稻草熊娛乐集团
STRAWBEAR ENTERTAINMENT GROUP

股份代號 STOCK CODE 2125

於開曼群岛注册成立之有限公司
Incorporated in the Cayman Islands with limited liability

ANNUAL REPORT
2020年報

稻草熊 STRAW BEAR | 彼之所乐 我之所幸

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. LIU Xiaofeng *(Chairman)*
Ms. ZHANG Qiuchen
Mr. CHEN Chen
Ms. ZHAI Fang

Non-Executive Directors

Mr. WANG Xiaohui
Mr. WANG Jun

Independent Non-executive Directors

Mr. MA Zhongjun
Mr. ZHANG Senquan
Mr. CHUNG Chong Sun

AUDIT COMMITTEE

Mr. ZHANG Senquan *(Chairman)*
Mr. WANG Jun
Mr. CHUNG Chong Sun

REMUNERATION COMMITTEE

Mr. MA Zhongjun *(Chairman)*
Mr. LIU Xiaofeng
Mr. CHUNG Chong Sun

NOMINATION COMMITTEE

Mr. MA Zhongjun *(Chairman)*
Mr. LIU Xiaofeng
Mr. CHUNG Chong Sun

JOINT COMPANY SECRETARIES

Ms. ZHAI Fang
Mr. WONG Keith Shing Cheung

AUTHORIZED REPRESENTATIVES

Ms. ZHAI Fang
Mr. WONG Keith Shing Cheung

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Corporate Information

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STOCK CODE

2125

COMPANY'S WEBSITE

www.strawbearentertainment.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present you the annual report of the Group for the year ended December 31, 2020.

THE LISTING

The Shares of the Company were successfully listed on the Main Board of the Stock Exchange on January 15, 2021. The Listing was a recognition for the Group's past efforts in performance growth and an important milestone in the Group's history.

FINANCIAL HIGHLIGHTS

Our revenue for the year ended December 31, 2020 amounted to approximately RMB952.4 million, representing an increase of 24.5% from approximately RMB765.1 million for the year ended December 31, 2019; our gross profit for the year ended December 31, 2020 amounted to approximately RMB259.8 million, representing an increase of 141.4% from approximately RMB107.6 million for the year ended December 31, 2019; our profit for the year ended December 31, 2020 amounted to approximately RMB18.2 million, representing a decrease of 63.9% from approximately RMB50.4 million for the year ended December 31, 2019; our adjusted net profit* for the year ended December 31, 2020 amounted to approximately RMB130.9 million, representing an increase of 100.1% from approximately RMB65.4 million for the year ended December 31, 2019; our net assets as of December 31, 2020 amounted to approximately RMB224.6 million, representing an increase of 15.5% from approximately RMB194.5 million as of December 31, 2019.

BUSINESS REVIEW

2020 was a successful year for the Group. We kept on exploring our platform business model and expanding the industrial chain resources. Benefiting from our close cooperation with online video platforms, the implementation of our business development strategies of "self-produced drama series as the core, development of made-to-order drama series as the focus" has achieved sound outcomes, resulting in significant increase in our revenue. We broadcast a total of 12 drama series in 2020, among which, self-produced drama series including The Love Lasts Two Minds (兩世歡), Inside Man (局中人) and Unbending Will (石頭開花) achieved outstanding performance in terms of market reputation and results contribution. Moreover, we delivered Customer First (獵心者) and Marry Me (三嫁惹君心) to iQIYI and Dating In The Kitchen (我，喜歡你) to Tencent, respectively, all of which are our made-to-order drama series.

We further built up our IP reserve in 2020 to satisfy the increasing demand for drama series development and production. As of December 31, 2020, in addition to our drama series that had been broadcast and to be broadcast, we had reserved in aggregate 34 IPs that could be developed into films and dramas, consisting of seven original screenplays based on our own initial ideas and 27 adapted screenplays based on licensed IPs. In March 2020, we entered into an IP co-development agreement with Booky Pictures (博集影業), an affiliate of CS-Booky (博集天卷), one of the top publishing companies in China, pursuant to which we and Booky Pictures will jointly invest in, develop and produce the drama series to be developed from IP, Two Capitals (兩京十五日), a full-length history novel written by Mr. Ma Boyong (馬伯庸), and share half of the net licensing fees. In June 2020, we acquired Nova Film, which focuses on visual effects and virtual photography as well as the research and development of advanced filming and production technologies of films.

* We define adjusted net profit as profit for the year adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and/or listing expenses incurred during the respective years.

BUSINESS REVIEW (CONT'D)

We believe that our platform business model, our close cooperative relationship with online video platforms and abundant IP reserve could bring us continuous and stable drivers for development, enabling us to consolidate our leading position in the industry amidst fierce and complex market competition.

OUTLOOK

We believe that the market development of the cultural and entertainment industry in China will have a bright prospect with enormous potential under the background of new economic development and an era of culture output. Looking forward, we will continue to adapt to the circumstances with appropriate measures, and take a proactive approach to grasp the opportunities from market development and changes. While continuously deepening our platform business model, we attempt to develop and arrange for innovative new business, and unleash the value of the entire industry chain across the cultural and entertainment industry to extend our business in a timely manner, so as to further complement our overall layout in different verticals of the cultural and entertainment industry. Our development initiatives include:

– Deepen our platform business model and foster stable organic growth: We will further strengthen our service capability for "comprehensive middle platform" under our platform business model to enhance the efficiency of excellent content creators and content purchasers. We will optimize a series of standardized production management process from project assessment to quality control, improve our own content production ability and brand influence, and enhance our cohesion with excellent industry players by breaking barriers in multiple aspects and segments in the content ecosystem. These will help to gather quality contents for effective development and industrial production, which will in turn further improve our income scale and profitability and achieve stable organic growth.

– Expand our layout of innovative new business in the cultural and entertainment industry and unleash the value of the entire industry chain to extend our business in a timely manner: Leveraging our strength of scale in quality content development and production, we will further explore opportunities arising from content innovation and develop new business in a timely manner to realize diversified monetization opportunities. For example, we will expand content segments, tap into overseas markets and 2C content markets such as online movies and revenue-sharing dramas and provide agency service for artists. In this regard, we have established joint ventures such as Xingyu Yinyue and Beijing Honeybear with excellent agency teams to march into the artists agency market, thus improving the commercial monetization ability of signed artists.

