the artiste management segment. For more details, please refer to the section headed “Business — (3) Artiste management” in this document.

Our Directors consider that it is beneficial to our Group to bring in new artistes and enhance the variety of music works. During the Track Record Period, the number of new artistes entered into artistes management relationship with our Group is one, three and seven respectively. The number of artistes who did not renew their contract with our Group is one, three and nil, respectively. The total amount of revenue attributable to such outgoing artistes in our artiste management segment amounts to approximately RMB0.05 million, RMB0.02 million and RMB0.05 million, which is equivalent to approximately 3.0%, 0.2% and 1.5% of the revenue of our Group’s artiste management segment during the Track Record Period, respectively. The total amount of revenue attributable to such four outgoing artistes amounts to

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approximately RMB0.06 million, RMB0.02 million and RMB0.05 million, which is equivalent to approximately 0.1%, 0.1% and 0.1% of the total revenue of the Group during the Track Record Period, respectively. Despite the expiry of the artiste management contracts with those artistes, the copyright of the music works produced by the Group for them belongs to the Group, which will continue to generate music copyright licensing revenue.

4. Our business segment of concert organisation and production

During the Track Record Period, the COVID-19 pandemic and the stringent social distancing measures imposed by the PRC Government have posed exceptional and unusual difficulties on this business segment of our Group. Since the outbreak of COVID-19 and until early 2023, travel restrictions and quarantine requirements had been imposed from time to time by local governments in the PRC to curb the regional and local outbreaks. However, at the end of 2022, the PRC began to modify its zero-tolerance approach to outbreaks, and most of the travel restrictions and quarantine requirements were lifted around early 2023. Apart from taking the strategic steps to organise online and mini concerts for our artistes when there are stringent preventive measures, we have been drawing up plans for organising and producing concerts for our artistes and we are ready to be among the first-movers when normality returns and the social distancing measures are less stringent.

5. The regulatory regime to entertainment industry and culture programmes

The PRC authorities have recently promulgated some regulations relating to entertainment industry and cultural programmes. The main purposes of those regulations are to regulate brokerage companies, livestreaming companies and broadcasting companies in their operations and the conduct and behaviour of artistes and performers. For details, please refer to the section headed “Business — Recent Regulatory Development” in this document.

We are of the view, which is concurred by the PRC Legal Adviser, that our Group has been in compliance with those regulations applicable to us in all material aspects. Furthermore, we have implemented robust internal control measures to embrace the evolving regulatory environment applicable to us. Our Directors believe that with those regulations in place to regulate the players and their practices, the industry would have a healthy growth in the long run, and in turn provide a favourable environment for the continued development of our business. Moreover, irregular players expelled from the industry might provide room for expansion of our market share.

6. Working capital sufficiency

As discussed in the section headed “Financial Information” in this document, we have been able to maintain a healthy and sustainable cash flow and working capital position throughout the Track Record Period. Taking into account the financial resources presently available to us and the estimated [REDACTED] from the [REDACTED] and in the absence of unforeseen circumstances, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least 12 months from the date of this document.

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7. Proven resilience of our Group amid adverse market conditions

We carried on our business amid the COVID-19 pandemic during the most part of the Track Record Period. In spite of that, our Group managed to continue to achieve satisfactory results through, among others, the contribution of our music copyright licensing and recording business and the strategic steps taken by our Directors and senior management in allocating of our resources and utilization of our networks.

Looking forward, we believe that leveraging our [REDACTED] status, we could enhance our branding and competitiveness in the market, and with the [REDACTED] from the [REDACTED], we would be able to broaden our capital base and strengthen the financial resources for implementation of our business expansion plans. For further details, please refer to the section headed “Future Plans and [REDACTED] — [REDACTED]” in this document.

OUR COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths are crucial to our continued success and will enable us to grow and expand our business and continue to strengthen our position in the music entertainment industry: (i) our comprehensive capabilities to integrate our music expertise on content creation and production with artiste’s talent for the continual supply of quality music works; (ii) our diversified and growing music library and continuous stream of our managed recording artistes and music creators; (iii) our comprehensive services in the value chain of concert organisation and production, which forms part of our mutually complementary business model; (iv) our diversified and progressive revenue streams through exclusive contracts with our managed recording artistes; and (v) our visionary, dedicated and experienced management team who is adaptive to the evolving market trends of music entertainment industry and leads our business and artistes in a healthy development. For further details, please refer to the section headed “Business — Our Competitive Strengths” in this document.

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OUR STRATEGIES

Our business objective is to become a leading music entertainment service provider in the PRC. To achieve our business objective, we intend to enhance:

- (i) the value of our music library, intensify our music production capability and strengthen our music copyright licensing and recording business; and
- (ii) our capability to organise and produce concerts and events so as to strengthen our market position in the concert industry.

For further details, please refer to the section headed “Business — Our Strategies” in this document.

COMPETITIVE LANDSCAPE

The music copyright market in China mainly comprises four types of companies: Mainland music recording firms, international music recording firms, Hong Kong and Taiwanese music recording firms, and the independent music studios of top tier artistes. These players accounted for approximately 39%, 33%, 19% and 9% of the market share, respectively, in terms of overall sales revenue in 2022. The key elements contributing to the core competitiveness of music recording companies include the quality of music releases and commercial value of top tier artistes. For further details, please refer to the section headed “Industry Overview” in this document.

OUR CUSTOMERS

We have a diverse spectrum customers among our business segments, which include digital streaming platforms, TV broadcasting companies, marketing and advertising companies, album production companies, other entertainment companies, record companies, commercial enterprises, third party concert organisers and recording artistes. In concert organisation business, our end customers are general audiences.

