

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**Strawbear Entertainment Group**  
**稻草熊娱乐集团**

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

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

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

**ANGLO CHINESE** 英高  
CORPORATE FINANCE, LIMITED

A letter from the Board is set out on pages 6 to 17 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 50 of this circular.

A notice convening the EGM of **Strawbear Entertainment Group** to be held at Building A2, Shang 8 Design and Creative Industry Park, Chaoyang District, Beijing, China on Wednesday, January 19, 2022 at 11 a.m. is set out on pages 58 to 59 of this circular.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.strawbearentertainment.com](http://www.strawbearentertainment.com)), respectively. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours (i.e. 11 a.m. on Monday, January 17, 2022) before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

**PRECAUTIONARY MEASURES FOR THE EGM**

To safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:

1. Compulsory body temperature checks and health declaration for all attendees, including Directors and Shareholders at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius and/or exhibiting flu-like symptoms may be denied entry into the EGM venue and be requested to leave the EGM venue;
2. Every attendee is compulsory to wear a surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
3. The Company will not provide refreshments and will not distribute corporate gifts.

In light of the continuing risks posed by the COVID-19, the Company encourages the Shareholders to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM as an alternative to attending the EGM in person.

January 4, 2022

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## DEFINITIONS

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

“Articles”	the articles of association of the Company (as amended, supplemented or otherwise modified from time to time)
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audiovisual Works”	refers to TV series, web series and films as specified in the Copyright Law of the PRC
“Beijing iQIYI”	Beijing iQIYI Technology Co., Ltd. (北京愛奇藝科技有限公司), a limited liability company established in the PRC on March 27, 2007, a consolidated affiliated entity of iQIYI and a connected person of the Company
“Board”	the board of Directors of the Company
“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities listed thereon
“Certain Online Video Platforms”	the leading online video platforms which published data of licensing fees for revenue-sharing drama series and films broadcasted on these platforms, namely iQIYI (愛奇藝), Tencent Video (騰訊視頻) and Youku (優酷)
“close associate”	has the meaning ascribed thereto under the Listing Rules
“Company”	Strawbear Entertainment Group (稻草熊娛樂集團), an exempted company incorporated in the Cayman Islands on January 3, 2018 with limited liability whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2125)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“consolidated affiliated entities”	the entities the Company controls through the Contractual Arrangements, namely Jiangsu Strawbear and its subsidiaries, further details of which are set out in “Contractual Arrangements” in the Prospectus

## DEFINITIONS

“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), Jiangsu Strawbear and its registered shareholders, details of which are described in “Contractual Arrangements” in the Prospectus
“Director(s)”	the director(s) of the Company
“drama series”	refers to the content produced for broadcast via TV channels or the internet, which is usually released in episodes that follow a narrative, consisting of TV series and web series
“EGM”	the extraordinary general meeting of the Company to be held at Building A2, Shang 8 Design and Creative Industry Park, Chaoyang District, Beijing, China on Wednesday, January 19, 2022 at 11 a.m., to consider and, if appropriate, to approve the resolution contained in the notice of the EGM set out on pages 58 to 59 of this circular or any adjournment thereof (as the case may be)
“Group”	the Company, its subsidiaries and consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun, to advise the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps)
“Independent Financial Adviser” or “Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the Independent Financial Adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps)

## DEFINITIONS

“Independent Shareholders”	the Shareholders (other than iQIYI and its associates) who are not required to abstain from voting on the resolution proposed at the EGM in relation to the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps)
“iQIYI”	iQIYI, Inc. (Stock Code: IQ. NASDAQ) and its subsidiaries and consolidated affiliated entities, one of the largest Chinese online video platforms listed in the U.S.
“Jiangsu Strawbear”	Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), a limited liability company established in the PRC on June 13, 2014 and indirectly controlled by the Company through the Contractual Arrangements
“Latest Practicable Date”	December 29, 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on January 15, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“New Framework Agreement”	the copyright licensing framework agreement to be entered into between the Company and iQIYI in relation to the licensing of copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI
“Original Framework Agreement”	the drama series copyrights licensing framework agreement entered into between the Company and iQIYI on December 18, 2020 in relation to the licensing of broadcasting rights and other copyrights, if applicable, of the self-produced drama series of the Group to iQIYI

## DEFINITIONS

“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by the Company on May 11, 2020, the principal terms of which are summarized in “Appendix IV – Statutory and General Information – D. Other Information – (1) Pre-IPO Share Option Scheme” in the Prospectus
“Pre-IPO Share Options”	the share options granted under the Pre-IPO Share Option Scheme
“Proposed Annual Caps”	the proposed annual caps for the transactions contemplated under the New Framework Agreement for the three years ending December 31, 2024
“Prospectus”	the prospectus of the Company published on December 31, 2020
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance of Hong Kong, (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of US\$0.000025 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“TV series”	a series of scripted episodes that needs to obtain a distribution license from the National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局), which are broadcast on TV channels and/or new media channels such as online video platforms

## DEFINITIONS

“US\$”	United States dollars, the lawful currency for the time being of the United States
“Voting Arrangement Agreements”	the agreement and supplemental agreement thereof dated November 1, 2018 entered into by, among others, Mr. Liu Xiaofeng, Ms. Liu Shishi, Ms. Zhai Fang, Ms. Zhao Liying, Ms. Zhang Qiuchen and their respective wholly-owned holding companies (where applicable) regarding certain arrangements for the voting rights in the members of the Group, details of which are set out in “History, Reorganization and Corporate Development – Voting Arrangement and Lock-up Arrangements” in the Prospectus
“Web Films Cooperation Framework Agreement”	the framework agreement entered into between Jiangsu Strawbear and Beijing iQIYI on May 16, 2019 in relation to the licensing of broadcasting rights of the self-produced or licensed-in web films to Beijing iQIYI
“web series”	a series of scripted episodes which can only be broadcast on new media channels such as online video platforms
“%”	per cent



**Strawbear Entertainment Group**  
**稻草熊娱乐集团**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2125)**

*Executive Directors:*

Mr. Liu Xiaofeng (*Chairman*)

Ms. Zhang Qiuchen

Mr. Chen Chen

Ms. Zhai Fang

*Non-executive Directors:*

Mr. Wang Xiaohui

Ms. Zeng Ying

*Independent non-executive Directors:*

Mr. Ma Zhongjun

Mr. Zhang Senquan

Mr. Chung Chong Sun

*Registered office:*

Harneys Fiduciary (Cayman) Limited

4th Floor, Harbour Place

103 South Church Street

P.O. Box 10240

Grand Cayman, KY1-1002

Cayman Islands

*Principal place of business in Hong Kong:*

40/F, Dah Sing Financial Centre

248 Queen's Road East

Wanchai

Hong Kong

January 4, 2022

*To the Shareholders*

Dear Sir or Madam,

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

**1. INTRODUCTION**

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

A notice convening the EGM is set out on pages 58 to 59 of this circular.

## LETTER FROM THE BOARD

### 2. RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the Prospectus in relation to, among other things, (i) the Original Framework Agreement entered into between the Company and iQIYI on December 18, 2020, pursuant to which, the Group shall, among others, license the broadcasting rights and other copyrights, if applicable, of the self-produced drama series of the Group to iQIYI, and iQIYI shall pay licensing fees to the Group; and (ii) the Web Films Cooperation Framework Agreement entered into between Jiangsu Strawbear and Beijing iQIYI on May 16, 2019, pursuant to which Jiangsu Strawbear shall, among others, license the broadcasting rights of the self-produced or licensed-in web films of the Group to Beijing iQIYI, and Beijing iQIYI shall share with the Group the revenue generated from the video on demand payment, the advertising income and the overseas distribution, received by Beijing iQIYI during the web films broadcasting period.

Considering that (i) the Group will maintain the cooperation with iQIYI regarding the licensing of the broadcasting rights and/or other copyrights of self-produced drama series and self-produced or licensed-in web films of the Group to iQIYI; and (ii) with the rapid development of its business, the Group will explore cooperation with iQIYI in relation to the licensing of different Audiovisual Works under various modes, the Company proposed to enter into the New Framework Agreement with iQIYI upon approval by the Independent Shareholders at the EGM, pursuant to which, the Group shall license the copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI for a term commencing from the date of approval by the Independent Shareholders at the EGM to December 31, 2024.

The Original Framework Agreement and the Web Films Cooperation Framework Agreement will be terminated once the New Framework Agreement takes effect.

#### **New Framework Agreement**

Principal terms of the New Framework Agreement are set out as follows:

- |                 |  |
|-----------------|--|
| <b>Parties:</b> | (1) the Company (for itself and on behalf of the Group); and   |
|                 | (2) iQIYI (for itself and on behalf of its subsidiaries and consolidated affiliated entities)        |
| <b>Term:</b>    | Commencing from the date of approval by the Independent Shareholders at the EGM to December 31, 2024 |

## LETTER FROM THE BOARD

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

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

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

### Pricing Basis for Copyright Licensing

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

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

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

*Notes:*

1. the total investment amount refers to the production, distribution and/or licensed-in copyright purchasing costs of the relevant Audiovisual Works; and
2. the target profit margin is determined with reference to the prevailing market price and various commercial factors, including the genre, the scope of license and exclusivity, type of licensing (exclusive licensing or joint licensing), the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot, if applicable) and the expected popularity of the relevant Audiovisual Works. The target profit margin is expected to be not less than 20%, which is estimated based on the average historical profit margin of the drama series that the Group charged iQIYI fixed licensing fees for the two years ended 31 December, 2020 and the nine months ended 30 June, 2021 and the management's judgement on future business environment.

## LETTER FROM THE BOARD

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

- (i) in respect of the drama series, the revenue/income to be shared by the Group includes revenue/income from subscription video on demand (SVOD) and advertising video on demand (AVOD).

Revenue/income from SVOD and AVOD to be shared by the Group =  $A1 \times A2 + A3 \times A4 + A5$

Where, “A1” denotes effective video on demand (VOD) viewing time (hour) of members of iQIYI’s platforms; “A2” denotes unit sharing price per VOD viewing time; “A3” denotes net proceeds from AVOD in relation to the drama series, which is the income from AVOD after deducting operating costs and relevant taxes as confirmed by iQIYI; “A4” denotes prescribed advertisement income sharing percentage, which shall be 70% for exclusive licensing drama series and 50% for joint licensing drama series; and “A5” denotes the incentive funds to be provided by iQIYI (if any), which shall be determined after arm’s length negotiation between the parties with reference to the broadcasting effect of the drama series and various related commercial factors.