– Actively promote external growth through pursuing extensive external cooperation and quality industry resource integration, leveraging our position as a scarce integration platform in the market: As our team possesses comprehensive integration capabilities, we will proactively seek for high-quality partners that match our own development strategies, and engage in long-term strategic deployment and coordination with more industry chain players through equity or business cooperation. Moreover, we will strive to optimize the content ecosystem while increasing the brand value of content factories, so as to achieve external growth.

ACKNOWLEDGEMENT

Last but not least, on behalf of the Board, I would like to express our heartfelt thanks to all of our staff and management team for their unremitting efforts, close collaboration and valuable contributions. The Board would also like to express its sincere gratitude to all of our Shareholders, partners and stakeholders for their trust and support to the Group.

Yours faithfully,

LIU Xiaofeng
Chairman of the Board

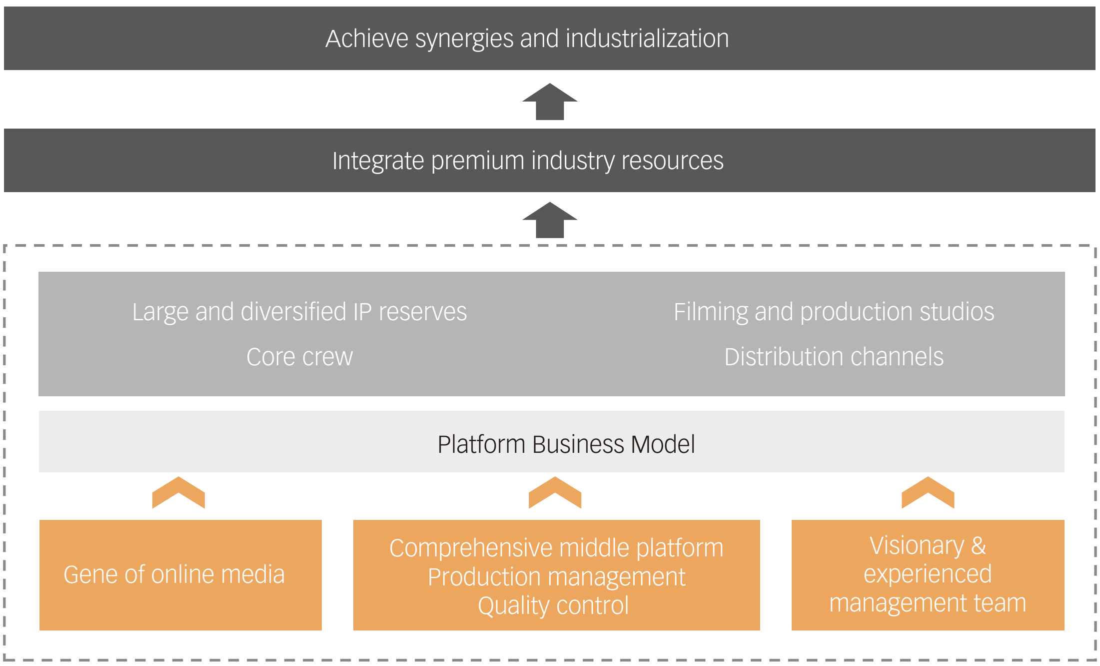
Nanjing, China
April 21, 2021

BUSINESS REVIEW AND PROSPECTS

The Group is a major drama series producer and distributor in the PRC, principally engaged in the investment, development, production and distribution of TV series and web series. For the year ended December 31, 2020, the Group generated revenue from (i) licensing of broadcasting rights of its self-produced drama series to TV channels, online video platforms and third party distributors; (ii) production of made-to-order drama series per online video platforms' orders; (iii) licensing of broadcasting rights of outright-purchased drama series from online video platforms and drama series producers to TV channels, third party distributors and online video platforms; and (iv) others.

Benefiting from its platform business model and its industry resource integration capability, the Group has ensured the quality of its drama series, which is evidenced by wide recognition of audience. As a result, the Group was granted several awards in 2020, including 2019 Top 10 Outstanding Production Enterprises (2019十大實力出品公司) by TV-insight (電視劇鷹眼) and Golden Phoenix Tree – Top 10 Cultural Enterprises (金梧桐獎—文化企業十強) by Nanjing Culture Industry Association (南京文化產業協會), in recognition of its achievements in business innovation and rapid growth.

The Group's Platform Business Model



The Group's platform business model gives it a competitive advantage over industry peers and empowers it to effectively integrate premium industry sources, such as well-recognized screenwriters, producers, directors and actors, filming and production studios as well as external quality control specialists, into its well-established ecosystem to achieve synergies and industrialization. The Group's industry resource integration capability also ensures the quality and success of its drama series, which is evidenced by their audience reception.

BUSINESS REVIEW AND PROSPECTS (CONT'D)

Leveraging the platform business model empowered by its comprehensive middle platform with professional production management and quality control capability, gene of online media and visionary and experienced management team, the Group experienced significant growth in 2020. The Group's revenue increased by 24.5% from RMB765.1 million for the year ended December 31, 2019 to RMB952.4 million for the year ended December 31, 2020. The Group's gross profit increased significantly by 141.4% from RMB107.6 million for the year ended December 31, 2019 to RMB259.8 million for the year ended December 31, 2020. The Group's overall gross profit margin increased significantly from 14.1% for the year ended December 31, 2019 to 27.3% for the year ended December 31, 2020.

A Large and Diversified Pool of IP Rights

With an emphasis on IP development, the Group obtains premium IPs from a variety of sources, and generally maintains an adequate level of about 30 IP reserves simultaneously to satisfy its demands for drama series production and distribution.

As of December 31, 2020, in addition to the drama series broadcast and to be broadcast, the Group had engaged screenwriters to create seven original screenplays based on its own initial ideas and 27 adapted screenplays based on licensed IPs.

In March 2020, the Group entered into an IP co-development agreement with Booky Pictures, pursuant to which the Group and Booky Pictures (博集影業) will jointly invest in, develop and produce the drama series to be developed from the IP, Two Capitals (兩京十五日), and share half of the net licensing fees as specified in the agreement; while the Group is the sole global distributor and is entitled to the distribution commission in addition to its proportional net licensing fees. Two Capitals (兩京十五日) is a popular history novel written by Ma Boyong (馬伯庸), whose adaptation right and filming right are acquired by Booky Pictures (博集影業).