For FY2020, FY2021 and FY2022, the revenue generated from our Group’s five largest customers in aggregate accounted for approximately RMB65.9 million, RMB68.7 million and RMB87.2 million, representing approximately 93.3%, 83.9% and 92.0% of our Group’s total revenue, respectively, while the revenue generated from our largest customer in each year/period during the Track Record Period amounted to approximately RMB48.0 million, RMB31.2 million and RMB38.2 million, representing approximately 68.1%, 38.1% and 40.2% of our Group’s total revenue, respectively. For further details, please refer to the section headed “Business — Our Customers” in this document.

Reliance on a major customer

During the Track Record Period, the revenue generated from Customer X, being our Group’s largest customer throughout the Track Record Period, represented approximately 68.1%, 38.1% and 40.2% of our Group’s total revenue, respectively. The main reasons for the decrease in the overall revenue recorded in FY2020 due to the decrease in revenue from concert organisation and production. The main reasons for the decreased percentage of revenue contribution from Customer X from FY2020 to FY2021 were (i) the decrease in the revenue from Customer X generated from licensing the selected catalog from our music library, digital albums/single songs, etc.; and (ii) the increase in our Group’s total revenue recorded in FY2021 as a result of the increase in revenue generated from (a) the music copyright licensing and recording business; and (b) the artiste management. During FY2022, the percentage of revenue contribution from Customer X for FY2022 when compared to FY2021 were that (i) a substantial portion of contract sum under the 2020 Customer X Contract was recognised in FY2020 and FY2021, and (ii) there was no fixed minimum guarantee licensing fee recognised in FY2022.

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Despite the fact that the aforesaid figures during the Track Record Period exhibit certain degree of customer concentration, our Directors are of the view that our Group’s business model is sustainable not only because the nature of our business relationship with Customer X is common and typical in the music entertainment industry especially in the music copyright licensing market in the PRC but also that there is no undue reliance on Customer X. For further details, please refer to the section headed “Business — Our Customers — Reliance on a major customer” in this document.

OUR SUPPLIERS

Our Group’s suppliers mainly include music copyright owners, our managed recording artistes, other artistes and performers, music creators, music production companies, concert planning and production service companies, technicians and venue operators. Our Group engages suppliers on a case-by-case basis and we select our suppliers from our network of suppliers by carefully considering various factors such as their credibility, presence in the market, track record, capabilities, repertoire, by word of mouth and our previous dealings with them.

For FY2020, FY2021 and FY2022, our total purchase costs from our Group’s five largest suppliers in aggregate were approximately RMB8.0 million, RMB5.6 million and RMB29.6 million, which accounts for approximately 82.5%, 66.6% and 97.4% of our Group’s total purchase costs, respectively, while the total purchase costs from our largest supplier in each year/period during the Track Record Period amounted to approximately RMB2.8 million, RMB2.0 million and RMB26.3 million, representing approximately 29.5%, 24.1% and 86.6% of our Group’s total purchase costs, respectively. For further details on our suppliers, please refer to the section headed “Business — Our Suppliers” in this document.

To the best knowledge and belief of our Directors, during the Track Record Period, there were overlappings in our five largest customers and suppliers which mainly included (i) New Clue, a film production and investment company; and (ii) Lu Han’s Group. Please refer to the section headed “Business — Overlapping customers — suppliers” in this document.

Reliance on certain artistes

Among all our Group’s five largest suppliers during the Track Record Period, the aggregate purchase costs paid to Lu Han’s Group represented approximately 29.5%, 16.1% and 7.9% of our Group’s total purchase costs for, and approximately 60.8%, 45.9% and 76.3% of our Group’s total fees to artistes, music copyright agencies and music creators under cost of sales for FY2020, FY2021 and FY2022, respectively.

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The following table set out the breakdown of revenue and gross profit attributable to Lu Han’s Group in the respective business segments of our Group:

	FY2020		FY2021		FY2022	
	Revenue	Percentage of our Group's total revenue	Revenue	Percentage of our Group's total revenue	Revenue	Percentage of our Group's total revenue
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Music copyright licensing and recording ^(note 1)	14,961	21.2	7,575	9.3	15,347	16.2
Concert organisation and production	—	—	—	—	—	—
Artiste Management	—	—	—	—	—	—
Total	14,961	21.2	7,575	9.3	15,347	16.2

Notes:

- (1) represents revenue generated from licensing copyrights of (i) digital albums; (ii) physical albums; and (iii) single songs and videos which are not included in the selected catalog of our music library, that was attributable to Lu Han’s Group.

	FY2020		FY2021		FY2022	
	Gross profit/(loss)	Percentage of our Group's total gross profit	Gross profit/(loss)	Percentage of our Group's total gross profit	Gross profit/(loss)	Percentage of our Group's total gross profit
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Music copyright licensing and recording	12,310	21.6	6,504	9.6	13,126	23.0
Concert organisation and Production	—	—	(1,149) ^(Note 1)	(1.7)	—	—
Artiste management	—	—	—	—	—	—
Total	12,310	21.6	5,355	7.9	8,823	23.0

Note:

- (1) represents the costs incurred for the preparation of concerts but no revenue for these concerts has been recognised due to cancellation under heightened COVID-19 preventive measures.

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According to the CIC Report, it is an industry norm in the PRC that market players in the music copyright licensing, like our Group, will place reliance on one or a few top artistes. Our Group believes that the level of reliance on certain artistes is likely to decrease in the future due to our Group’s mutually complementary business model along with diversification strategies and expansion plans by identifying and training new artistes, increasing the exposure and popularity of our managed recording artistes. For further details, please refer to the section headed “Business — Our Suppliers — Reliance on certain artiste” in this document.