Unit sharing price per VOD viewing time is expected to range from RMB0.4 per VOD viewing time to RMB1.3 per VOD viewing time, which shall be determined after arm’s length negotiation between the parties with reference to the estimated rating of the drama series, the type of licensing (exclusive licensing or joint licensing), the subsidy policy adopted by iQIYI and the corresponding prevailing market price range per drama series.

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

- (1) revenue/income from SVOD and AVOD to be shared by the Group =  $B1 \times B2 + B3 \times B4$

Where, “B1” denotes effective VOD playback times of users of iQIYI’s platforms, which represents the times that users continuously watch a paid film for more than 6 minutes; “B2” denotes unit price per VOD; “B3” denotes net proceeds from AVOD in relation to the films, which is the income from AVOD after deducting operating costs and relevant taxes as confirmed by iQIYI; and “B4” denotes prescribed advertisement income sharing percentage, which shall be 70% for exclusive licensing films and 50% for joint licensing films.

## LETTER FROM THE BOARD

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

- (2) revenue/income from premium video on demand (PVOD) to be shared by the Group =  $C1 \times C2$

Where, "C1" denotes box office income during the PVOD period, which represents the total PVOD income of the films generated by members and other users of iQIYI's platforms during the effective PVOD period; and "C2" denotes prescribed payment sharing percentage.

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

Prescribed payment sharing percentage is expected to range from 35% to 60%, which shall be determined after arm's length negotiation between the parties with reference to expected genre, rating and broadcasting effect of the films.

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

To sum up, the licensing fees chargeable by the Group for drama series include one of or mix of (a), (b)(i) and (b)(iii) above, and the licensing fees chargeable by the Group for films include one of or mix of (a), (b)(ii) and (b)(iii) above. In any event, the aforesaid pricing policies are no more favorable than those available to the other independent customers for comparable transactions.

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

## LETTER FROM THE BOARD

### Historical Amounts

For the year ended December 31, 2020 and the nine months ended September 30, 2021, the aggregate licensing fees paid and/or payable by iQIYI to the Group for licensing the broadcasting rights and other copyrights of the self-produced drama series under the Original Framework Agreement are approximately RMB327.6 million and RMB297.3 million, respectively.

For the year ended December 31, 2020 and the nine months ended September 30, 2021, the aggregate fees paid and/or payable by Beijing iQIYI to the Group under the Web Films Cooperation Framework Agreement are nil and approximately RMB24 thousands, respectively.

### Annual Caps and Basis of Determination of Annual Caps

The proposed annual caps for the licensing fees payable by iQIYI to the Group under the New Framework Agreement for the years ending December 31, 2022, 2023 and 2024 are set out below:

	For the years ending December 31,		
	2022	2023	2024
	<i>(RMB in thousands)</i>		
Aggregate amounts of licensing fees payable by iQIYI to the Group	1,440,000	1,840,000	2,340,000

The proposed annual caps for the licensing fees payable by iQIYI to the Group under the New Framework Agreement for the three years ending December 31, 2024 were determined with reference to:

- (a) the historical amounts of the fees paid and/or payable by iQIYI to the Group under the Original Framework Agreement and the Web Films Cooperation Framework Agreement for the year ended December 31, 2020 and the nine months ended September 30, 2021;
- (b) in respect of the drama series, the estimated amount of fixed licensing fees payable by iQIYI to the Group and the revenue/income generated by iQIYI to be shared by the Group for the three years ending December 31, 2024:
  - (i) the fixed licensing fees payable by iQIYI to the Group for the three years ending December 31, 2024 is estimated based on: (1) the contractual amounts under the existing drama series copyrights licensing agreements the Group have entered into with iQIYI; (2) the estimated number of drama series copyrights licensing projects to be conducted with iQIYI in the next three years which adopts the fixed licensing fees mode, including approximately

## LETTER FROM THE BOARD

seven licensing projects in 2022, nine licensing projects in 2023 and eleven licensing projects in 2024; and (3) the estimated licensing fees charged per drama series, ranging from RMB84.9 million to RMB245.3 million per drama series, which is estimated based on the expected genre, rating, commercial potential and investment costs of the drama series.

- (ii) in respect of the revenue-sharing drama series, the revenue/income generated by iQIYI to be shared by the Group for the three years ending December 31, 2024 is estimated based on: (1) the estimated number of drama series copyrights licensing projects to be conducted with iQIYI in the next three years which adopts the revenue/income sharing mode, including approximately four licensing projects in 2022, six licensing projects in 2023 and eight licensing projects in 2024; and (2) the estimated licensing fees charged per drama series, ranging from RMB20 million to RMB50 million per drama series, which is estimated based on the expected genre, rating, commercial potential and investment costs of the drama series and the public data of historical revenue/income sharing statistics. According to publicly available data published by Certain Online Video Platforms, the licensing fees for the revenue-sharing drama series broadcasted on these platforms for the year ended December 31, 2020 range from RMB10 million to RMB100 million per drama series.
- (c) in respect of the films, the estimated amount of licensing fees payable by iQIYI to the Group for the three years ending December 31, 2024, which is estimated based on:
  - (i) the contractual amounts under the existing film copyrights licensing agreements the Group have entered into with iQIYI;
  - (ii) the estimated number of film copyrights licensing projects to be conducted with iQIYI in the next three years, including approximately two licensing projects in 2022, three licensing projects in 2023 and four licensing projects in 2024;
  - (iii) the estimated licensing fees charged per film, ranging from RMB20.0 million to RMB27.5 million per film, which is estimated based on the expected genre, rating, commercial potential and investment costs of the films and the public data of historical revenue/income sharing statistics of premium films. According to publicly available data published by Certain Online Video Platforms, the licensing fees for the films broadcasted on these platforms for the year ended December 31, 2020 with top 20 box office range from RMB20.3 million to RMB54.1 million per film.

## LETTER FROM THE BOARD

- (d) the following factors were also taken into consideration when determining the annual caps:
  - (i) the limited number of platform operators in the film and drama series distribution industry; and
  - (ii) an additional buffer of an appropriate amount to prepare for potential industry changes, so as to avoid adverse restrictions on future business operations of the Group.

### **Reasons for and Benefits of Entering into the New Framework Agreement**

The Group commenced producing its own drama series and films and licensing the related copyrights of the self-owned and licensed-in drama series and films to major TV channels and/or online video platforms, which are limited in number, since its inception. iQIYI is an innovative market-leading online entertainment service provider in China, and its platform features highly popular original content, as well as a comprehensive library of other professionally-produced content, professional user generated content and user-generated content. As such, the copyrights licensing arrangements under the New Framework Agreement are in the ordinary and usual course of the business of the Group. In addition, entering into the New Framework Agreement is in line with the evolved business model of the Group and the expanded business cooperation with iQIYI.

iQIYI has a massive demand for high-quality content generated by professional producers like the Group. By entering into the New Framework Agreement, the Group can enhance its distribution network and business relationship with iQIYI, which has been a major player in content distribution market with sizable procurement budgets for content. The prices and terms offered by the Group to iQIYI are also no more favorable than those offered to other customers which are independent third parties. Therefore, the copyrights licensing arrangements under the New Framework Agreement are profitable and are in the interests of the Group and the Shareholders as a whole.

### **Internal Control**

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

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the New Framework

## LETTER FROM THE BOARD

Agreement and implementation agreements are on normal commercial terms, fair and reasonable and in the interests of the Group and its Shareholders as a whole, in particular, the fairness of the pricing policies under each agreement, the management of the Company also reviews the pricing policies of the New Framework Agreement annually. In addition, various other internal departments of the Company monitor the implementation of the New Framework Agreement from time to time, and the finance department is responsible for monitoring the transaction amounts of the continuing connected transactions contemplated under the New Framework Agreement to ensure that the annual caps under the New Framework Agreement are complied with, and that any implementation agreement under the New Framework Agreement shall be entered into by the Company with the prior approval of the finance department;

- (b) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the New Framework Agreement and provide annual confirmation to ensure that the transactions are conducted in accordance with the terms of the New Framework Agreement (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the New Framework Agreement, the Company will then comply with the Listing Rules as applicable;
- (c) when considering the licensing fees to be provided to the Group by iQIYI, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and independent third parties for similar transactions, to make sure that the pricing and terms offered by iQIYI after arm's length negotiations, are no less favorable than those offered by independent third parties; and
- (d) the growth in the aggregate amount of the continuing connected transactions between the Group and iQIYI is in line with the revenue growth of the Company since its Listing. The Company aims to keep the amount of connected transactions between the Group and iQIYI as a percentage of the Group's total revenue relatively stable. Meanwhile, the executive Directors will supervise the implementation of such internal procedures on a regular basis.

## LETTER FROM THE BOARD

### **General Information**

#### *Information on the Group*

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

#### *Information on iQIYI*

iQIYI is an innovative market-leading online entertainment service provider in China, the shares of which are listed on the Nasdaq Global Select Market with stock code IQ. iQIYI principally engages in producing and broadcasting highly popular original content, as well as broadcasting a wide variety of professionally-produced content, professional user generated content and user-generated content.

### **Listing Rules Implications**

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

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

### **Opinions of the Board**

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

The Independent Board Committee, comprising Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun, all being the independent non-executive Directors, had been formed to advise the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) and whose views and recommendation have been included in the section headed "Letter from the Independent Board

## LETTER FROM THE BOARD

Committee” of this circular. Anglo Chinese has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The letter from the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 50 of this circular.

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

### **3. CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed on Wednesday, January 19, 2022. During such period, no transfer of Shares of the Company will be registered. The record date for determining the eligibility to attend the forthcoming EGM to be held on Wednesday, January 19, 2022 will be Wednesday, January 19, 2022. In order to be eligible for attending the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, January 18, 2022.

### **4. EXTRAORDINARY GENERAL MEETING**

Set out on pages 58 to 59 of this circular is a notice convening the EGM to consider and, if appropriate, to approve, among others, the ordinary resolution relating to the New Framework Agreement and the transactions contemplated thereunder.

Enclosed with this circular is a proxy form for use at the EGM. Such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.strawbearentertainment.com](http://www.strawbearentertainment.com)), respectively. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy and return it to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours (i.e. 11 a.m. on Monday, January 17, 2022) before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

## LETTER FROM THE BOARD

### 5. VOTES TAKEN BY POLL

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

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

Pursuant to the Listing Rules, Taurus Holding Ltd., being an associate of iQIYI, is required to abstain from voting on the resolution to be proposed at the EGM in relation to the New Framework Agreement and the transactions contemplated thereunder. As of the Latest Practicable Date, Taurus Holding Ltd. is interested in 97,320,000 Shares, representing approximately 14.01% of the Shares in issue of the Company. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, save as disclosed above, no other Shareholder is required under the Listing Rules to abstain from voting on the aforementioned resolution.