The Group believes its large pool of IP reserves enables it to produce a wide and diversified array of drama series and contributes to the success of its drama series business. The Group will continue to focus on and benefit from its IP development.

BUSINESS REVIEW AND PROSPECTS (CONT'D)

The Group's Broadcast Drama Series Projects

For the year ended December 31, 2020, the Group had broadcast 12 TV series, among which the Group produced 6 drama series. The table below sets forth certain details of its produced drama series projects as of December 31, 2020.

Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Role	Production Type	Date of the First-run Broadcasting	Major Broadcast Channels
TV series							
(1) The Love Lasts Two Minds (兩世歡)	Self-produced drama series	Romance	Yu Cuihua (余翠華) Yu Menglong (于朦朧) Chen Yuqi (陳鈺琪)	Production and distribution	Adaptation	February 21, 2020	iQIYI
(2) Inside Man (局中人)	Self-produced drama series	War/spy	Liu Yu (劉譽) Zhang Yishan (張一山) Pan Yueming (潘粵明)	Production and distribution	Original	June 23, 2020	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video
(3) Unbending Will (石頭開花)[1]	Self-produced drama series/Outright purchased drama series	Patriotic	Yu Chun (余淳) Zhang Duofu (張多福) Li Shaohong (李少紅) Ma Tianyu (馬天宇) Jia Qing (賈青)	Production and distribution	Original	November 17, 2020	Tencent Video, iQIYI, Youku, Dragon TV, Zhejiang TV, Jiangsu TV, Guangdong TV, Hunan TV, Beijing TV
(4) Customer First (獵心者)	Made-to-order drama series production	Metropolitan	Tianyi (天毅) Li Jiahang (李佳航) Wang Yuexi (王玥兮)	Production and distribution	Original	March 9, 2020	iQIYI
(5) Marry Me (三嫁惹君心)	Made-to-order drama series production	Period romance	Huang Weijie (黃偉傑) Xing Zhaolin (邢昭林) Xiao Yan (肖燕)	Production	Adaptation	September 9, 2020	iQIYI
(6) Dating In The Kitchen (我，喜歡你)	Made-to-order drama series production	Metropolitan romance	Chen Chang (陳暢) Lin Yushen (林雨申) Zhao Lusi (趙露思)	Production	Adaptation	September 15, 2020	Tencent Video

1 Although Unbending Will (石頭開花) is a self-produced drama series, the Group purchased the online video platforms broadcasting rights of such drama series from its co-investor pursuant to relevant agreement. The Group subsequently distributed such drama series to all of the top three online video platforms and received relevant licensing fee, which was recognized as revenue generated from licensing of broadcasting rights of outright-purchased drama series.

BUSINESS REVIEW AND PROSPECTS (CONT'D)

The Group's Drama Series to be Broadcast and the Group's Pipeline Drama Series Projects

As of December 31, 2020, the Group had produced and/or distributed but yet to broadcast two TV series and two web series. The table below sets forth certain details of such drama series:

Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Role	Production Type	Status as of December 31, 2020	Actual/Expected Broadcasting Time
TV series							
(1) My Bargain Queen (我的砍價女王)	Self-produced drama series	Metropolitan romance	Zhou Xiaopeng (周曉鵬) Lin Gengxin (林更新) Wu Jinyan (吳謹言)	Production and distribution	Adaptation	Post-production	In 2021
(2) Breath Of Destiny (一起深呼吸)	Made-to-order drama series production	Medical romance	Dou Qi (斗琪) Qi Wei (戚薇) Yang Youning (楊祐寧)	Production and distribution[1]	Original	Post-production	March 23, 2021
Web series							
(1) Spirit Realm (靈域)	Made-to-order drama series production	Fantasy	Liang Guoguan (梁國冠) Fan Chengcheng (范丞丞) Cheng Xiao (程瀟)	Production	Adaptation	Post-production	January 9, 2021
(2) Handsome Young Master (公子傾城)	Made-to-order drama series production	Period romance	Li Yang (李陽) Bu Guanjin (卜冠今) Wang Xingyue (王星越)	Production	Adaptation	Post-production	In 2021

Note:

(1) Although Breath Of Destiny (一起深呼吸) is a made-to-order drama series produced for iQIYI, the Group is entitled to half of the licensing fees for the distribution on TV channels by it as provided in the relevant production services agreement.

As of December 31, 2020, the Group had three TV series and three web series that had applied for public record and registered with the local counterparts of the NRTA. The table below sets forth certain details of the Group's pipeline drama series projects:

Proposed Name of the Drama series	Genre	Copyright Ownership of Screenplay	Time of Public Record
TV series			
(1) Hello Baby (你好寶貝)	Metropolitan	The Company	2018
(2) Party Group (黨小組)	War/spy	The Company	2020
(3) My Mr. Cat (我的貓先生)	Metropolitan romance	The Company	2020
Web Series			
(1) Flying To The Moon (月歌行)	Period fantasy	The Company	2020
(2) Our Destiny In Self-Redemption (浮圖緣)	Period romance	The Company	2020
(3) Romance of Two Kingdoms in East Yangtze (鳶弈長洲)	Period war/spy	Jointly owned by its co-investor and the Company	2020

BUSINESS REVIEW AND PROSPECTS (CONT'D)

The Group's Drama Series to be Broadcast and the Group's Pipeline Drama Series Projects (cont'd)

In addition to the drama series disclosed in the two tables above, the Group will continue to develop its IP reserves by cooperating with industry-recognized writers or screenwriters. The Group expects that its drama series would gain audience popularity and become profitable.

Business Analysis by Business Line

(i) Licensing of broadcasting rights of the Group's self-produced drama series to TV channels, online video platforms and third-party distributors

The Group continued to strengthen its production and distribution capability in 2020. The Group broadcast three self-produced drama series in 2020, namely The Love Lasts Two Minds (兩世歡), Inside Man (局中人) and Unbending Will (石頭開花). The Group's revenue generated from licensing of broadcasting rights of self-produced drama series slightly decreased by 9.6% from RMB571.4 million for the year ended December 31, 2019 to RMB516.3 million for the year ended December 31, 2020, primarily attributable to the relatively low licensing fees of Unbending Will (石頭開花), a drama series with relatively smaller investment scale, less number of episodes, and lower investment percentage from the Group. Despite the small investment scale, as a drama series of patriotic genre focusing on poverty alleviation, Unbending Will (石頭開花) has gained good market reputation and therefore established a good brand image for our Group.