PRICING POLICY AND COSTS

We generally have different pricing strategies for our different business segments based on various factors, such as prevailing market conditions and the popularity of the artistes. For further details, please refer to the section headed “Business — Pricing Policy” in this document.

Revenue/Cost-sharing arrangement

During our business operation, we engage in various revenue/cost arrangement (in terms of fixed and/or variable) with our business partners, a summary of major revenue source and component of cost of sales which are under revenue/cost-sharing arrangement is set out as follows:

Business segment	Our revenue	Our cost
Music copyright licensing and recording	<ul style="list-style-type: none"> Our royalty fee may be received in terms of a portion of revenue received by our customer based on agreed rates 	<ul style="list-style-type: none"> Fee to copyright agencies relates to some of acquired music works under licensing arrangement, which share a portion of our revenue generated on those music works based on agreed rates Fee to artistes is based on the licensing income attributable to the relevant artistes and pursuant to agreed percentage under their artiste management contracts
Concert organisation and production	<ul style="list-style-type: none"> Nil 	<ul style="list-style-type: none"> Fee to artistes is based on the concert/event income attributable to the relevant artistes and pursuant to agreed percentage under their artiste management contracts
Artistes management	<ul style="list-style-type: none"> Our artistes management income are based on agreed percentage distribution, which is determined according to their reputation and popularity and the type of business activities 	

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For details of the major revenue source and component of cost of sales, please refer to the business model in each of the segment in the section headed “Business-Mutually complementary business model” in this Document.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are allotted and issued under the Share Option Scheme), by virtue of the Concert Parties Confirmatory Deed, Mr. Li Hui, Mr. Tang Yuxiao, Mr. Bian Zhenmin, Ms. Tang Haizhen, Mr. Huang Zhenfeng and Mr. Wu Jun, through (i) HL Limited, YXT Limited, ZMB Limited, HZT Limited, ZFH Limited, JW Limited, respectively, and (ii) ZSFH Limited, will be entitled to exercise and control [REDACTED] of the entire issued share capital of our Company. Please see the section headed “History, Reorganisation and Corporate Structure — Parties Acting in Concert” in this document for further details. Accordingly, Mr. Li Hui, HL Limited, Mr. Tang Yuxiao, YXT Limited, Mr. Bian Zhenmin, ZMB Limited, Ms. Tang Haizhen, HZT Limited, Mr. Huang Zhenfeng, ZFH Limited, Mr. Wu Jun, JW Limited and ZSFH Limited, are considered as a group of Controlling Shareholders of our Company for the purpose of the Listing Rules. For further details about our Controlling Shareholders, please refer to the section headed “Relationship with Our Controlling Shareholders” in this document.

[REDACTED]

Pursuant to Huaian Sanqi Agreements, Zhangshu Fenghua transferred 20% equity interest in Shanghai Rock Forward to Huaian Sanqi at a consideration of RMB120.20 million, which was determined after arm’s length negotiations between the parties with reference to the agreed valuation of equity interest in Shanghai Rock Forward. The consideration was fully settled on 30 December 2016. Please refer to the section headed “History, Reorganisation and Corporate Structure — [REDACTED]” in this document for further details.

MAJOR RISK FACTORS

There are certain risks and uncertainties involved in our operations, some of which are beyond our control. Any of the factors set forth under the section headed “Risk Factors” in this document may limit our ability to execute our business strategy successfully. These include: (i) we are dependent on digital streaming platforms for online distribution and marketing of our music works, the pricing structure of which is determined by the digital streaming platforms and the royalties may not be correctly calculated under the license agreements; (ii) as a significant portion of our revenue during the Track Record Period was derived from our major customer, we are exposed to the risk of the reliance on a major customer and our business, financial condition and results of operations may fluctuate significantly in the event our revenue from our major customer should vary by a large extent; (iii) our business largely depends on certain core artiste, namely Mr. Lu Han; (iv) if we fail to engage suitable music creators and fail to continue to release successful new music works produced by us and identify music works that attract and retain our customers and audiences, our business and revenue growth potential may be adversely affected; (v) our business depends significantly on the reputation of our managed recording artistes and/or other external artistes featured in the concerts organised by us and the success of which is dependent on, amongst others, the reputation and popularity of the artistes and the concert content; (vi) our revenue may be adversely affected if the concerts, shows or events we organise need to be postponed or cancelled due to unforeseen circumstances that are out of our control; (vii) our intangible assets may be subject to impairment, of which our results of operations and financial condition may be adversely affected.

You should carefully read the entire section headed “Risk Factors” in this document before you decide to invest in the [REDACTED] and should not place any reliance on any information contained in our website, press articles, research analysts’ reports or other media regarding us and the [REDACTED].

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

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SUMMARY OF FINANCIAL INFORMATION

Highlights of key items of our consolidated statements of profit or loss

	FY2020 <i>RMB'000</i>	FY2021 <i>RMB'000</i>	FY2022 <i>RMB'000</i>
Revenue	70,561	81,858	94,845
Cost of sales	(13,613)	(13,917)	(36,542)
Gross profit	56,948	67,941	58,303
Profit before tax	43,782	33,533	31,046
Income tax expense	(1,065)	(282)	(1,116)
Profit(Loss) for the year	42,717	33,251	29,930
Attributable to:			
Owners of our Company	47,646	39,056	32,732
Non-controlling interests	(4,929)	(5,805)	(2,802)
	<u>42,717</u>	<u>33,251</u>	<u>29,930</u>