### 6. RECOMMENDATION

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

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

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



## Strawbear Entertainment Group

### 稻草熊娱乐集团

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2125)**

January 4, 2022

*To the Independent Shareholders*

Dear Sir/Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION**

We refer to the circular of the Company dated January 4, 2022 (the “**Circular**”) to its Shareholders of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings when used herein.

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

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

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to:

- (a) the letter from the Board set out on pages 6 to 17 of this circular which contains its recommendation to the Independent Shareholders and the additional information set out in the Appendix to this circular; and
- (b) the letter from the Independent Financial Adviser set out on pages 20 to 50 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons taken into consideration in arriving at such advice.

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

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

Yours faithfully,

For and on behalf of the Board

**Mr. Zhang Senquan, Mr. Ma Zhongjun and Mr. Chung Chong Sun**

*Independent Non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Set out below is the letter of advice from the Independent Financial Adviser, Anglo Chinese Corporate Finance, Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

**ANGLO CHINESE**

CORPORATE FINANCE, LIMITED  
www.anglochinesegroup.com

40<sup>th</sup> Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

財務顧問有限公司  
英高

4 January, 2022

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

Dear Sir or Madam,

### RENEWAL OF CONTINUING CONNECTED TRANSACTION

#### I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps), details of which are set out in the letter from the Board contained in the circular dated 4 January, 2022 issued by the Company (the “**Circular**”) of which this letter forms part, and to make a recommendation to the Independent Shareholders in respect thereof. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

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

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

## **II. BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have reviewed, amongst other things, (i) published information on the Group, including its audited annual financial statements for the two financial years, the last of which ended on 31 December, 2020, the unaudited interim financial information for the six months ended on 30 June, 2021, and the information contained in the announcement dated 2 December, 2021 (the “**Announcement**”) and the Circular; (ii) each of the Original Framework Agreement and the Web Films Cooperation Framework Agreement; and (iii) the Prospectus. We consider the information we have reviewed is sufficient to reach the conclusions set out in this letter and have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company, and have been advised by the Directors that, to the best of their knowledge, no material information has been omitted or withheld from the information supplied to us or the information relating to the Company referred to in the Circular. We have relied on the accuracy of the information, facts and representations and the opinions expressed by the Company referred to in the Circular. We have relied on the information so provided to us and referred to in the Announcement and the Circular, and we have not verified it or conducted an independent investigation into the business and affairs of the Group, or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, directors, chief executive, substantial shareholders or any associates of any of them. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. In the two years prior to the Latest Practicable Date, we have not previously acted as the independent financial adviser to the Company’s other transactions. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

## **III. PRINCIPAL FACTORS AND REASONS CONSIDERED**

### **1. Background**

Reference is made to (i) the Prospectus, in respect of, among other things, the Original Framework Agreement and the Web Films Cooperation Framework Agreement dated 18 December, 2020 and 16 May, 2019, respectively; and (ii) the Announcement and the Circular in respect of the New Framework Agreement.

- In respect of the service of copyright licensing in relation to the licensing of broadcasting rights and other copyrights of the self-produced drama series of the Group to iQIYI under the Original Framework Agreement:

On 18 December, 2020, the Company and iQIYI entered into the Original Framework Agreement, pursuant to which the Group shall, among others, license the broadcasting rights and other copyrights, if

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

applicable, of the self-produced drama series of the Group to iQIYI, and iQIYI shall pay licensing fees to the Group. The initial term of the Original Framework Agreement commenced on the date of Listing and will expire on 31 December, 2022, and such term would automatically renew for a term of three years unless the Company serves written notice to cease cooperation.

- In respect of the service of web films cooperation under the Web Films Cooperation Framework Agreement:

On 16 May, 2019, Jiangsu Strawbear and Beijing iQIYI entered into the Web Films Cooperation Framework Agreement, pursuant to which the Company shall, among others, license the broadcasting rights of the self-produced or licensed-in web films of the Group to Beijing iQIYI, and Beijing iQIYI shall share with the Company the revenue generated from (i) the video on demand payment; (ii) the advertising income; and (iii) the overseas distribution, received by Beijing iQIYI during the web films broadcasting period. The term of the Web Films Cooperation Framework Agreement commenced on 16 May, 2019 and would expire upon the expiration of the term of license under the underlying licensing letter, and such transaction would be fully exempted from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the section headed "Connected Transactions" to the Prospectus for further details.

- In respect of the New Framework Agreement:

As stated in the letter from the Board, and as discussed with the management of the Company, the management of the Company has considered that (i) the Group will maintain cooperation with iQIYI regarding the licensing of the broadcasting rights and, or other copyrights of self-produced drama series and self-produced or licensed-in web films of the Group to iQIYI; and (ii) with the rapid development of its business, the Group will explore cooperation with iQIYI in relation to the licensing of different Audiovisual Works under various modes. Accordingly, upon the discussion with iQIYI, the Company proposed to enter into the New Framework Agreement with iQIYI, pursuant to which the Group shall license the copyrights (including but not limited to the broadcasting right, information network transmission right and other copyrights) of the self-owned and licensed-in Audiovisual Works of the Group to iQIYI for a term commencing from the date of approval by the Independent Shareholders at the EGM and ending on 31 December, 2024.

The Original Framework Agreement and the Web Films Cooperation Framework Agreement will be terminated once the New Framework Agreement takes effect.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Please refer to the section headed “4. Reasons for and benefits of entering into of the New Framework Agreement” below for the detailed discussion regarding the reasons and benefits of entering into of the New Framework Agreement.

### 2. Information of the Company

The Company is an investment holding company and its Shares were listed on the Main Board of the Stock Exchange on 15 January, 2021. The Group is a major drama series producer and distributor in the PRC, and principally engages in the investment, development, production and distribution of TV series and web series.

#### *Business and financial performance*

Set out below is the breakdown of the Group’s principal sources of revenue, expenses and profits for the two years ended 31 December, 2020, and the six months ended 30 June, 2020 and 2021.

**Table 1 – Financial performance of the Group**

	Year ended		Six months ended	
	31 December,		30 June,	
	2019	2020	2020	2021
(in RMB thousand)	(audited)	(audited)	(audited)	(unaudited)
<b>Revenue</b>	<b>765,097</b>	<b>952,362</b>	<b>579,832</b>	<b>974,983</b>
– Licensing of the broadcasting rights of drama series	754,684	625,084	483,136	483,704
– Production of made-to-order drama series	–	280,189	84,906	457,664
– Others	10,413	47,089	11,790	33,615
<b>Gross profit</b>	<b>107,640</b>	<b>259,821</b>	<b>135,642</b>	<b>233,722</b>
<b>Profit and total comprehensive income for the year, or period</b>	<b>50,400</b>	<b>18,192</b>	<b>54,128</b>	<b>94,480</b>

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

– For the six months ended 30 June, 2021 compared to 2020

The Group’s revenue amounted to approximately RMB975.0 million for the six months ended 30 June, 2021, representing an increase of approximately 68.1% as compared with that for the six months ended 30 June, 2020. Such increase was primarily attributable to an increase in revenue generated from the production of made-to-order drama series by approximately 439.0% to approximately RMB457.7 million for the six months ended 30 June, 2021.

The Group's gross profit amounted to approximately RMB233.7 million for the six months ended 30 June, 2021, representing an increase of approximately 72.3% as compared with that for the six months ended 30 June, 2020. The increase in gross profit was primarily due to (i) a decrease in the production cost of drama series due to the platform business model; and (ii) an increase of gross profit margin of drama series due to great market opportunities.

The Group's profit for the six months ended 30 June, 2021 amounted to approximately RMB94.5 million, representing an increase of approximately 74.5% as compared with that for the six months ended 30 June, 2020. The increase in profit was mainly due to the increase in gross profit, which was partially offset by an increase in selling and distribution expenses by approximately 135.7% to RMB76.3 million for the six months ended 30 June, 2021 as a result of the increase in the number of drama series incurring advertising expenses of over RMB1.0 million.

– *For the year ended 31 December, 2020 compared to 2019*

The Group's revenue amounted to approximately RMB952.4 million for the year ended 31 December, 2020 ("FY2020"), representing an increase of approximately 24.5% as compared with that for the year ended 31 December, 2019 ("FY2019"). Such increase was primarily attributable to an increase in revenue from the production of made-to-order drama series from nil for FY2019 to approximately RMB280.2 million for FY2020, which was partly offset by the decrease in revenue from licensing of the broadcasting rights of drama series by approximately 17.2% to RMB625.1 million for FY2020. The increase in revenue from the production of made-to-order drama series was primarily due to the changes in the market conditions and the Group's business strategy, while the decrease in revenue from the licensing of the broadcasting rights of drama series was primarily attributable to the relatively low licensing fees of drama series with smaller investment scale and, or from re-run distribution.

The Group's gross profit amounted to approximately RMB259.8 million for FY2020, representing an increase of approximately 141.4% as compared with that for FY2019. Such significant increase was mainly attributable to (i) the increase in revenue generated from the production of made-to-order drama series as discussed above which had a gross profit margin of approximately 21.0%; (ii) an increase in gross profit margin of drama series broadcasted which was attributable to a decrease in the production cost of such drama series; and (iii) lower gross profit margin in FY2019 from such drama series being distributed to third party distributors.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's profit for FY2020 amounted to approximately RMB18.2 million, representing a decrease of approximately 63.9% as compared with that for FY2019 despite the increase in gross profit. Such decrease was mainly attributable to (i) an increase in selling and distribution expenses by approximately 141.7% to RMB81.0 million due to the increase in the number of drama series incurring advertising expenses of over RMB1.0 million; (ii) an increase in administrative expenses by approximately 285.3% to RMB68.0 million mainly from the increases in equity-settle share award expense and Listing expense; and (iii) an increase in changes in fair value of financial liabilities at fair value through profit or loss by approximately 417.9% to RMB77.7 million for the FY2020.

### *Financial position*

Set out below is a summary of the financial position of the Group as at 31 December, 2019 and 2020, and 30 June, 2021.