The Group's gross profit margin for licensing of broadcasting rights of self-produced drama series increased significantly from 11.2% for the year ended December 31, 2019 to 24.4% for the year ended December 31, 2020, primarily because (i) the actors' remuneration for the drama series broadcast in 2020 was substantially reduced pursuant to relevant government policies as compared to those broadcast in 2019; and (ii) online video platform remained relatively stable on their purchase prices of TV series per episode from 2019 to 2020.

The Group will continue to deepen its platform business model to maintain its production capacity in self-produced drama series, while the Group continuously integrates premium industry resources, enhances its quality control management, achieves industrialized production, and improves production efficiency. As of December 31, 2020, the Group had a number of self-produced drama series that were under production or at the pre-production stage, and the Group had one self-produced drama series, which was in post-production stage and expected to be broadcast in 2021.

(ii) Production of made-to-order drama series per online video platforms' orders

To capture the growth of the online video platforms and diversify its revenue sources, the Group started to undertake drama series production per online video platform's order since 2017. Based on its platform business model, the Group achieved a rapid growth in 2020. The Group delivered three made-to-order drama series, namely Customer First (獵心者) and Marry Me (三嫁惹君心) produced for iQIYI, and Dating In The Kitchen (我，喜歡你) produced for Tencent Video in 2020, compared to nil in 2019. Particularly, Dating In The Kitchen (我，喜歡你) starring Lin Yushen (林雨申) and Zhao Lusi (趙露思) achieved effective view counts of more than one billion in 2020 and became one of the most popular drama series in 2020.

The Group's revenue generated from production of made-to-order drama series increased from nil for the year ended December 31, 2019 to RMB280.2 million for the year ended December 31, 2020, which was in line with the increase of number of made-to-order drama series delivered from 2019 to 2020, and its gross profit margin for made-to-order drama series production was 21.0% for the year ended December 31, 2020. The revenue generated from production of made-to-order drama series accounted for approximately 29.4% of the Group's total revenue in 2020 and is its second largest revenue-generating business line. The Group also considers such business as one of its core growth point.

BUSINESS REVIEW AND PROSPECTS (CONT'D)

Business Analysis by Business Line (cont'd)

(ii) Production of made-to-order drama series per online video platforms' orders (cont'd)

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

As of December 31, 2020, the Group had three made-to-order drama series, which were in post-production stage and expected to be broadcast in 2021. The Group will keep focusing on the development of made-to-order drama series production.

In the future, the Group will not only continue to strive to expand the breadth and depth of the cooperation with leading distribution channels, but also plan to explore business opportunities with international market players to diversify its revenue resources.

(iii) Licensing of broadcasting rights of outright-purchased drama series from online video platforms and drama series producers to TV channels, third party distributors and online video platforms

The Group distributed and broadcast six outright-purchased drama series in 2020, while the Group distributed and broadcast two outright-purchased drama series in 2019. The Group distributed drama series to all of the top three online video platforms and top TV channels including Jiangsu TV and Beijing TV in 2020. However, the Group's revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB183.3 million for the year ended December 31, 2019 to RMB108.8 million for the year ended December 31, 2020, primarily because the outright-purchased drama series broadcast in 2019 were mostly first-run broadcast with larger investment scale and popular genre; whereas its outright-purchased drama series broadcast in 2020 were mostly re-run broadcast or with smaller investment scale.

BUSINESS REVIEW AND PROSPECTS (CONT'D)

Business Analysis by Business Line (cont'd)

(iii) Licensing of broadcasting rights of outright-purchased drama series from online video platforms and drama series producers to TV channels, third party distributors and online video platforms (cont'd)

The Group's gross profit margin for licensing of broadcasting rights of outright-purchased drama series increased from 18.7% for the ended December 31, 2019 to 52.1% for the year ended December 31, 2020, primarily because outright-purchased drama series distributed in 2019 were mainly distributed to third party distributors, which generally resulted in lower gross profit margin, whereas the outright-purchased drama series distributed in 2020 were mainly distributed to top three online video platforms, Beijing TV and Jiangsu TV.

As this business line was highly depending on market opportunities that the Group could identify and seize, namely, once the Group finds premium and suitable drama series that needs to be distributed as well as matching distribution channels, it will continuously seek the opportunity to match the distribution channel with the copyright owner of such drama series in the future.

(iv) Others

The Group's other business primarily includes (i) investing in drama series as non-executive producer; (ii) providing IP derivatives opportunities, such as online games, and providing product placement opportunities for advertisers; (iii) special effects editing and other post-production work for films and drama series undertaken by Nova Film, a company the Group acquired as subsidiary in June 2020; and (iv) acting as distribution agent of TV series. In 2020, the Group was entitled to distribute the first-run TV broadcasting rights of a metropolitan romance drama series, Dear Myself (親愛的自己), starring Liu Shishi (劉詩詩) and Zhu Yilong (朱一龍) pursuant to relevant agreement with its copyright owner. As such, the Group provided distribution services for such drama series and charged copyright owner a fixed proportion of licensing fee as distribution service fee. The Group's revenue generated from drama series where it acts as a distribution agent increased from nil for the year ended December 31, 2019 to RMB15.9 million for the year ended December 31, 2020, primarily because the Group distributed Dear Myself (親愛的自己) to Hunan TV in 2020.

IMPACT OF COVID-19

There has been an outbreak of an infectious disease caused by COVID-19. The disease quickly spread within the PRC and globally and materially and adversely affected the global economy. The outbreak has endangered the health of many people residing in China and significantly disrupted travel and the local economy across the country. The development of such epidemic in China is beyond the Group's control. The Group adopted a strict disease prevention scheme to reduce the risk of its employees from infection of COVID-19. The measures implemented include, among others, sterilizing the workplaces twice a day, ventilating the workplaces and monitoring the body temperature of employees twice a day.