NON-HKFRS MEASURE

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

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We define adjusted net profit as profit for the year adjusted by adding back **[REDACTED]**, which mainly include professional fees paid in relation to the **[REDACTED]** and the **[REDACTED]**. The adjustment has been consistently made during the Track Record Period, which complies with guidance letter HKEX-GL103-19 issued by the Stock Exchange. Our presentation of these non-HKFRS measures should not be construed as an implication that our future results will be unaffected by items of similar natures. We eliminate the potential impacts of these items. The table below reconciles our adjusted net profit for the year presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is the profit for the year:

	FY2020 RMB'000	FY2021 RMB'000	FY2022 RMB'000
Reconciliation of profit for the year			
Profit for the year	42,717	33,251	29,930
Add: [REDACTED]	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Adjusted net profit (non-HKFRS measure)	<u><u>49,592</u></u>	<u><u>40,568</u></u>	<u><u>35,659</u></u>

The following tables present a summary of our financial information during the Track Record Period should be read in conjunction with our financial information included in the Accountants' Report set forth in Appendix I to this document, including the notes thereto.

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Revenue

The breakdown of our revenue for the Track Record Period is set out in the table below:

	FY2020		FY2021		FY2022	
	RMB'000	%	RMB'000	%	RMB'000	%
Music copyright liensing and recording	68,765	97.5	73,708	90.1	90,572	95.5
— music copyright licensing	52,324	74.2	60,160	73.5	60,782	64.1
— music/video production	16,441	23.3	13,548	16.6	29,790	31.4
Concert organisation and production	—	—	514	0.6	711	0.7
Artiste management	1,796	2.5	7,636	9.3	3,562	3.8
Total	<u>70,561</u>	<u>100.0</u>	<u>81,858</u>	<u>100.0</u>	<u>94,845</u>	<u>100.0</u>

Note: Our timing of revenue recognition was affected by the cyclical nature of our music copyright licensing contracts with digital streaming platforms and various factors, among others, timing of entering the contracts, different requirements on new music works to be delivered during the contract period, number and quality of music works delivered at the contract inception date and expected to be delivered during the contract period, the implementation of new anti-trust control. For details, please refer to section headed “Financial Information — Factors affecting our financial results” in this document.

The breakdown of our revenue generated from music copyright licensing and recording business by income type is set out in the table below:

	FY2020		FY2021		FY2022	
	Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%
Fixed minimum						
guarantee fee	30,734	44.7	45,640	61.9	45,299	50.0
Fixed fee (<i>Note</i>)	17,223	25.0	14,646	19.9	30,229	33.4
Revenue-sharing income	15,126	22.0	8,010	10.9	11,022	12.2
KPI income	<u>5,682</u>	<u>8.3</u>	<u>5,412</u>	<u>7.3</u>	<u>4,022</u>	<u>4.4</u>
Total	<u>68,765</u>	<u>100.0</u>	<u>73,708</u>	<u>100.0</u>	<u>90,572</u>	<u>100.0</u>

Note: Refers to fixed fee other than fixed minimum guarantee fee.

SUMMARY

Our revenue increased by approximately RMB11.3 million or approximately 16.0% from FY2020 to FY2021 primarily due to (i) new music licensing agreements entered into with various digital streaming platforms such as the Customer Y Contract; and (ii) more commercial events participated by our managed recording artistes due to the relaxation of rigorous measures on social distancing and the advertising activities arranged for Mr. Zhang Qi due to his popularity gained in a TV/online show in the PRC called “哥哥的滚烫人生” (currently known as “all me by Fire (披荆斩棘的哥哥)”). As a material portion of contracted revenue under the Customer Y Contract has been recognised in FY2021 resulting in an increase in trade receivables and prolonged debtors’ turnover days in FY2021, and that the conditions for second installment under the Customer Y Contract has yet been fulfilled, the Group’s financial position, including the remaining contracted revenue to be recognised and collection of trade receivables subsequent to FY2021, may fluctuate.

Our revenue increased by approximately RMB12.9 million or 15.8% from approximately RMB81.9 million for FY2021 to RMB94.8 million for FY2022, primarily attributable to the combined effect of (i) increase in revenue generated from music copyright licensing and recording business; and (ii) decrease in revenue generated from artiste management.

Gross profit and gross profit margin

The breakdown of our gross profit and gross profit margin for the Track Record Period is set out in the table below:

	FY2020		FY2021		FY2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Music copyright liensing and recording	55,555	80.8	62,343	84.6	55,098	60.8
— music copyright licensing	44,343	84.7	53,094	88.3	52,946	87.1
— music/video production	11,212	68.2	9,249	68.3	2,152	7.2
Concert organisation and production	—	—	(1,661)	N/A	(22)	N/A
Artiste management	1,393	77.6	7,259	95.1	3,227	90.6
Total	<u>56,948</u>	<u>80.7</u>	<u>67,941</u>	<u>83.0</u>	<u>58,303</u>	<u>61.5</u>

SUMMARY

The breakdown of our gross profit and gross profit margin for music copyright licensing and recording business by income type is set out in the table below:

	FY2020		FY2021		FY2022	
	Gross	Gross	Gross	Gross	Gross	Gross
	profit	profit	profit	profit	profit	profit
	margin	margin	margin	margin	margin	margin
	RMB'000	%	RMB'000	%	RMB'000	%
Fixed minimum guarantee fee	28,379	92.3	42,172	92.4	40,270	88.9
Fixed fee	11,857	68.8	10,263	70.1	3,065	10.1
Revenue-sharing income	11,426	75.5	6,106	76.2	8,160	74.0
KPI income	<u>3,893</u>	68.5	<u>3,802</u>	70.3	<u>3,603</u>	89.6
Total	<u>55,555</u>	80.8	<u>62,343</u>	84.6	<u>55,098</u>	60.8

Note: For illustrative purpose, direct and indirect costs were allocated based on the Group’s accounting policy and the Directors’ best estimation and available information. Direct costs mainly include fees to artistes, music copyright agencies and music creators and music/video production costs, while indirect costs mainly include amortisation of copyrights and staff costs.