**Table 2 – Financial position of the Group**

	<b>As of 31 December,</b>		<b>As of</b>
	<b>2019</b>	<b>2020</b>	<b>30 June,</b>
<i>(in RMB thousand)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
<b>Non-current assets</b>	<b>197,173</b>	<b>196,094</b>	<b>167,846</b>
<b>Current assets</b>	<b>1,855,082</b>	<b>1,663,826</b>	<b>2,510,483</b>
<b>Current liabilities</b>	<b>1,554,271</b>	<b>1,145,914</b>	<b>961,549</b>
<b>Non-current liabilities</b>	<b>303,533</b>	<b>489,369</b>	<b>11,558</b>
<b>Net assets</b>	<b>194,451</b>	<b>224,637</b>	<b>1,705,222</b>

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

As at 30 June, 2021, the increase in the total assets of the Group was primarily attributable to the increase in cash and cash equivalents, which was mainly due to the proceeds amounting to approximately RMB933.5 million from issue of the Shares from the Listing, but was partially offset by the cash flows used in the operating activities.

The Group's financial liabilities at fair value through profit or loss decreased from RMB475.4 million as of 31 December, 2020 to nil as at 30 June, 2021, primarily because of its redeemable preferred shares, which were converted into ordinary Shares immediately prior to the Listing.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June, 2021, the Group's net assets amounted to approximately RMB1,705.2 million, representing an increase by approximately 659.1% as compared with that as at 31 December, 2020, which was mainly due to (i) an increase in cash and cash equivalent due to the proceeds being received from the issue of the Shares from the Listing as mentioned above; and (ii) a decrease in financial liabilities at fair value through profit or loss as discussed above.

### 3. Information on iQIYI

iQIYI is an innovative market-leading online entertainment service provider in China, the shares of which are listed on the Nasdaq Global Select Market with stock code IQ. iQIYI principally engages in producing and broadcasting highly popular original content, as well as broadcasting a wide variety of professionally-produced content, professional user generated content and user-generated content.

### 4. Reasons for and benefits of entering into of the New Framework Agreement

The Group has commenced producing its own drama series and films, and licensing the related copyrights of the self-owned and licensed-in drama series and films to major TV channels and, or, online video platforms, which are limited in number, since its inception. Therefore, the Group has entered into of the copyrights licensing arrangements with various online video platforms, included but not limited to, iQIYI, Tencent Video (騰訊視頻) and Youku (優酷), which are in the ordinary and usual course of business of the Group.

#### – Long-term cooperation relationship with market-leading provider

As discussed in the letter from the Board, iQIYI is an innovative market-leading online entertainment service provider in China, and its platform features highly popular original content, as well as a comprehensive library of other professionally-produced content, professional user generated content and user-generated content. In addition, iQIYI has a massive demand for high-quality content generated by professional producers like the Group with sizable procurement budgets for content. As such, the copyrights licensing arrangements under the New Framework Agreement are in the ordinary and usual course of the business of the Group. Moreover, as iQIYI has been a major player in content distribution market in China, the Group can enhance its distribution network and business relationship with iQIYI through the entering into of the New Framework Agreement. Please refer the sub-section headed “– Annual Caps – Proposed Annual Caps and basis of determination under the New Framework Agreement” below for our discussions on the market position of iQIYI and the industry of which it is in.

In addition, the prices and terms offered by the Group to iQIYI are no more favorable than those offered to other customers which are independent third parties, hence the copyrights licensing arrangements under the New Framework Agreement are profitable and are in the interests of the Group and the Independent Shareholders as a whole. Please refer the sub-section headed “– Pricing basis” below for our analysis on the pricing basis and the relevant terms under the New Framework Agreement.

– *Evolving of business model of the Group*

As advised by the Company, the management of the Company expects that the original annual cap under the Original Framework Agreement for the year ending 31 December, 2022 to be insufficient to cater for the Group’s business development. As mentioned in the letter from the Board, the entering into of the New Framework Agreement is in line with the evolved business model of the Group and the expanded business cooperation with major online video platforms including iQIYI. In addition, the Board expects that the scope and pricing policy of the copyrights licensing arrangements provided to be revised in light of the changes in market conditions. Please refer the sub-section headed “– Annual Caps – Proposed Annual Caps and basis of determination under the New Framework Agreement” below for our further discussion.

**5. Principal terms of the New Framework Agreement**

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

*Subject matter*

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

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

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Payment and settlement terms*

Payment and settlement terms under the New Framework Agreement shall be specified in each of the implementation agreements to be entered into between the parties under the New Framework Agreement. The payment and settlement terms of each implementation agreement is usually determined on a case-by-case basis and subject to the transaction schedule, which we understand is in line with normal commercial practice having taken into consideration such similar arrangement under the Original Framework Agreement.

### *Pricing basis*

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

#### *(a) Fixed pricing*

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

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

$$\text{Fixed licensing fees} + \text{Other licensing fees (if any)} = \frac{\text{Total investment amount}}{\text{Total investment amount}} \times (1 + \text{target profit margin})$$

Whereby:

- 1) the target profit margin is determined with reference to prevailing market price and various commercial factors, including:
  - the genre, such as romance, war, spy, patriotic, or fantasy, which will have impact on the consumer responses and the expected popularity during the anticipated broadcasting periods;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- the scope of license and exclusivity, including the right of dissemination via information network and the corresponding screening rights;
  - the type of licensing (i.e. exclusive licensing or joint licensing), where joint licensing generates additional sources of licensing fees from independent third-party platforms such as other online video platforms and, or, TV channels;
  - the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot, if applicable, for example some drama series will be broadcasted through TV channels and other service providers before broadcasting on iQIYI); and
  - subject to arm's length negotiation and commercial judgement and experience, the expected popularity, which can only be ascertained after the release of drama series and therefore, will affect the decision but does not directly correlate with the exact amount of the licensing fees to be received;
- 2) regarding the target profit margin as mentioned in 1) above, as advised by the management of the Group, for the two years ended 31 December, 2020 and the nine months ended 30 September, 2021, the average historical mark-up on the investment costs as regards to the fixed licensing fees was approximately 23.5%. According to the Prospectus and as further advised by the management of the Group, the variance on the historical mark-up ratios on investment amount of some drama series in 2019 and 2020 were affected by, in addition to the commercial factors as discussed in 1) above, (i) the lower licensing fees as online video platforms reduced their purchase prices of TV series in 2019 which corresponded to the overall market trend, especially for the war, or spy genre that were relatively less popular among online video platforms; and (ii) higher actor's remuneration as the drama series were produced before government policies substantially reduced actors' remuneration, thus, not considered in the purchase prices offered by online video platforms at the time. In this regard, as advised by the management of the Group, the target profit margin on the investment amount is expected to be not less than 20% with reference made to the average historical mark-up on the investment costs and the management's judgement on the future business environment; and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 3) the total investment amount which mainly includes production, distribution and, or licensed-in copyright purchasing costs of the relevant Audiovisual Works.

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

We have further discussed with the management of the Group about the terms under the New Framework Agreement, and we have also reviewed previous implementation agreements executed between the Group and iQIYI under the Original Framework Agreement during the period from 1 January, 2019 up to 30 September, 2021. The management of the Company has confirmed that they have provided an exhaustive list of agreements for the above transactions and time period. Based on the implementation agreements reviewed, we noted that the licensing fees for all of the transactions were calculated on the same basis in accordance with abovementioned general formula of pricing policies.

We have also reviewed the historical transactions of licensing of non-exclusive broadcasting rights of drama series by the Group, where the drama series were jointly licensed to iQIYI and other independent third parties, from 1 January, 2019 up to 30 September, 2021. We noted that the amount paid and, or, payable, by iQIYI to the Group were no less favorable than those paid by independent third parties to the Group.

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

*(b) Sharing of revenue, or income*

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

- (i) in respect of the drama series, the revenue, or income to be shared by the Group includes revenue, or income from subscription video on demand (SVOD) and advertising video on demand (AVOD).

Revenue, or income from SVOD and AVOD to be shared by the Group =  $A1 \times A2 + A3 \times A4 + A5$

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Where,

“A1” denotes effective video on demand (VOD) viewing time (hours) of members of iQIYI’s platforms;

“A2” denotes unit sharing price per VOD viewing time. Unit sharing price per VOD viewing time is expected to range from RMB0.4 per VOD viewing time to RMB1.3 per VOD viewing time, which shall be determined after arm’s length negotiation between the parties with reference to the estimated rating of the drama series, the type of licensing (exclusive licensing or joint licensing), the subsidy policy adopted by iQIYI and the corresponding prevailing market price range per drama series;

“A3” denotes net proceeds from AVOD in relation to the drama series, which is the income from AVOD after deducting operating costs and relevant taxes as confirmed by iQIYI;

“A4” denotes prescribed advertisement income sharing percentage, which shall be 70% for exclusive licensing drama series and 50% for joint licensing drama series; and

“A5” denotes the incentive funds to be provided by iQIYI (if any), which shall be determined after arm’s length negotiation between the parties with reference to the broadcasting effect of the drama series and various related commercial factors.

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

Assuming members of iQIYI’s platform have watched an exclusively licensed drama series licensed by the Group to iQIYI in aggregate for 20,000,000 hours (A1) and the unit sharing price for such drama series is RMB1.2 per hour (A2), as a result, the income generated from SVOD to be shared by the Group would be RMB24 million. In addition, assuming the net proceeds of iQIYI from advertisement income during the period generated from such drama series were RMB0.3 million (A3) which are subject to the 70% income sharing ratio with the Group (A4), then the income from AVOD to be shared by the Group would be RMB0.2 million. The total income from SVOD and AVOD to be shared by the Group for that drama series would be RMB24.2 million. Regarding the incentive funds (A5), we are given to understand that it is difficult for the Company to estimate but the Company did not expect such an amount to be material.

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

- (1) revenue, or income from SVOD and AVOD to be shared by the Group =  $B1 \times B2 + B3 \times B4$

Where,

“B1” denotes effective VOD playback times of users of iQIYI’s platforms, which represents the times that users continuously watch a paid film for more than 6 minutes;

“B2” denotes unit price per VOD. Unit price per VOD is expected to range from RMB1 per VOD to RMB3 per VOD, which shall be determined after arm’s length negotiation between the parties with reference to the estimated rating of the film, the type of licensing (exclusive licensing or joint licensing) and the corresponding prevailing market price range per film;

“B3” denotes net proceeds from AVOD in relation to the films, which is the income from AVOD after deducting operating costs and relevant taxes as confirmed by iQIYI; and

“B4” denotes prescribed advertisement income sharing percentage, which shall be 70% for exclusive licensing films and 50% for joint licensing films.

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

Assuming a joint licensing film has been watched by the members of iQIYI, each for over 6 minutes, in aggregate of 8,000,000 times (B1) and the unit price of such film is RMB3 (B2), as a result, the income from SVOD to be shared by the Group would be RMB24 million. In addition, assuming the net proceeds of iQIYI from advertisement income during the period generated from such film were RMB0.2 million (B3) which are subject to the 50% income sharing ratio (B4), then the income from AVOD to be shared by the Group would be RMB0.1 million. The total income from SVOD and AVOD to be shared by the Group for that film would be RMB24.1 million.