IMPACT OF COVID-19 (CONT'D)

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

Specifically, in addition to Breath Of Destiny (一起深呼吸), where the production was delayed for approximately 49 days and the Group incurred losses of approximately RMB1.1 million as a result of the spread of COVID-19, there has been no material adverse impact on the on-site filming and/or production of its self-produced and made-to-order drama series. As of December 31, 2020, Breath Of Destiny (一起深呼吸) had completed filming and was in the process of post-production, and the Group had resumed the on-site filming and production of all of its pipeline drama series. The Group's outright-purchased drama series would not be adversely and materially affected as all of them have completed production before the Group procures their broadcasting rights. As COVID-19 has almost been controlled in China, there had been no material adverse impact caused by COVID-19 on the Group's operations and financial performance in 2020.

In the event COVID-19 continues to spread in 2021 or the PRC government authorities prohibit it from filming its self-produced or made-to-order drama series to avoid a new wave of infections, the Group has business contingency plans in place. In particular, (i) as of December 31, 2020, the Group had in aggregate four drama series that were under post-production and to be broadcast by the fourth quarter of 2021, including one self-produced drama series and three made-to-order drama series; (ii) the Group would strive to work closely with its business partners to seek more re-run distribution opportunities for its popular drama series; and (iii) the Group would expand its business of licensing of broadcasting rights of outright-purchased drama series leveraging its strong distribution capability to maintain the Group's results of operations and financial positions.

2020 FINANCIAL REVIEW

Consolidated statement of profit or loss

	Year ended December 31, 2019	2020
	RMB in thousands	
REVENUE	765,097	**952,362**
Cost of sales	(657,457)	**(692,541)**
Gross profit	107,640	**259,821**
Other income and gains	34,343	**24,882**
Selling and distribution expenses	(33,498)	**(80,972)**
Administrative expenses	(17,655)	**(68,017)**
Other expenses	(128)	**–**
Finance costs	(9,734)	**(9,944)**
Share of profits of a joint venture	–	**307**
Changes in fair value of financial liabilities at fair value through profit or loss	(14,996)	**(77,657)**
PROFIT BEFORE TAX	65,972	**48,420**
Income tax expense	(15,572)	**(30,228)**
PROFIT FOR THE YEAR	50,400	**18,192**
Attributable to:		
Owners of the parent	50,032	**18,430**
Non-controlling interests	368	**(238)**
	50,400	**18,192**
NON-HKFRS MEASURE[(1)]:		
Adjusted net profit[(2)]	65,396	**130,882**

2020 FINANCIAL REVIEW (CONT'D)

Consolidated statement of profit or loss (cont'd)

Notes:

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

(2) The Group defines adjusted net profit as profit for the year adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and/or listing expenses incurred during the respective years. The Group eliminates the potential impacts of these items that the management does not consider to be indicative of the Group's operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also non-cash items and unrelated to the Group's principal business, and therefore are not indicative of its profit from operations post-completion of the Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which were converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing.

Revenue by Business Line

The Group's revenue increased from RMB765.1 million for the year ended December 31, 2019 to RMB952.4 million for the year ended December 31, 2020, primarily attributable to the increase in revenue generated from production of made-to-order drama series in line with its business development in such business line, which was partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series and licensing of broadcasting rights of self-produced drama series.

	Year ended December 31,			
	2019		**2020**	
	(RMB in thousands, except percentages of revenue)			
Licensing of broadcasting rights of self-produced drama series	571,412	74.7%	**516,302**	**54.2%**
Licensing of broadcasting rights of outright-purchased drama series	183,272	24.0%	**108,782**	**11.4%**
Production of made-to-order drama series	–	–	**280,189**	**29.4%**
Others	10,413	1.3%	**47,089**	**5.0%**
Total	765,097	100.0%	**952,362**	**100.0%**

2020 FINANCIAL REVIEW (CONT'D)

Revenue by Business Line (cont'd)

(i) Licensing of Broadcasting Rights of Self-produced Drama Series

The Group's revenue generated from licensing of broadcasting rights of self-produced drama series decreased from RMB571.4 million for the year ended December 31, 2019 to RMB516.3 million for the year ended December 31, 2020, primarily attributable to the relatively low licensing fees of Unbending Will (石頭開花) broadcast in 2020, a drama series with relatively smaller investment scale, less number of episodes and lower investment percentage from the Group.

(ii) Licensing of Broadcasting Rights of Outright-purchased Drama Series

The Group's revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB183.3 million for the year ended December 31, 2019 to RMB108.8 million for the year ended December 31, 2020, primarily because the outright-purchased drama series broadcast in 2019 were mostly first-run broadcast with larger investment scale and popular genre; whereas the outright-purchased drama series broadcast in 2020 were mostly re-run distribution or with smaller investment scale.

(iii) Production of Made-to-order Drama Series

The Group's revenue generated from production of made-to-order drama series increased from nil for the year ended December 31, 2019 to RMB280.2 million for the year ended December 31, 2020, primarily due to the changes in the market conditions and its business strategy. In 2017, the Group commenced the business of made-to-order drama series production which gradually became a main source of content for online video platforms in recent years, and the price of made-to-order drama series increased accordingly. The drama series the Group delivered to online video platforms in 2020 were Customer First (獵心者), Marry Me (三嫁惹君心) and Dating In The Kitchen (我，喜歡你).

(iv) Others

Others primarily comprise revenues from (i) the net licensing fees received from investments in drama series as a non-executive producer; (ii) IP derivatives, such as online games, and product placements for advertisers; (iii) special effects editing and other post-production work for films and drama series generated by Nova Film, a company the Group acquired as subsidiary in June 2020; and (iv) the distribution fee for acting as a distribution agent of TV series Dear Myself (親愛的自己) to Hunan TV in the second half of 2020.

2020 FINANCIAL REVIEW (CONT'D)

Cost of sales by Nature

The fluctuation of the Group's cost of sales from 2019 to 2020 is generally in line with the fluctuation of the Group's revenue for the respective years.