Our gross profit increased by approximately RMB11.0 million or approximately 19.3% from FY2020 to FY2021 mainly due to the increase in the gross profit from music copyright licensing and recording business and from artiste management, which were in line with the increase in the revenue from both business segments, offset by the gross loss recorded for the concert organisation and production business segment mainly due to the costs incurred for the preparation for the aforesaid concerts originally scheduled for Mr. Lu Han, while no revenue for these concerts has been recognised due to cancellation under COVID-19 pandemic. The gross profit margin increased from approximately 80.7% for FY2020 to approximately 83.0% for FY2021, mainly resulting from the increased proportion of gross profit generating from artiste management segment, from which we recorded relatively higher gross profit margin as compared to the gross profit margin from the music copyright licensing and recording business in FY2021, in spite of the gross loss recorded for the concert organisation and production segment.

SUMMARY

Our gross profit decreased by approximately RMB9.6 million or 14.2% from approximately RMB67.9 million for FY2021 to approximately RMB58.3 million for FY2022. Such decrease was mainly attributable to the combined effect of (i) the decrease in the gross profit of approximately RMB4.0 million from artiste management, which was in line with the decrease in the revenue from the business segment; (ii) the decrease in the gross profit of approximately RMB7.2 million from the music copyright licensing and recording business, which was mainly attributable to the decrease in the gross profit from music/video production of approximately RMB6.6 million; and (iii) reduction in the gross loss from the concert organization and production segment of approximately RMB1.6 million.

Reversal of impairment losses on financial assets in FY2020 and FY2022

Our Group recognised in FY2020 the reversal of impairment loss of approximately RMB17.2 million due to our Group recovering the same amount from a legal proceedings initiated by our Group against the Concert Organiser in relation to a co-investment agreement entered into between our Group and the Co-Concert Organiser for a concert series. For FY2022, we recorded a net amount of reversal impairment losses on financial assets of approximately RMB0.3 million as certain trade receivables impaired in prior years have been recovered by the Group.

Net profit and net profit margin

Our net profit decreased by approximately RMB9.4 million or approximately 22.0% from FY2020 to FY2021. The net profit margin decreased from approximately 60.5% for FY2020 to approximately 40.6% for FY2021, which was mainly due to the impairment losses on financial assets recorded for FY2021 as compared to the reversal of impairment losses on financial losses recorded for FY2020, which was partially offset by the increase in the gross profit.

Our profit for the year decreased by approximately RMB3.4 million or approximately 10.2% from approximately RMB33.3 million for FY2021 to approximately RMB29.9 million for FY2022. The net profit margin was approximately 40.6% for FY2021 and approximately 31.6% for FY2022. The decrease in our profit margin was mainly due to decrease in our overall gross profit margin from approximately 83.0% for FY2021 to approximately 61.5% for FY2022, which was partially offset by (i) decrease in administrative expenses of RMB5.7 million during FY2022; and (ii) the net reversal of impairment loss on financial assets of approximately RMB0.3 million for FY2022.

For further details, please refer to the section headed “Financial Information — Description of selected items from consolidated statements of profit or loss and other comprehensive income” in this document.

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SUMMARY

Highlights of key items of our consolidated statements of financial position

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Non-current assets	45,085	50,657	59,078
Current assets	69,425	97,644	99,254
Current liabilities	32,351	33,167	12,950
Net current assets/(liabilities)	37,074	64,477	86,304
Total non-current liabilities	1,864	1,614	2,155
Net assets/(liabilities)	<u>80,295</u>	<u>113,520</u>	<u>143,227</u>
Equity attributable to owners of the parent	86,261	125,291	157,800
Non-controlling interests	<u>(5,966)</u>	<u>(11,771)</u>	<u>(14,573)</u>
Total equity	<u>80,295</u>	<u>113,520</u>	<u>143,227</u>

Net current assets

Our net current assets increased from approximately RMB37.1 million as at 31 December 2020 to approximately RMB64.5 million as at 31 December 2021, which is primarily attributable to (i) the increase in trade receivables and contract assets of

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approximately RMB25.2 million; (ii) the increase in prepayments, other receivables and other assets of approximately RMB3.2 million; (iii) the decrease in dividend payables of approximately RMB3.6 million; and (iv) the decrease in tax payable of approximately RMB1.4 million, which is partially offset by the presence of interest-bearing bank borrowing of approximately RMB5.0 million.

Our net current assets increased from approximately RMB64.5 million as at 31 December 2021 to approximately RMB86.3 million as at 31 December 2022, which is primarily attributable to (i) decrease in the dividend payable of approximately RMB12.5 million; (ii) decrease in interest-bearing bank borrowing of approximately RMB5.0 million; (iii) decrease in cash and cash equivalents of approximately RMB4.8 million; and (iv) the increase in prepayments, other receivables and other assets of approximately RMB5.6 million, which is partially offset by (i) the increase in trade receivables and contract assets of approximately RMB2.1 million; and (ii) decrease in trade payables of approximately RMB2.6 million.

Net assets

Our net assets increased from approximately RMB80.3 million as at 31 December 2020 to approximately RMB113.5 million as at 31 December 2021, which was mainly due to the contribution from net profit of approximately RMB33.3 million generated during FY2021.