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- (2) revenue, or income from premium video on demand (PVOD) to be shared by the Group =  $C1 \times C2$

Where,

“C1” denotes box office income during the PVOD period, which represents the total PVOD income of the films generated by members and other users of iQIYI’s platforms during the effective PVOD period. The effective PVOD period shall be determined after arm’s length negotiation between the parties with reference to the estimated rating of the film and the broadcasting effect of other films of similar rating; and

“C2” denotes prescribed payment sharing percentage. Prescribed payment sharing percentage is expected to range from 35% to 60%, which shall be determined after arm’s length negotiation between the parties with reference to expected genre, rating and broadcasting effect of the films. As advised by the management of the Company, we understand that regarding the prescribed payment sharing percentage for PVOD, the Company has made reference to information available on the website of iQIYI, a minimal commercially acceptable rate for the Group, and after consultation with iQIYI, the Company understands that it is in line with market norm. The Company did not have any similar arrangement with iQIYI and other platforms in the past.

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

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

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

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We have reviewed the Original Framework Agreement, the Web Films Cooperation Framework Agreement, and the New Framework Agreement. As separate implementation agreements would be entered into between the parties to set out the detailed terms, we have further reviewed implementation agreements under the Original Framework Agreement and the Web Film Cooperation Framework Agreement. In relation to drama series under the Original Framework Agreement, the licensing fees for all the transactions were calculated in accordance with the general formula stated in the sub-section headed “– (a) Fixed pricing” above. The revenue, or income sharing pricing arrangement under the New Framework Agreement represents a new fee arrangement for the Company with iQIYI in relation to licensing of drama series. In relation to web films under the Web Films Cooperation Framework Agreement, the Company has entered into 1 implementation agreement with iQIYI during the period from 1 January, 2019 up to 30 September, 2021. The management of the Company has confirmed that they have provided an exhaustive list of implementation agreement for the above drama series and web film transactions during the said time period.

We have discussed with management of the Company about the terms under the New Framework Agreement and further understand that the above revenue, or income sharing pricing arrangements for both drama series and web films are based on iQIYI’s own standard pricing policy for revenue, or income sharing pricing applicable to all its suppliers, which is published and updated on its website from time to time.

We noted that historically for the Company, the pricing policy for (i) web films under the Web Films Cooperation Framework Agreement was based on a sharing of revenue, or income in a similar arrangement to that of the New Framework Agreement with reference to SVOD and AVOD; and (ii) drama series under the Original Framework Agreement was based on the general formula as stated in the sub-section headed “– (a) Fixed pricing” above, while the New Framework Agreement included revenue, or income sharing pricing arrangements with iQIYI for both drama series and films, in addition to fixed pricing basis for drama series. While the details of the revenue, or income sharing basis was largely determined by the standard pricing policy of iQIYI as discussed above, we understand from the Company that the New Framework Agreement was entered into upon arm’s length negotiation with iQIYI in accordance with the Group’s own business plan and strategy. We further acknowledged from the management of the Company which relied on their expertise in this industry where the incorporation of such revenue, or income, pricing arrangement is part of the Group’s strategy to expand its cooperation in relation to the Group licensing of different Audiovisual Works under various modes, as it could provide flexibility for the Group to adopt suitable pricing basis for each of the drama series projects and films projects.

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As discussed in the letter from the Board, before entering into any implementation agreement pursuant to the New Framework Agreement, the Company will assess its business needs and compare the licensing fees proposed by iQIYI with the licensing fees offered by at least two other comparable independent platform operators in the film and drama series distribution industry. If no comparable independent third party is available, the business department of the Company will be required to explain the reasonableness and necessity of cooperation with connected persons and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. As a result, we concur with the view of the management of the Company that the newly adopted pricing terms under the New Framework Agreement as discussed above is fair and reasonable, as (i) such pricing terms being adopted between the Company and iQIYI are no less favourable than the terms being adopted between iQIYI and other parties; and (ii) the licensing fees chargeable by the Group for drama series include one of or mix of (a), (b)(i) and (b)(iii) above, and the licensing fees chargeable by the Group for films include one of or mix of (a), (b)(ii) and (b)(iii) above. It will allow the Company to decide the most favorable terms available among various platform operators in the film and drama series distribution industry, and the Company will only enter into an implementation agreement with iQIYI when the agreement is in the best interests of the Company and the Independent Shareholders as a whole.

Moreover, the Group and iQIYI have introduced another new pricing basis in the New Framework Agreement, which states that the Group and iQIYI may also explore in the future to share other revenue, or income generated from copyright operation (including but not limited to advertising opportunity offering, derivative products and relicensing) of iQIYI at the sharing rate to be expected to range between 10% and 50%, which shall be determined after arm's length negotiation between the parties with reference to the type of such revenue, or income and other commercial factors. We have enquired with the management of the Company and understand that the abovementioned range of the sharing rate is determined with reference to (i) the previous arrangements with iQIYI in general; and (ii) the 10% which represents the minimal commercially acceptable rate for the Group. As advised by the management of the Company, at this stage the Group and iQIYI do not have any fixed pricing terms as regards to this clause, and this is expected to create flexibility for the management of the Company to explore new options in the future to enhance the profit, or revenue sharing with iQIYI. Nonetheless, we further understand that similarly to the other arrangements above, such potential new arrangement would apply to all suppliers of iQIYI equally and that the Company has the discretion whether or not to enter into a new implementation agreement with iQIYI under such arrangements.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## *Annual caps*

### *Review of historical transactions*

The following table sets forth (i) the historical amounts in respect of (a) the aggregate licensing fees paid and, or, payable, by iQIYI to the Group for licensing of broadcasting rights and other copyrights of self-produced drama series under the Original Framework Agreement; and (b) the aggregate fees paid and, or, payable, by Beijing iQIYI to the Group under the Web Films Cooperation Framework Agreement, for the year ended 31 December, 2020 and for the nine months ended 30 September, 2021; and (ii) the original annual caps for the three years ending 31 December, 2022 under the Original Framework Agreement and the Web Films Cooperation Framework Agreement:

(RMB million)	For the year ended 31 December, 2020	For the year ending 31 December, 2021	2022
<i>Original Framework Agreement</i>			
Original annual cap	450.0	460.0	440.0
Aggregate licensing fees paid and, or payable by iQIYI to the Group	327.6	435.4 <sup>(note 1)</sup>	–
Utilisation rate	72.8%	94.7% <sup>(note 2)</sup>	–
<i>Web Films Cooperation Framework Agreement</i>			
Original annual cap <sup>(note 3)</sup>	N/A	N/A	N/A
Aggregate fees paid and, or payable by Beijing iQIYI to the Group	Nil <sup>(note 4)</sup>	0.02	–
<i>New Framework Agreement</i>			
Proposed Annual Cap	N/A	N/A	1,440 <sup>(note 5)</sup>

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*Notes:*

1. This was based on the estimated amount by the Company as at the Latest Practicable Date. The actual amount for the nine months ended 30 September, 2021 was approximately RMB297.3 million.
2. The utilisation rate was computed based on the estimated amounts as at 31 December, 2021. The utilisation rate for the nine months ended 30 September, 2021 was approximately 64.6%.
3. According to the Prospectus, as each of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of the transactions to be conducted under the Web Films Cooperation Framework Agreement was then expected to be, on an annual basis, less than 5% and the total annual amount receivable by the Group was then expected to be less than HK\$3 million, no annual cap was set as at the date of the Prospectus.
4. The services under the Web Films Cooperation Framework Agreement were then new business opportunities explored by the Group and iQIYI in 2019, and the historical transaction for the year ended 31 December, 2020 was nil.
5. Under the New Framework Agreement, such Proposed Annual Cap includes both the licensing fees under the Original Framework Agreement and the Web Films Cooperation Framework Agreement. Please refer to the sub-section headed “– Proposed Annual Caps and basis of determination under the New Framework Agreement” below for further discussion.

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As stated in the letter from the Board, when estimating the Proposed Annual Caps, the Company has taken into consideration, among others, the historical amounts paid and, or, payable, by iQIYI to the Group under the Original Framework Agreement and the Web Films Cooperation Framework Agreement for the year ended 31 December, 2020 and the nine months ended 30 September, 2021.

– The transactions under the Original Framework Agreement

As shown in the table above, the historical utilisation rate of the Group was high at 72.8% for the year ended 31 December, 2020 and the expected utilisation rate would rise to 94.7% for the year ending 31 December, 2021, with the aggregate licensing fees to be paid and, or payable by iQIYI to the Group expected to increase approximately by 32.9% from RMB327.6 million for the year ended 31 December, 2020 to RMB435.4 million for the year ending 31 December, 2021. The increase in the aggregate licensing fees in 2021 as compared to 2020 was mainly due to the relatively low licensing fees of drama series in 2020 with smaller investment scale and, or, from re-run distribution.

– The transactions under the Web Films Cooperation Framework Agreement

As advised by the management of the Company, the services under the Web Films Cooperation Framework Agreement were then new business opportunities explored by the Group and iQIYI in 2019. Accordingly, the Company has entered into only 1 implementation agreement with iQIYI under the Web Film Cooperation Framework Agreement during the period from 1 January, 2019 up to 30 September, 2021, as web film business has not been a core focus of the Group since its inception. Owing to the evolved business model of the Group after the Listing, the management of the Company therefore decided to increase the transaction amount estimated under the New Framework Agreement for the three years ending 31 December, 2024 to incorporate the expansion of business corporation with major online video platforms, including but not limited to iQIYI, for the broadcasting of various forms of Audiovisual Works, such as TV series, web series and films. Please refer to the sub-section headed “– Evolving of business model of the Group” below for further discussion.

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### *Proposed Annual Caps and basis of determination under the New Framework Agreement*

The following table sets forth the Proposed Annual Caps for the licensing fees payable by iQIYI to the Group under the New Framework Agreement for the three years ending 31 December, 2024:

(RMB million)	For the year ending 31 December,		
	2022	2023	2024
Proposed Annual Caps	1,440	1,840	2,340

To assess the fairness and reasonableness of the Proposed Annual Caps, we have further (i) considered the development of the industry; (ii) considered the utilisation rates of the annual caps under the Original Framework Agreement and the Web Films Cooperation Framework Agreement; and (iii) obtained and reviewed the calculation provided by the Company with reference to the above factors for the Proposed Annual Caps for the three years ending 31 December, 2024, and discussed with the management of the Company the bases and underlying assumptions of such projections as further detailed below.