	Year ended December 31,			
	2019		**2020**	
	(RMB in thousands, except percentages of cost of sales)			
Production cost	443,777	67.5%	**591,596**	**85.4%**
Cost of outright-purchased drama series	148,933	22.7%	**52,135**	**7.5%**
Distribution cost	64,394	9.7%	**39,714**	**5.8%**
Others[1]	353	0.1%	**9,096**	**1.3%**
Total	657,457	100.0%	**692,541**	**100.0%**

Note:

(1) Others represent (i) payment for sharing of revenue in relation to the broadcasting of a web film, and (ii) the cost for special effects editing and other post-production work for films and drama series.

Gross Profit and Gross Profit Margin

	Year ended December 31,			
	2019		**2020**	
	Gross Profit	Gross Profit Margin	**Gross Profit**	**Gross Profit Margin**
	(RMB in thousands, except gross profit margin)			
Licensing of broadcasting rights of self-produced drama series	63,779	11.2%	**125,935**	**24.4%**
Licensing of broadcasting rights of outright-purchased drama series	34,339	18.7%	**56,647**	**52.1%**
Production of made-to-order drama series	–	–	**58,742**	**21.0%**
Others	9,522	91.4%	**18,497**	**39.3%**
Total	107,640	14.1%	**259,821**	**27.3%**

2020 FINANCIAL REVIEW (CONT'D)

Gross Profit and Gross Profit Margin (cont'd)

The Group's gross profit increased significantly by 141.4% from RMB107.6 million for the year ended December 31, 2019 to RMB259.8 million for the year ended December 31, 2020. The Group's gross profit margin increase to 27.3% for the year ended December 31, 2020 from 14.1% for the year ended December 31, 2019, primarily due to the combined effect of (i) an increase in gross profit margin of self-produced drama series broadcast in 2020, such as Inside Man (局中人) and The Love Lasts Two Minds (兩世歡), attributable to a decrease in the production cost of such drama series; (ii) an increase in the number of made-to-order drama series delivered under its platform business model, which had a gross profit margin of 21.0%; and (iii) outright-purchased drama series distributed in 2019 were mainly distributed to third party distributors, which generally resulted in lower gross profit margin.

Other Income and Gains

Other income and gains decreased by 27.4% or approximately RMB9.4 million from RMB34.3 million for the year ended December 31, 2019 to RMB24.9 million for the year ended December 31, 2020. This was primarily attributable to the decrease in government grants of RMB7.8 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased significantly by 141.7% to RMB81.0 million for the year ended December 31, 2020 from RMB33.5 million for the year ended December 31, 2019, primarily because the number of drama series incurring advertising expenses of over RMB1.0 million increased from four in 2019 to eight in 2020, most of which were distributed to TV channels or online video platforms and the Group undertook the responsibility of promoting such drama series.

Administrative Expenses

The Group's administrative expenses increased by 285.3% to RMB68.0 million for the year ended December 31, 2020 from RMB17.7 million for the year ended December 31, 2019, primarily due to (i) the increase in the equity-settled share award expense of RMB10.7 million, which represents share-based compensation expense incurred in relation to its Pre-IPO Share Option Scheme in 2020, (ii) the increase in listing expenses of RMB24.3 million, (iii) the increase in impairment loss of RMB5.4 million primarily due to the increase in provision of trade receivables, and (iv) the increase in screenwriting fees of RMB3.4 million due to replacing the screenwriter of On The Stream Of Silence And Loneliness (在寂與寞的川流上).

Finance Costs

The Group's finance costs remained relatively stable at RMB9.7 million for the year ended December 31, 2019 and RMB9.9 million for the year ended December 31, 2020, primarily due to the increase in interest on bank loans of RMB4.2 million in line with the increase in bank loans of RMB49.0 million, partially offset by the decrease in interest on borrowings from a related party of RMB3.7 million due to the repayment of the borrowings from Beijing iQIYI.

Income Tax Expense

The Group's income tax expense increased by 94.1% to RMB30.2 million for the year ended December 31, 2020 from RMB15.6 million for the year ended December 31, 2019, primarily due to (i) the increase in taxable profit made in 2020, and (ii) the increase of deferred tax expense which were impacted by the provision of impairment of trade receivable, accrued expenses and amortization of other intangible assets.

2020 FINANCIAL REVIEW (CONT'D)

Non-HKFRS Measure

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

The Group defines adjusted net profit as profit for the year adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and/or listing expenses incurred during the respective years. The Group eliminates the potential impacts of these items that the management does not consider to be indicative of the Group's operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also non-cash items and unrelated to the Group's principal business, and therefore are not indicative of its profit from operations post-completion of the Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which were converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing.

The table below reconciles the Group's adjusted net profit for the years presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is the net profit for the year:

	Year ended December 31,	
	2019	**2020**
	(RMB in thousands)	
Reconciliation of net profit to adjusted net profit		
Net profit for the year	50,400	**18,192**
Add:		
Changes in fair value of financial liabilities at fair value through profit or loss	14,996	**77,657**
Equity-settled share award expense	–	**10,729**
Listing expenses	–	**24,304**
Adjusted net profit	65,396	**130,882**

FINANCIAL POSITION

Consolidated statement of financial position (selected items)

	As of December 31, 2019	2020
	(RMB in thousands)	
Total non-current assets	197,173	**196,094**
Total current assets	1,855,082	**1,663,826**
Total current liabilities	1,554,271	**1,145,914**
Net current assets	300,811	**517,912**
Total non-current liabilities	303,533	**489,369**
Net assets	194,451	**224,637**

Inventories

	As of December 31, 2019	2020
	(RMB in thousands)	
Raw materials	60,873	**78,631**
Work in progress	462,944	**331,339**
Finished goods	395,302	**446,368**
Total	919,119	**856,338**

The Group's inventories decreased by 6.8% to RMB856.3 million as of December 31, 2020 from RMB919.1 million as of December 31, 2019, primarily due to the decrease in work in progress of RMB131.6 million as the Group completed production of its drama series, Dating In The Kitchen (我，喜歡你) and Marry Me (三嫁惹君心), which were broadcast in 2020. The decrease was partially offset by an increase of finished goods of RMB51.1 million since the Group completed the production of Spirit Realm (靈域) and Breath Of Destiny (一起深呼吸) in 2020 which were yet to be broadcast as of December 31, 2020.