Our net assets increased from approximately RMB113.5 million as at 31 December 2021 to approximately RMB143.2 million as at 31 December 2022, which was mainly due to the contribution from net profit of approximately RMB29.9 million as at 31 December 2022.

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For further details, please refer to the sections headed “Financial Information” and “History, Reorganisation and Corporate Structure — The Reorganisation” and the Accountants’ Report in Appendix I to this document.

Highlights of certain items of our consolidated statements of cash flows

	FY2020	FY2021	FY2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from/(used in) operating activities	39,161	7,816	26,276
Net cash used in investing activities	(3,536)	(6,823)	(13,670)
Net cash (used in)/from financing activities	(21,796)	(942)	(17,626)
Net increase/(decrease) in cash and cash equivalents	13,829	51	(5,020)
Cash and cash equivalents at the beginning of the year	16,350	29,060	28,827
Cash and cash equivalents at the end of the year	<u>29,060</u>	<u>28,827</u>	<u>24,059</u>

For further details, please refer to the section headed “Financial Information — Cash Flows” and the Accountants’ Report in Appendix I to this document.

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Key financial ratios

	As at/For the year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Gross profit margin	80.7%	83.0%	61.5%
Net profit/(loss) margin	60.5%	40.6%	31.6%
Return on total assets	37.3%	22.4%	18.9%
Return on equity	53.2%	29.3%	20.9%
Current ratio	2.1 times	2.9 times	7.7 times
Gearing ratio	2.3%	4.7%	N/A
Interest coverage	119.0 times	180.3 times	148.8 times
Debt to equity ratio	Net cash	Net cash	Net cash

For further details, please refer to the section headed “Financial Information — Analysis of Key Financial Ratios” in this document.

[REDACTED] STATISTICS

	[REDACTED] of [REDACTED] per [REDACTED] (low-end of the [REDACTED]) HK\$	[REDACTED] of [REDACTED] per [REDACTED] (high-end of the [REDACTED]) HK\$
Market capitalisation of our Shares <i>(Note 1)</i>	[REDACTED]	[REDACTED]
Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to owners of the parent per Share as at [31 December 2022] <i>(Note 2)</i>	[REDACTED]	[REDACTED]

Notes:

- (1) The calculation of the market capitalisation is based on the assumption that [REDACTED] Shares will be in issue and outstanding immediately following the completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised).
- (2) For the assumptions and calculation method, please refer to “Unaudited [REDACTED] Financial Information” set out in Appendix II to this document.

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[REDACTED]

[REDACTED] represent professional fees and [REDACTED] incurred in connection with the [REDACTED] and the [REDACTED]. Assuming an [REDACTED] of [REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range and assuming that the [REDACTED] is not exercised), our total [REDACTED] including the [REDACTED] and other [REDACTED] and fees are estimated to be approximately [REDACTED] million (equivalent to approximately RMB[REDACTED] million and represent approximately [REDACTED] of the [REDACTED] from the [REDACTED]) which shall be borne by our Company. Out of our total [REDACTED] of approximately [REDACTED], (i) approximately [REDACTED] is directly attributable to the issue of the [REDACTED] which is to be accounted for as a deduction from equity; (ii) approximately [REDACTED], [REDACTED] and [REDACTED] have been recognised in our consolidated statements of profit or loss and other comprehensive income for FY2020, FY2021 and FY2022, respectively; and (iii) approximately [REDACTED] will be further recognised in our consolidated statements of profit or loss and other comprehensive income during FY2023 upon the [REDACTED].

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, our Group declared a dividend of approximately nil, nil and nil respectively.

Our Company has adopted a dividend policy pursuant to which our Board has the discretion to declare and distribute dividends subject to the Articles and all applicable laws and regulations. Our Board may declare dividends in the future after taking into account various factors such as our financial results, cash flow situation, business conditions and strategies, future operations and earnings and any other factors that our Board may consider relevant. For further details of the dividend policy of our Company, please refer to the section headed “Financial Information — Dividend Policy” in this document.

FUTURE PLANS AND [REDACTED]

In order to capture the market growth and fulfil continuous demand from our downstream customers, we intend to continue to utilise the combination of self-production and acquisition of music works to expand our music library. Further, the PRC authorities declared that the COVID-19 outbreak has brought under control and has lifted travel restrictions and quarantine requirements in early 2023. Therefore, we believe our concert organisation and production will have growth potential in the long run. In view of the above, we believe there is a justifiable funding need to support our business strategies through the [REDACTED].

The [REDACTED] from the [REDACTED] (after deducting the related [REDACTED] and estimated expenses in connection with the [REDACTED], assuming the [REDACTED] is not exercised and assuming an [REDACTED] of [REDACTED] (being the midpoint of the indicative range of the [REDACTED] from [REDACTED] to [REDACTED] per [REDACTED]) is estimated to be approximately [REDACTED]. Our Directors intend to apply the [REDACTED] from the [REDACTED] as follows: (i) approximately [REDACTED], or [REDACTED] is to be used for the producing more quality music works and approximately [REDACTED], or [REDACTED] is to be used for acquiring suitable music works with commercial potential from the market for the two years following the [REDACTED]; (ii) approximately [REDACTED], or [REDACTED] is to be used to finance five concerts we intend to organise for the two years following the [REDACTED]; and (iii) approximately [REDACTED], or [REDACTED] is to be used for general working capital.

[If the [REDACTED] is exercised in full and assuming an [REDACTED] of [REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] stated in this document), we estimate that the additional [REDACTED] from the [REDACTED] of these additional Shares to be received by us will be approximately [REDACTED].]

For further details, please see the sections headed “Business — Our Strategies” and “Future Plans and [REDACTED]” in this document.