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

The development of the internet and mobile internet has greatly impacted the market landscape of the IP market with the birth of the online IP market. Amid the development of the digital economy, and the integration of the online IP market with including modern information technology such as big data, artificial intelligence, and internet-of-things, the value of the online copyright industry has become increasingly prominent. According to the “China Online Intellectual Property Development Report (2020)” (中國網絡版權產業報告(2020)) published by the National Copyright Administration of the PRC (國家版權局) in May 2021, the online IP industry of the PRC broke through the RMB1 trillion mark in 2020 and reached RMB1.185 trillion, representing a growth of approximately 23.6% compared to the previous year and comprising approximately 0.98% of China’s gross domestic product (GDP) in 2020.

Due to improvements in IP protection and consumer sentiment, the market size of the online long-form video in China reached RMB119.7 billion in 2020 comprising of approximately 10.1% of the total online IP market in China, and grew at a compound annual growth rate (CAGR) of approximately 16.9% from 2016 to 2020. The number of paying subscribers of major online long-form video platforms grew at a CAGR of approximately 42.6% from

2016 to 2019 to reach 290 million subscribers, of which leading public online long-form video platforms, iQIYI and Tencent Video, recorded paying subscribers of approximately 106.9 million and 106.0 million, respectively. According to iQIYI, Inc.'s announcement of second quarter 2021 financial results, the number of total subscribing members reached 106.2 million as of 30 June, 2021, as compared to 30.2 million in 2016. According to the Prospectus, total number of online video subscribers in China and their corresponding revenue were forecasted to reach approximately 689.9 million and RMB132.9 billion in 2024, representing CAGR of approximately 12.1% and 24.4%, respectively.

The web film section has experienced significant growth recently, especially in 2020, being accelerated by the outbreak of COVID-19. According to the 2020 annual report published by the China Film Association (中國電影家協會), effective views (有效播放) of web films grew from approximately 3.9 billion views in 2018 to 7.6 billion views in 2020, at a CAGR of approximately 39.6%, while the number of web films that reached a box office income (分帳票房) of over RMB10 million grew from 33 films in 2018 to 79 films in 2020, at a CAGR of approximately 54.7%. Web films productions shifted from low costs, high volume to emphasising on high quality productions, as indicated by the growth in investment and average production costs of web film. According to the 2020 annual report published by the China Film Association, number of web film production with production costs of below RMB3 million lowered from over 90% of total number of web film productions in 2017 to only 40% in 2020. The number of web films with total production costs of RMB6 million or above grew from approximately 6% of total number of web film productions in 2017 to approximately 34% in 2020.

With the rapid development of information technology and the increasing demand for cultural output, and driven by modern information media, we concur with the view of the management of the Group that cultural and entertainment industry in China will gradually become one of the important pillars of the development of the digital economy, which in turn benefits the business model of the Group as discussed above.

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

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

According to Enlightent (雲合數據), a PRC big data platform focusing on the entertainment industry, as of the first half of 2021, iQIYI led the industry in terms of total number of Chinese produced drama series broadcasted at 89 drama series. In addition, iQIYI was also the leader in web film platform in 2020, in terms of number of web films published and number of web films with box office income of over 10 million, as stated in the 2020 annual report published by the China Film Association. iQIYI led the web film industry as regards to number of new web films published with 385 films for 2020, as compared to 217 films for Youku in the second place, and at the same time, iQIYI led the industry in number of web films with box office income of over 10 million with 42 films as compared to 22 films for Youku in the second place. Moreover, iQIYI published 11 of the top 20 movies in terms of box office income in 2020, signifying the growth and leadership of iQIYI’s web film business in the sector.

As further advised by the management of the Company, there are limited numbers of platform operators in the PRC film and drama series distribution industry. According to the market report conducted by Frost & Sullivan as disclosed in the Prospectus, three main online video platform operators, namely iQIYI, Tencent Video and Youku in aggregate accounted for approximately 83.6% of the drama series market in the PRC. The Group have entered into implementation agreements and distributed drama series to all the above three major online platform operators since its inception.

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

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– *Evolving of business model of the Group*

As stated in the letter from the Board, when estimating the Proposed Annual Caps, the Directors have taken into consideration the following factors, among others:

- (a) in respect of the drama series, the estimated amount of fixed licensing fees payable by iQIYI to the Group and the revenue, or income generated by iQIYI to be shared by the Group for the three years ending 31 December, 2024:
  - (i) the fixed licensing fees payable by iQIYI to the Group for the three years ending 31 December, 2024 are estimated based on: (1) the contractual amounts under the existing drama series copyrights licensing agreements the Group have entered into with iQIYI; (2) the estimated number of drama series copyrights licensing projects to be conducted with iQIYI in the next three years which adopt the fixed licensing fees model, which includes approximately seven licensing projects in 2022, nine licensing projects in 2023 and eleven licensing projects in 2024; and (3) the estimated licensing fees to be charged per drama series, ranging from RMB84.9 million to RMB245.3 million per drama series, which is estimated based on the expected genre, rating, commercial potential and investment costs of the drama series. Please refer to the sub-section headed “– Pricing basis – (a) Fixed pricing” above for our discussion on the determination of the fixed basis licensing fees;
  - (ii) in respect of the revenue-sharing drama series, the revenue, or income generated by iQIYI to be shared by the Group for the three years ending 31 December, 2024 is estimated based on: (1) the estimated number of drama series copyrights licensing projects to be conducted with iQIYI in the next three years which adopt the revenue, or income sharing model, including approximately four licensing projects in 2022, six licensing projects in 2023 and eight licensing projects in 2024; and (2) the estimated licensing fees to be charged per drama series, ranging from RMB20 million to RMB50 million per drama series, which is estimated based on the expected genre, rating, commercial potential and investment costs of the drama series and the public data of historical revenue, or income sharing statistics. According to publicly

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available data published by Certain Online Video Platforms, the licensing fees of the revenue-sharing drama series broadcasted on these platforms for the year ended 31 December, 2020 ranged from RMB10 million to RMB100 million per drama series.

- (b) in respect of films, the estimated amount of licensing fees payable by iQIYI to the Group for the three years ending 31 December, 2024 is estimated based on:
  - (i) the contractual amounts under the existing films copyrights licensing agreements the Group have entered into with iQIYI;
  - (ii) the estimated number of films copyrights licensing projects to be conducted with iQIYI in the next three years, including approximately two licensing projects in 2022, three licensing projects in 2023 and four licensing projects in 2024; and
  - (iii) the estimated licensing fees to be charged per film, ranging from RMB20 million to RMB27.5 million, which is estimated based on the expected genre, rating, commercial potential and investment costs of the films and the public data of historical revenue, or income sharing statistics. According to publicly available data published by Certain Online Video Platforms, the licensing fees of the films broadcasted on these platforms for the year ended 31 December, 2020 with top 20 box office ranged from RMB20.3 million to RMB54.1 million per film.

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To summarise the above, for the three years ending 31 December, 2024, the number of licensing projects to be conducted with iQIYI is currently expected to be approximately 11 drama series and two movies in 2022, 15 drama series and three movies in 2023, and 19 drama series and four movies in 2024.

We noticed that the Proposed Annual Cap for the year ending 31 December, 2022 represented a substantial increase of approximately 213.0% as compared to the original annual cap for the year ending 31 December, 2021, and the Proposed Annual Caps for the years ending 31 December, 2023 and 2024 represent annual growth rates of approximately 27.8% and 27.2% respectively as compared to the Proposed Annual Cap in the preceding year.

To justify the reasonableness of the Proposed Annual Caps, we have obtained and reviewed the business plan and its corresponding calculation summary for the Proposed Annual Caps. Based on the information provided by the Company, the Proposed Annual Caps for the three years ending 31 December, 2024 were calculated with reference to (i) the estimated annual transaction amount of the drama series and films licensed to iQIYI (which was further determined by the number of drama series and films, and the estimated annual licensing fees charged per drama series and film depending on the fixed pricing basis, or revenue, or income sharing pricing basis); and (ii) a buffer on the estimated amount above.

*For the year ending 31 December, 2022 compared to the year ending 31 December, 2021*

The Proposed Annual Cap for the year ending 31 December, 2022 represented a substantial increase of approximately 213.0% as compared to the original annual cap for the year ending 31 December, 2021. In relation to drama series under fixed pricing basis, the Company licensed or expected to license 4, 3 and approximately 7 drama series in 2020, 2021 and 2022, respectively, which represented an increase of approximately 133.3% from 2021 to 2022. In relation to drama series under the revenue, or income sharing pricing basis, the Company did not record any historical transaction in 2020 and 2021, and expected to license approximately 4 drama series in 2022. In relation to films under the revenue, or income sharing pricing basis, the Company did not record any historical transaction in 2020 and recorded a small amount of RMB0.02 million in 2021 from a web film licensed to iQIYI in 2019, and expected to license approximately 2 films in 2022. As discussed with the management of the Company, we understand that the drama series and film licensing projects generally require a period of more than 12 months to progress from pre-production to the initial broadcast.

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As discussed with the management of the Company, the Company has been developing its platform business model, which can effectively integrate the principal industry participants, such as IP owners, core crew, filming and production studios, external quality control specialists, and distribution channels, into its ecosystem to achieve synergies and industrialisation, rather than focus on any single stage of the investment, development, production or distribution in the drama series industry chain. This platform model allows the Company to break through the scalability-bottleneck in the drama series industry, and enhances its leading market position by enabling the Company to produce and, or, distribute more drama series than its competitors.

We have further discussed with the management of the Company and understood that as the Group has experienced significant growth in its business in 2021 following its Listing in January 2021 driven by increased brand awareness and recognition by consumers. As illustrated above, the Group's revenue amounted to approximately RMB975.0 million for the six months ended 30 June, 2021, which was an indicator of the financial performance of the Group after the Listing, as it represented an increase of approximately 68.2% as compared with that for the six months ended 30 June, 2020. Accordingly, the management of the Company plans to, through the expanded categories of Audiovisual Works (i.e., TV series, web series and films) under the New Framework Agreement, enhance the scope of its businesses and continue and deepen its cooperation with iQIYI by (i) focusing on the development of its drama series licensing projects; and (ii) developing its film related business so as to broaden its product offerings to enrich audience experience as film related business has not been a core focus of the Group since its inception. Therefore, the increment of the transaction amount estimated under the New Framework Agreement for the three years ending 31 December, 2024 is in line with such the evolved business model of the Group and the expanded business cooperation with online video platforms including iQIYI.