Trade and Notes Receivables

The Group's trade and notes receivables decreased by 9.2% to RMB440.7 million as of December 31, 2020 from RMB485.4 million as of December 31, 2019, primarily due to the decrease in trade receivables of RMB327.3 million for Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行), partially offset by the increase in trade receivables of RMB275.1 million for Inside Man (局中人), Unbending Will (石頭開花), Dear Missy (了不起的女孩), and Winter Begonia (鬢邊不是海棠紅).

FINANCIAL POSITION (CONT'D)

Trade and Notes Receivables (cont'd)

As of December 31, 2019 and 2020, the Group made provisions for impairment of trade receivables of approximately RMB6.5 million and RMB12.3 million, respectively, which the Group believes were sufficient as of the end of each year.

The Group's notes receivables increased from nil as of December 31, 2019 to RMB10.0 million as of December 31, 2020, primarily due to the increase in notes receivables from a top satellite TV channel for the licensing fees of Love Journey (一場遇見愛情的旅行) broadcast in 2019.

Prepayment, Other Receivables and Other Assets

The Group's prepayment, other receivables and other assets decreased by 29.9% to RMB238.8 million as of December 31, 2020 from RMB340.9 million as of December 31, 2019, primarily attributable to the decrease in loans receivables of RMB140.5 million mainly as a result of (i) the repayment from a drama series production company for our investment with fixed return in My Unicorn Girl (穿盔甲的少女); (ii) the settlement by the Group's co-investor of the Group's lendings to it for the production of Inside Man (局中人); and (iii) the settlement of lendings for third-party. The decrease was partially offset by the increase in deductible input value-added tax of RMB13.5 million and the increase in prepaid listing expenses of RMB7.4 million in 2020.

Goodwill

The Group's goodwill increased to RMB113.0 million as of December 31, 2020 from RMB108.3 million as of December 31, 2019, primarily due to its acquisition of Nova Film in June 2020.

Other Intangible Assets

The Group's other intangible assets decreased from RMB42.9 million as of December 31, 2019 to RMB26.2 million as of December 31, 2020, primarily due to the amortization of intangible assets of RMB28.4 million for its drama series, The Love Lasts Two Minds (兩世歡), partially offset by the increase in intangible assets of RMB12.7 million as a result of the acquisition of Nova Film.

Trade Payables

The Group's trade payables decreased by 46.9% from RMB449.2 million as of December 31, 2019 to RMB238.4 million as of December 31, 2020, primarily due to the settlement of its payables of RMB194.0 million of Second Time Is A Charm (第二次也很美) and The Love Lasts Two Minds (兩世歡).

Other Payables and Accruals

The Group's other payables and accruals decreased by 20.0% to RMB587.8 million as of December 31, 2020 from RMB734.5 million as of December 31, 2019, primarily due to the decrease in contract liabilities of RMB124.8 million from RMB535.8 million to RMB411.0 million since certain amount of contract liabilities as of December 31, 2019 had been recognized as revenue during the year ended December 31, 2020 for The Love Lasts Two Minds (兩世歡), Marry Me (三嫁惹君心) and Customer First (獵心者) broadcast in 2020.

Financial Liabilities at Fair Value through Profit or Loss

The Group's financial liabilities at fair value through profit or loss increased by 64.2% from RMB289.5 million as of December 31, 2019 to RMB475.4 million as of December 31, 2020, primarily due to the change in the fair value of the preferred shares held by Taurus Holding issued in November 2018 and in May 2020.

DIVIDENDS

The Board has resolved not to recommend payment of a final dividend for the year ended December 31, 2020.

CAPITAL STRUCTURE, LIQUIDITY AND CAPITAL RESOURCES

The Shares of the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on January 15, 2021.

On February 7, 2021, the over-allotment option described in the Prospectus was fully exercised in respect of an aggregate of 24,867,000 Shares, representing 15% of the total number of the offer shares initially available under the global offering (before any exercise of the over-allotment option). The over-allotment shares were allotted and issued by the Company at HK$5.88 per Share on February 10, 2021. Immediately after the completion of the issue and allotment of the over-allotment shares, the Company had 687,967,000 ordinary shares of US$0.000025 each. There has been no movement in the issued Shares of the Company since then. For details, please refer to the announcement of the Company dated February 7, 2021.

The Company maintained a healthy financial position in 2020. The Group's total assets decreased from RMB2,052.3 million as of December 31, 2019 to RMB1,859.9 million as of December 31, 2020, whilst the Group's total liabilities decreased from RMB1,857.8 million as of December 31, 2019 to RMB1,635.3 million as of December 31, 2020. The Group's liabilities-to-assets ratio decreased from 90.5% in 2019 to 87.9% in 2020.

Historically, the Group financed its capital expenditure and working capital requirements mainly through cash generated from operations, bank and other borrowings and capital contributions from Shareholders. As of December 31, 2020, the Group maintained a sufficient working capital (current assets less current liabilities) and cash and cash equivalents amounted to RMB517.9 million and RMB95.6 million, respectively, as compared to RMB300.8 million and RMB52.3 million, respectively, as of December 31, 2019.

As of December 31, 2020, all of the cash and cash equivalents of the Group were denominated in RMB. The net proceeds from the global offering received by the Company were denominated in HK$.

The Group believes that its liquidity requirements will be satisfied by using a combination of cash generated from operating activities, interest-bearing bank and other borrowings and the net proceeds received from the global offering of the Company.

As of December 31, 2020, the Group's total Interest-bearing bank and other borrowings were approximately RMB159.0 million, all of which were denominated in RMB.

The Group currently does not have any foreign currency hedging policies. The management will continue to pay attention on the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

As of December 31, 2020, the Group did not have any significant contingent liabilities.

Capital Expenditure

The Group's capital expenditures primarily included purchase of property, plant and equipment. The Group's capital expenditures increased to RMB2.6 million in 2020 from RMB0.1 million in 2019. The Group plans to fund its planned capital expenditures using cash generated from operations as well as the net proceeds from the global offering.

CAPITAL STRUCTURE, LIQUIDITY AND CAPITAL RESOURCES (CONT'D)

Financial Ratios

Return on Equity

The Group's return on equity decreased from 29.6% for the year ended December 31, 2019 to 8.7% for the year ended December 31, 2020, primarily because its profit for the year decreased significantly while the arithmetic mean of the opening and closing balances of its total equity remained relatively stable from 2019 to 2020.