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RECENT REGULATORY DEVELOPMENT

A series of new regulations and policies were issued and promulgated from time to time during the past several years by relevant administrative authorities in the PRC which are intended to rectify substandard industry players and standardise the entertainment market order. After consultation with our PRC Legal Adviser, to the best knowledge and belief and after making all reasonable inquiries, our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group and our managed recording artistes were in compliance with the tightened applicable laws and regulation.

Group A — Directly regulated

Regulations relating to Taxation (collectively the “Tax Notices”)

The SAT issued Tax Notices in October 2018 and September 2021, respectively, in order to curb, among others, tax evasion by high-income practitioners in the film and television industry and tax management of employees in the field of culture and entertainment (including artistes, agents and relevant producers).

Regulations relating to the daily management of artistes’ activities (collectively the “Notices”)

Various Notices were issued by MCT, OCCAC and NRTA from September 2021 to June 2022, respectively, and according to our PRC Legal Adviser and as supported by CIC, the Notices mainly focus on rectification and correction of prohibited behaviour and speech by the entertainment artistes (including music artistes) and irregular and unlicensed individual studios established by them as well as performance brokerage agency and booking agency where applicable.

Group B — Indirectly regulated

Regulations to be complied with when arranging our artistes attending the relevant commercial activities

On 9 February 2021, CAC together with other six authorities jointly issued the Guiding Opinions on Strengthening the Standardised Administration of Online Livestreaming (關於加強網路直播規範管理工作的指導意見), aiming to, among others, regulate and improve the content of the programme broadcasted by the livestreaming platforms.

Maximum Wage Order (collectively, the “Order”)

NRT issued a series of the Order since October 2018 to February 2022, which requires radio and television broadcasting companies, online show service providers, show production organisations, and TV and network series producers to strictly enforce the requirement on the allocation of production cost, among others, the total remuneration of all actors and actresses for each program shall not exceed 40% of the total production cost, and the remuneration of the main actors and actresses shall not exceed 70% of the total remuneration of the actors and actresses.

Guidance or direction on the industry moral as a whole

- On 5 February 2021, CAPA issued the Measures for the Self-discipline Management of Art Performers in the Performance Industry (for Trial Implementation) (演出行業演藝人員從業自律管理辦法(試行)). On 10 September 2021, CAPA further issued the Self-Discipline Convention for Establishing a Refresh and Bright Ecology of Network Culture (構建清朗網絡文化生態自律公約).

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- On 25 August 2021, OCCAC issued Notice on Further Strengthening the Control of Chaos in the “Fans Group” (關於進一步加強“飯圈”亂象治理的通知). On 22 January 2022, OCCAC issued Notice on the special action of “Qinglang · 2022 Spring Festival network environment improvement” (關於開展“清朗·2022年春節網絡環境整治”專項行動的通知).
- On 2 September 2021, NRTA issued Notice on Further Strengthening the Management of Cultural Programs and their Personnel (關於進一步加強文藝節目及其人員管理的通知).
- On 31 October 2022, the State Administration for Market Regulation, the OCCAC, the MCT, the NRTA, the CSRC, China Banking and Insurance Regulatory Commission and the State Film Administration issued a Guiding Opinions on Further Regulating Celebrities’ Endorsements in advertising (關於進一步規範明星廣告代言活動的指導意見).

Based on the confirmation of our Company and the public search, our PRC Legal Advisor is of view that we had substantially complied with the above-mentioned regulations in all material aspects since they were implemented and up to the Latest Practicable Date.

Having taken into account the grounds as set out above and based on the due diligence work conducted by the Sole Sponsor, nothing has come to the attention of the Sole Sponsor that would reasonably cause the Sole Sponsor to disagree with the Directors’ view above in any material aspect.

New anti-trust control (collectively the “Decision”)

On 24 July 2022, State Administration for Market Regulation issued a decision on certain major digital streaming platform to relinquish exclusive deals held with its suppliers which encourages an open, fair and healthy industry environment based on open licensing and reasonable copyright fees, and allows music works extend to more platforms other than online music platforms such as short video platforms and social entertainment platforms. On 6 January 2022, through the official document of Regular talk with influential digital music platforms, as well as record and song-writing copyright companies, the NCAC stressed that record companies, music copyright companies and digital music platforms should not enter into exclusive copyright agreements except in special circumstances.

The effect of the Decision on the business of our Group is summarised and discussed under the paragraph headed “Our business model and operations — Our business sustainability — 2. Our primary business segment of music copyright licensing and recording”. The Directors are of the view that, taking into account the performance of our Group’s self-produced and acquired music works (detail of which is stated under the section headed “Our business model and operations — (1) Music copyright licensing and recording — Financial and streaming performance” in this document) and the recent changes in our Group’s artistes portfolio, the new anti-trust control in particular, the changing of the Customer X Contract from an exclusive one to a non-exclusive one, would not have any material adverse impact on our Group’s operations and financial performance in the near term.

For details of the above regulation, risks, our further assessment and comprehensive internal measures and policies in monitoring the conduct of our artistes, please refer to sections headed “Regulatory Overview — Special Regulations Relating to Cultural Programs and Entertainment Artistes” and “Regulatory Overview — Regulations Relating to Maximum Wage Order”, “Risk Factors — Risks Relating to Our Industry — We are subject to a wide variety of rules, regulations and laws promulgated and imposed by the relevant PRC authorities from time to time”, “Business — Recent Regulatory Development” and “Business — Internal Control and Risk Management Systems — Corporate Governance Measures — Internal policies on our artiste management business” in this document.