In addition, according to Enlightent, iQIYI led the industry in 2020 in terms of total number of newly broadcasted drama series with 235 drama series broadcasted, as compared to 11 drama series licensing projects of the Group expected to be conducted with iQIYI in 2022. Please refer to the sub-section headed “– Overview of the PRC online intellectual property (“IP”) and the web film market” above for further discussion on the market position of iQIYI. Therefore, we concur with the view of the management of the Company that it is reasonable to expect iQIYI to have the capacity to fulfill the Group's business plans in 2022.

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Based on the information provided by the Company for drama series with fixed pricing basis: (i) the average licensing fees charged per drama series is estimated to be RMB145.1 million and RMB147.2 million in 2021 and 2022 respectively; and (ii) the average transaction amount per drama series grew at approximately 77.2% in 2021 and approximately 1.4% in 2022. The increase in the average transaction amount per drama series in 2021 as compared to 2020 was mainly due to a re-run broadcasting of a drama series in 2020 which resulted in a lower licensing fee.

Based on the information provided by the Company for drama series with revenue, or income sharing basis, the average licensing fees charged per drama series is estimated to be RMB30 million in 2022. We have reviewed and noted that the range of the estimated licensing fees charged per drama series in 2022 are within the range of the licensing fees (i.e., RMB10 million to RMB100 million) for the revenue-sharing drama series broadcasted on Certain Online Video Platforms for the year ended 31 December, 2020.

Furthermore, based on the information provided by the Company for films, the average licensing fees charged per film is estimated to be RMB23.8 million per film in 2022. We have reviewed and noted that the estimated licensing fees charged per film are within range of the licensing fees (i.e., RMB20.3 million to RMB54.1 million) for the top 20 films in terms of box office broadcasted on Certain Online Video Platforms for the year ended 31 December, 2020.

*For the years ending 31 December, 2023 and 2024*

The Proposed Annual Caps for the year ending 31 December, 2023 and 2024 represent annual growth rates of approximately 27.8% and 27.2% respectively as compared to the Proposed Annual Cap in the preceding year. In relation to drama series under fixed pricing basis, the Company expected to license approximately 9 and 11 drama series in 2023 and 2024, which represented an increase of 28.6% and 22.2%, respectively. In relation to drama series under the revenue, or income sharing pricing basis, the Company expected to license approximately 6 and 8 drama series in 2023 and 2024, which represented an increase of 50.0% and 33.3%, respectively. In relation to films under the revenue, or income sharing pricing basis, the Company expected to license approximately 3 and 4 films in 2023 and 2024, which represented an increase of 50.0% and 33.3%, respectively.

Based on the information provided by the Company for drama series with fixed pricing basis: (i) the average licensing fees charged per drama series is estimated to be RMB148.2 million to RMB159.3 million per drama series in 2023 and 2024 respectively; and (ii) the average transaction amount per drama series remained stable compared to 2022 and grew at approximately 0.7% and 7.5% in 2023 and 2024 respectively.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the information provided by the Company for drama series with revenue, or income sharing basis, the average licensing fees charged per drama series is estimated to be RMB33 million and RMB35 million in 2023 and 2024 respectively. We have reviewed and noted that the estimated licensing fees charged per drama series are within range of the licensing fees (i.e., RMB10 million to RMB100 million) for the revenue-sharing drama series broadcasted on Certain Online Video Platforms for the year ended 31 December, 2020.

Moreover, based on the information provided by the Company for films, the average licensing fees charged per film is estimated to be RMB23.8 million in 2023 and 2024. We noted that the estimated licensing fees charged per film are within range of the licensing fees (i.e., RMB20.3 million to RMB54.1 million) for the top 20 films in terms of box office broadcasted on Certain Online Video Platforms for the year ended 31 December, 2020.

We also noted that as of 30 June, 2021, in addition to the drama series broadcasted and to be broadcasted, the Group had engaged screenwriters to create 13 original screenplays based on its own initial ideas and 34 adapted screenplays based on licensed IPs, which we understand from the Company that it is expected to be sufficient to cater for the business needs of the Group under the New Framework Agreement for the three years ending 31 December, 2024. Therefore, the management of the Company envisages that (i) the original annual cap under the Original Framework Agreement for the year ending 31 December, 2022; and (ii) the limit of HK\$3 million regarding annual amount receivable by the Group under the Web Films Cooperation Framework Agreement for the year ending 31 December, 2022, will not be sufficient to cater for the Group's business development.

As mentioned above, the Company has further considered and introduced an additional buffer of an appropriate amount to prepare for potential industry changes, so as to avoid adverse restrictions on future business operations of the Group, to determine the Proposed Annual Caps under the New Framework Agreement. As advised by the management of the Company, an average buffer of around 15% was applied to determine the Proposed Annual Caps for the three years ending 31 December, 2024. We understand the buffer was applied to cover, including but not limited to, (i) the unexpected emergence and acquisition of such IP(s) by the Company in the market of new drama series or films in which high popularity is anticipated; (ii) surging licensing fees due to unexpectedly positive market reactions and changes in market trends; (iii) changes in the pricing policy of iQIYI; and (iv) unexpected changes in the broadcasting year of drama series and films, for example, a drama series originally scheduled to broadcast in late 2022 may be delayed to early 2023 due to market factors. In addition, we noted that size of the buffer roughly correlated to the historical transaction amount of a drama series under fixed pricing basis, which may cater for the changes in the broadcasting year of a drama series. Having considered that the additional buffer was applied for unforeseeable circumstances, we consider that the said buffer is acceptable.

*Summary*

Generally speaking, in our opinion, it is in the interests of the Company and the Shareholders as a whole to determine the Proposed Annual Caps which can best accommodate the potential growth of the Group's business. As stated in the sub-section headed "– Pricing basis" above, the licensing fees payable by iQIYI to the Group under the New Framework Agreement will be determined based on fixed pricing basis and sharing of revenue, or income basis, and further subject to arm's length negotiations between two parties. We are informed that, in arriving at the pricing basis, the management of the Company does not place reliance on any single factor, but considered numerous factors as a whole, such as the prevailing market price and various related commercial factors, including the genre, nature, popularity, quantity, quality and commercial potential of the Audiovisual Works discussed above with a broader range of issues including the strategic growth and market positioning of the Company, as well as the standard pricing policy adopted by iQIYI and the heightened degree of certainty relating to the future monetary transaction amounts with iQIYI. Further, the revenue, or income sharing pricing policy represents a new business model that the Group intends to explore with iQIYI, and there is little historical transaction that can be referenced and indicative of the future transaction amounts. In light of the above factors including (i) the overall PRC online IP and the web film market; (ii) the long-term cooperation relationship with iQIYI as market-leading provider; and (iii) the evolving of business model of the Group, we consider the Proposed Annual Caps to be generally acceptable.

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

In order to ensure that the transactions contemplated under the New Framework Agreement and implementation agreements are conducted on normal commercial terms or no less favourable than terms applicable to independent third parties, and comply with the annual caps and pricing policies under the New Framework Agreement. We have reviewed the corporate governance manual of the Company and noted that the Company has adopted the following internal control procedures:

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the New Framework Agreement and implementation agreements in particular, the fairness of the pricing policies under each agreement, the management of the Company also reviews the pricing policies of the New Framework Agreement annually. In addition, various other internal departments of the Company monitor the implementation of the New Framework Agreement from time to time, and the finance department is responsible for monitoring the transaction amounts of the continuing connected transactions contemplated under the New Framework Agreement to ensure that the annual caps under the New

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Framework Agreement are complied with, and that any implementation agreement under the New Framework Agreement shall be entered into by the Company with the prior approval of the finance department;

- (b) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the New Framework Agreement and provide annual confirmation to ensure that the transactions are conducted in accordance with the terms of the agreements (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the New Framework Agreement, the Company will then comply with the Listing Rules as applicable;
- (c) when considering the licensing fees to be provided to the Group by iQIYI, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and independent third parties for similar transactions, to make sure that the pricing and terms offered by iQIYI after arm's length negotiations, are no less favorable than those offered by independent third parties; and
- (d) the growth in the aggregate amount of the continuing connected transactions between the Group and iQIYI is in line with the revenue growth of the Company since its Listing. The Company aims to keep the amount of connected transactions between the Group and iQIYI as a percentage of the Group's total revenue relatively stable. Meanwhile, the executive Directors will supervise the implementation of such internal procedures on a regular basis.

We have reviewed the Company's 2020 annual report, and noted that the independent non-executive Directors and the auditor of the Company have reviewed the continuing connected transactions, including transactions under the Original Framework Agreement and the Web Films Cooperation Framework Agreement during such period, and provided the relevant confirmations. Based on such compliance record, we are of the view that there are appropriate and effective measures to govern the future execution of such continuing connected transactions and to safeguard the interests of the Independent Shareholders.

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

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### V. CONCLUSIONS AND RECOMMENDATION

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

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

we consider that (i) the terms of the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the New Framework Agreement (including the Proposed Annual Caps) is conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and its Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the New Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,  
For and on behalf of  
**Anglo Chinese Corporate Finance, Limited**  
**Raymond Cheung**  
*Director*

*Mr. Raymond Cheung is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 9 years of experience in corporate finance.*

## 1. RESPONSIBILITY STATEMENT

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

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

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

### Interests in the Shares of the Company

Name of Director/ Chief executive	Nature of interest	Number of Shares <sup>(1)</sup>	Approximate percentage of shareholding <sup>(1)</sup>
Mr. Liu Xiaofeng	Founder of a discretionary trust <sup>(2)</sup>	290,480,000	41.81%
	Interest held through voting powers entrusted by other persons <sup>(3)</sup>	109,520,000	15.76%
Ms. Zhai Fang	Founder of a discretionary trust <sup>(4)</sup>	32,000,000	4.61%

Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the Latest Practicable Date, being 694,747,000 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options).
- (2) LEADING GLORY INVESTMENTS LIMITED is owned as to (i) 99% by MASTER GENIUS GLOBAL LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary; and (ii) 1% by Master Sagittarius Holding Limited which is wholly owned by Mr. Liu Xiaofeng. Accordingly, each of Master Sagittarius Holding Limited, MASTER GENIUS GLOBAL LIMITED and Mr. Liu Xiaofeng is deemed to be interested in all the Shares held by LEADING GLORY INVESTMENTS LIMITED.

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

### Interests in underlying Shares of the Company

Name of Director	Nature of interest	Number of underlying Shares subject to the Pre-IPO Share Options	Approximate percentage of shareholding <sup>(1)</sup>
Mr. Liu Xiaofeng	Interest in a controlled corporation <sup>(2)</sup>	37,648,000	5.42%

#### Notes:

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of Latest Practicable Date, being 694,747,000 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options).
- (2) GORGEOUS HORIZON LIMITED, being the beneficial owner of the Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng’s wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary.