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RECENT REGULATORY DEVELOPMENTS ON OVERSEAS LISTING

On 17 February 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) and the supporting guidance documents (collectively, the “**Measures on Listing**”), which came into effect on 31 March 2023. For more details, please refer to the section headed “Regulatory Overview — Laws and Regulations Relating to Overseas Listing” in this document.

As advised by our PRC Legal Adviser, we are required to go through the filing procedures with the CSRC under the Measures on Listing. We will file with the CSRC within the specific time limit as required by the Measures on Listing and seek guidance from the relevant regulator and/or our legal advisers to ensure our compliance in all respects. For more details, please refer to the sections headed “Business — Recent regulatory developments on overseas listing” and “Risk Factors — We may be subject to the approval or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities.” in this document.

IMPACT OF COVID-19 ON OUR OPERATIONS

An outbreak of a respiratory disease caused by the severe acute respiratory syndrome coronavirus (COVID-19) emerged in late 2019 and had knocked on a global effect including the PRC. Many countries and regions around the world, including the PRC, were under lockdowns, experienced closure of workplaces and imposed travel restrictions to contain the spread of COVID-19. Since the outbreak of COVID-19 and until early 2023, travel restrictions and quarantine requirements had been imposed from time to time by local governments in the PRC to curb the regional and local outbreaks. However, at the end of 2022, the PRC began to modify its zero-tolerance approach to outbreaks, and most of the travel restrictions and quarantine requirements were lifted around early 2023. The extent to which the COVID-19 pandemic may continue to impact our business will depend on future developments, which are highly uncertain and unpredictable. Despite the fact that COVID-19 pandemic has materially affected our concert organisation and production business during the Track Record Period, the Directors are of the view that as the majority of our revenue is from music copyright licensing that are not significantly and adversely affected by COVID-19 (save for our concert organisation and production business), there are no material adverse impact on our overall financial performance and operation in a long run. In response to the COVID-19 pandemic, our Group has implemented a contingency plan and response to minimise the disruptions that may be caused to our business operations.

In respect of our main business segment of music copyright licensing and recording, we have continued to generate revenue from licensing copyrights and expanded our music copyright licensing and recording business by (i) non-exclusively licensing our music works to diverse digital streaming platforms; (ii) providing tailor-made music production services to other external artistes; and (iii) providing short-video production service to customers. Despite the outbreak of COVID-19, we did not encounter any significant set-backs, for instance, studios closure or suspension, nor delays in our music/video production projects on hand, nor had we experienced any material delays of payments from our customers despite minor setbacks caused by the aforesaid work arrangement since FY2020 and up to the Latest Practicable Date.

During the years from FY2020 to FY2022, our concert organisation and production business have been adversely affected by the COVID-19 pandemic, where 14 large-scale shows featuring various artistes (including both our managed recording artistes and external artistes) were cancelled, including the termination of a concert production project with a contract sum of approximately RMB2.9 million, which contributed a revenue of approximately RMB0.7 million during FY2022. Among the aforesaid large-scale shows cancelled/rescheduled, eight of them were large-scale concert for Mr. Lu Han. Nonetheless, we successfully organised (i) two concerts for Mr. Hao Yun (郝雲), one of which was an online concert streamed on a video platform in May 2021; and (ii) one online concert for Mr. Lu Han which was streamed on a video platform in November 2022. Given the repeal

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of the limitation on seating occupancy rate in concert venue and the lifting of travel restrictions and quarantine requirements in early January 2023 as well as the change in audience behaviour by digital transformation, the Directors believe that there are opportunities to launch physical concerts and our revenue in this business segment would be significantly increased accordingly. As at the Latest Practicable Date, we have obtained various authorities’ approval on holding five large-scale physical concerts for Mr. Lu Han from June to July 2023 in the cities of Beijing, Chongqing, and Guangzhou, the PRC.

Meanwhile, for our artiste management segment, we have arranged our managed recording artistes to attend over 90 commercial events including attending in the form of online platforms and to participate in large-scale concerts from FY2020 to FY2022, while there were six commercial events originally scheduled or rescheduled in the first half of 2022 to be attended by our artistes that have been postponed/further postponed or cancelled due to the COVID-19 resurgence. Along with the revival of commercial performance market since early 2023 after the lifting of travel restrictions and quarantine requirements across the PRC, we will explore more opportunities for commercial events/shows on top of our existing scheduled performances for our artistes in FY2023 and FY2024.

For more details, please refer to the section headed “Business — Effects of the COVID-19 pandemic” in this document for further details.

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RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

In view of the recent changes in the industry and regulatory environment, our Group has been actively expanding our customer base, and to embrace and adapt the changes in the regulatory and industry and technology development. In terms of business development, our Group entered into a cooperation agreement in September 2022 with a well-known entertainment agency in South Korea (“**Entertainment Agency**”), shares of which is listed on Korea Exchange and the principal business of the group includes operating as a record label, talent agency and music production company, pursuant to which the parties intends to debut new artiste group(s) under a co-managing arrangement, and share revenue generated from the performing art activities of artiste group(s), including licensing fees from licensing copyright of music works, and artiste management fees generated from the artiste group’s attendance of various commercial activities, for details, please refer to the section headed “Business — Our business model and operations — (3) Artiste management — Cooperation with entertainment agency” in this document.

Our Directors have confirmed that, save and except the recent business development discussed above, the recent regulatory development and COVID-19 pandemic which are discussed and disclosed in more details in the sections headed “Business — Recent regulatory development” and “Business — Effects of the COVID-19 pandemic” respectively, since 31 December 2022 and up to the date of this document, there had been no material adverse change in the business and operations, financial position or prospects of our Group and no event had occurred that would materially and adversely affect the information shown in the Accountants’ Report as set out in Appendix I to this document.