### Interests in the associated corporation

Name of Director	Nature of interest	Name of associated corporation <sup>(1)</sup>	Approximate percentage of shareholding
Mr. Liu Xiaofeng	Beneficial owner	Jiangsu Strawbear	77.9%
	Interest held through voting powers entrusted by other persons <sup>(2)</sup>	Jiangsu Strawbear	22.1%
Ms. Zhang Qiuchen	Beneficial owner	Jiangsu Strawbear	1.0%
Ms. Zhai Fang	Beneficial owner	Jiangsu Strawbear	0.1%

*Notes:*

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

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

### **3. DIRECTORS’ SERVICE CONTRACTS**

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

### **4. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES**

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

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

## 5. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS

As of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Save for the contractual arrangements and continuing connected transactions as disclosed in the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus and the section headed "Connected Transactions" in the 2020 Annual Report of the Company published on April 21, 2021, as of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group.

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

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

Name of Shareholder	Nature of interest	Number of Shares held <sup>(1)</sup>	Approximate percentage of shareholding <sup>(1)</sup>
Master Sagittarius Holding Limited	Beneficiary of trust <sup>(2)</sup>	290,480,000	41.81%
MASTER GENIUS GLOBAL LIMITED	Interest in a controlled corporation <sup>(2)</sup>	290,480,000	41.81%
LEADING GLORY INVESTMENTS LIMITED	Beneficial interest <sup>(2)(3)</sup>	290,480,000	41.81%
GORGEOUS HORIZON LIMITED	Beneficial interest <sup>(2)</sup>	37,648,000	5.42%
SUCCESS TALE ENTERPRISES LIMITED	Interest in a controlled corporation <sup>(2)</sup>	37,648,000	5.42%
Vistra Trust (Hong Kong) Limited	Trustee <sup>(2)</sup>	37,648,000	5.42%
Ms. Liu Shishi	Founder of a discretionary trust <sup>(4)</sup>	73,600,000	10.59%
Gold Pisces Holding Limited	Beneficiary of trust <sup>(4)</sup>	73,600,000	10.59%
BEYOND VAST LIMITED	Interest in a controlled corporation <sup>(4)</sup>	73,600,000	10.59%

Name of Shareholder	Nature of interest	Number of Shares held <sup>(1)</sup>	Approximate percentage of shareholding <sup>(1)</sup>
GLESASON GLOBAL LIMITED	Beneficial interest <sup>(4)</sup>	73,600,000	10.59%
Taurus Holding Ltd.	Beneficial interest <sup>(5)</sup>	97,320,000	14.01%
iQIYI	Interest in a controlled corporation <sup>(5)</sup>	97,320,000	14.01%
Baidu Holdings Limited	Interest in a controlled corporation <sup>(5)</sup>	97,320,000	14.01%
Baidu, Inc.	Interest in a controlled corporation <sup>(5)</sup>	97,320,000	14.01%
Li Yanhong	Interest in a controlled corporation <sup>(5)</sup>	97,320,000	14.01%
Vistra Trust (Singapore) Pte. Limited	Trustee <sup>(2)</sup>	290,480,000	41.81%
	Trustee <sup>(4)</sup>	73,600,000	10.59%
	Trustee <sup>(6)</sup>	32,000,000	4.61%
Ma Sean	Interest in a controlled corporation <sup>(7)</sup>	96,000,000	13.82%
Snow Lake Capital (HK) Limited	Investment manager <sup>(7)</sup>	96,000,000	13.82%
Snow Lake China Master Fund, Ltd.	Beneficial interest <sup>(7)</sup>	80,000,000	11.51%
Snow Lake China Offshore Fund, Ltd.	Interest in a controlled corporation <sup>(7)</sup>	80,000,000	11.51%

*Notes:*

- (1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the Latest Practicable Date, being 694,747,000 Shares, (without taking into account the Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options).

- (2) LEADING GLORY INVESTMENTS LIMITED is owned as to (i) 99% by MASTER GENIUS GLOBAL LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary; and (ii) 1% by Master Sagittarius Holding Limited which is wholly owned by Mr. Liu Xiaofeng. Accordingly, each of Master Sagittarius Holding Limited, MASTER GENIUS GLOBAL LIMITED and Mr. Liu Xiaofeng is deemed to be interested in all the Shares held by LEADING GLORY INVESTMENTS LIMITED.

GORGEOUS HORIZON LIMITED, being the beneficial owner of the Pre-IPO Share Options, is wholly owned by SUCCESS TALE ENTERPRISES LIMITED which is wholly owned by Vistra Trust (Hong Kong) Limited, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu Xiaofeng as the settlor and protector and Mr. Liu Xiaofeng's wholly-owned holding company Master Sagittarius Holding Limited as the beneficiary.

- (3) Pursuant to the Voting Arrangement Agreements, LEADING GLORY INVESTMENTS LIMITED is able to exercise voting rights entrusted from the other signing parties and is therefore deemed to be interested in the shareholding interest in the Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganization and Corporate Development – Voting Arrangement and Lock-up Arrangements" in the Prospectus.

- (4) GLESASON GLOBAL LIMITED is owned as to (i) 99% by BEYOND VAST LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the LSS Family Trust which is a discretionary trust established by Ms. Liu Shishi as the settlor and protector and Ms. Liu Shishi's wholly-owned holding company Gold Pisces Holding Limited as the beneficiary; and (ii) 1% by Gold Pisces Holding Limited which is wholly owned by Ms. Liu Shishi. Accordingly, each of Gold Pisces Holding Limited, BEYOND VAST LIMITED and Ms. Liu Shishi is deemed to be interested in all the Shares held by GLESASON GLOBAL LIMITED.
- (5) Taurus Holding Ltd. is wholly owned by iQIYI. Baidu Holdings Limited, a wholly-owned subsidiary of Baidu, Inc, owns 91.6% of the voting power of iQIYI. Li Yanhong owns 57.0% of the voting power of Baidu, Inc. Therefore, each of iQIYI, Baidu Holdings Limited, Baidu, Inc. and Li Yanhong is deemed to be interested in the Shares directly held by Taurus Holding Ltd. by virtue of the SFO.
- (6) GOLDEN BASIN GLOBAL LIMITED is owned as to (i) 99% by SMART CENTURY VENTURES LIMITED, the holding vehicle used by Vistra Trust (Singapore) Pte. Limited, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai Fang as the settlor and protector and Ms. Zhai Fang's wholly-owned holding company Gold Fish Management Holding Limited as the beneficiary; and (ii) 1% by Gold Fish Management Holding Limited which is wholly owned by Ms. Zhai Fang. Accordingly, each of SMART CENTURY VENTURES LIMITED, Gold Fish Management Holding Limited and Ms. Zhai Fang is deemed to be interested in all the Shares held by GOLDEN BASIN GLOBAL LIMITED.
- (7) Snow Lake Capital (HK) Limited is wholly owned by Ma Sean. Therefore, Ma Sean is deemed to be interested in the Shares held by Snow Lake Capital (HK) Limited by virtue of the SFO.

Snow Lake China Master Fund, Ltd. is owned as to 83.95% by Snow Lake China Offshore Fund, Ltd. Therefore, Snow Lake China Offshore Fund, Ltd. is deemed to be interested in the Shares held by Snow Lake China Master Fund, Ltd. by virtue of the SFO.

57,320,000 of 96,000,000 Shares are underlying Shares held through derivative interests. 38,680,000 Shares are currently held by Snow Lake Capital (HK) Limited, representing approximately 5.57% of the Shares in issue as of the Latest Practicable Date.

Save as disclosed above, as of the Latest Practicable Date, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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

Name of Director	Name of company having an interest or a short position in the Shares or underlying Shares	Position held within such company
Mr. Liu Xiaofeng	Master Sagittarius Holding Limited LEADING GLORY INVESTMENTS LIMITED GORGEOUS HORIZON LIMITED	director director director
Mr. Wang Xiaohui	iQIYI	chief content officer
Ms. Zeng Ying	iQIYI	vice president of finance department

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

## 7. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 8. QUALIFICATION AND CONSENT OF EXPERT

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

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

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

As of the Latest Practicable Date, Anglo Chinese did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) any direct or indirect interest in any assets which had, since December 31, 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group.

## 9. DOCUMENTS ON DISPLAY

Electronic copy of the New Framework Agreement proposed to be entered into between the Company and iQIYI will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.strawbearentertainment.com](http://www.strawbearentertainment.com)) for a period of 14 days from the date of this circular (both days inclusive).

## NOTICE OF EXTRAORDINARY GENERAL MEETING



### Strawbear Entertainment Group 稻草熊娱乐集团

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

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “EGM”) of Strawbear Entertainment Group (the “Company”) will be held at Building A2, Shang 8 Design and Creative Industry Park, Chaoyang District, Beijing, China on Wednesday, January 19, 2022 at 11 a.m. for the purposes of considering and if thought fit, passing the following resolution (with or without modification) as an ordinary resolution of the Company. Unless otherwise specified, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated January 4, 2022 (the “Circular”).

### ORDINARY RESOLUTION

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

“That:

- (a) the New Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed;
- (b) the proposed annual caps for the continuing connected transactions contemplated under the New Framework Agreement for the three years ending December 31, 2024 as set out in the Circular be and are hereby approved, ratified and confirmed; and
- (c) any one or more of the Directors is hereby authorized to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the transactions contemplated under the New Framework Agreement (including the proposed annual caps thereunder for the three years ending December 31, 2024).

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

Nanjing, PRC, January 4, 2022

## NOTICE OF EXTRAORDINARY GENERAL MEETING

*Notes:*

- (1) For the purpose of determining the identity of the shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed on Wednesday, January 19, 2022, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, January 18, 2022.
- (2) A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he/she/it is the holder of two or more shares, more proxies to attend and vote instead of him/her/it. A proxy need not be a member of the Company.
- (3) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such Share shall alone be entitled to vote in respect thereof.
- (4) In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours (i.e. 11 a.m. on Monday, January 17, 2022) before the time fixed for holding of the EGM. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the EGM (or any adjourned meeting thereof) if they so wish.
- (5) To safeguard the health and safety of the shareholders of the Company, the Company will implement the following precautionary measures at the EGM of the Company to prevent the spreading of the COVID-19:
  - (i) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;
  - (ii) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
  - (iii) The Company will not provide refreshments and will not distribute corporate gifts.

In light of the continuing risks posed by the COVID-19, the Company encourages the shareholders of the Company to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM as an alternative to attending the EGM in person.

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