Return on Assets

The Group's return on assets decreased from 3.2% for the year ended December 31, 2019 to 0.9% for the year ended December 31, 2020, primarily due to the decrease in profit for the year and the increase in the arithmetic mean of the opening and closing balances of its total assets from 2019 to 2020.

Current Ratio

The Group's current ratio increased from 1.19 as of December 31, 2019 to 1.45 as of December 31, 2020, primarily because the decrease in its current liabilities outpaced the decrease in its current assets from 2019 to 2020.

Debt to Equity Ratio[(1)]

The Group's debt to equity ratio decreased from 118.3% as of December 31, 2019 to 64.2% as of December 31, 2020, primarily due to the decrease in its net debt which was primarily attributable to the decrease in amounts due to a related party and the increase in cash and cash equivalents.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Saved as the acquisition of Nova Film set out in Note 31(b) to the financial statements, the Group had no significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended December 31, 2020.

(1) Debt to equity ratio is calculated based on net debt (of which net debt is defined as interest-bearing bank and other borrowings, lease liabilities, due to a joint venture and due to a related party deduct cash and cash equivalents) divided by total equity as of the relevant dates multiplied by 100%.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company issued 165,780,000 ordinary shares at HK$5.88 which were listed on the Main Board of the Stock Exchange on January 15, 2021 and issued 24,867,000 ordinary shares at HK$5.88 upon the full exercise of the over-allotment option, which were listed on the Main Board of the Stock Exchange on February 10, 2021. The nominal value of the ordinary Shares is US$0.000025 per Share.

The net proceeds from the global offering received by the Company, after deduction of the underwriting fees and commissions and other expenses payable by the Company in connection with the global offering, amounted to approximately HK$1,071.1 million, which will be utilized in accordance with the purposes as set out in the Prospectus. The following table sets out the intended use of the net proceeds, actual usage up to the date of this report as well as the expected timeline for utilization:

	Percentage of the net proceeds from the global offering	Net proceeds from the global offering and utilization			Expected timeline for utilization (1)
		Amount available for utilization HK$ in million	Amount utilized HK$ in million	Remaining amount HK$ in million	
Funding the drama series production of the Group					
Our Destiny In Self-Redemption (浮圖緣)		76.5	–	76.5	In the fourth quarter of 2021
Flying To The Moon (月歌行)		100.8	22.5	78.3	In the first quarter of 2022
Handsome Yong Master (公子傾城)		38.6	4.3	34.3	In the fourth quarter of 2021
Hello Baby (你好寶貝)		57.0	–	57.0	In the second quarter of 2022*
My Mr. Cat (我的貓先生)		68.6	3.1	65.5	In the third quarter of 2021
Steal His Heart (偷走他的心)		68.6	0.1	68.5	In the first quarter of 2022
The Wind Catcher (捕風者)		87.1	1.1	86.0	In 2022
Two Capitals (兩京十五日)		252.6	–	252.6	In 2022
Sub-total	70.0%	749.8	31.1	718.7	

* Due to the change in the shoot progress, the expected timeline for utilization of the net proceeds has been delayed accordingly.

USE OF PROCEEDS FROM THE GLOBAL OFFERING (CONT'D)

	Percentage of the net proceeds from the global offering	Net proceeds from the global offering and utilization			Expected timeline for utilization (1)
		Amount available for utilization HK$ in million	Amount utilized HK$ in million	Remaining amount HK$ in million	
Funding potential investment in, or merger and acquisition of, companies that may enhance the Group's market position and ramp up the Group's drama series development, production and distribution	10.0%	107.1	–	107.1	Around 2023
Securing more IPs to guarantee the stable growth of the Group's drama series production and distribution by acquiring one premium copyright company which focuses on investment, development, production and distribution of web series	10.0%	107.1	–	107.1	Around 2023
Working capital and general corporate purposes	10.0%	107.1	107.1	–	
Total	100.0%	1,071.1	138.2	932.9	

Note:

(1) The expected timeline for the usage of the remaining proceeds is made based on the best estimate of the Group's future market conditions, which is subject to the current and future development of the market conditions.

During the period from the Listing Date to the date of this report, the Group has utilized net proceeds of approximately HK$138.2 million from the global offering. The remaining net proceeds were deposited in banks as of the date of this report. The Group will gradually utilize the proceeds from the global offering in accordance with the intended purposes as set out in the Prospectus.

FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed in the section headed "Use of Proceeds from the Global Offering" in this report, the Group did not have any other immediate plans for material investment and capital assets as at the date of this annual report. The Group may look into business and investment opportunities in different business areas and consider whether any asset or business acquisitions, restructuring or diversification may become appropriate in order to improve its long-term competitiveness.

SIGNIFICANT LITIGATION

As at the date of this annual report, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

PLEDGE OF ASSETS

As at December 31, 2020, the Group's trade receivables, which had an aggregate net carrying value of approximately RMB379,791,222 (2019: RMB120,000,000), and the pledged deposit amounting to RMB30,000,000 (2019: nil) were pledged to secure the bank loans granted to the Group.

FINANCIAL RISKS

Credit Risk

The Group's credit risk is primarily attributable to trade and notes receivables, financial assets included in prepayments, other receivables and other assets and cash deposits at banks. The maximum exposure to credit risk is represented by the carrying amounts of these financial assets in its consolidated statement of financial position.

To manage its credit risk arising from financial asset at fair value through profit or loss and cash deposits, the Group mainly trades with recognized and creditworthy third parties. Receivable balances are monitored on an on-going basis.

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix. The Group does not provide any guarantees which would expose the Group to credit risk. As the Group's historical credit loss experiences do not indicate significantly different loss patterns for different businesses, the loss allowance based on past due status is not further distinguished between its different customer bases.

For further information relating to the Group's credit risk, see Note 38 to the financial statements.

Liquidity Risk

The Group manages liquidity risk by closely and continuously monitoring its financial position. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by its management to finance its operations and mitigate the fluctuations in cash flows.

For further information relating to the Group's liquidity risk, see Note 38 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As of December 31, 2020, the Group had 81 employees, including 52 based in Jiangsu Province, 24 based in Beijing, 3 based in Xinjiang Uyghur Autonomous Region and 2 based in Zhejiang Province. The following table shows a breakdown of the employees by function as of that date:

Functions	Number of Employees	% of Total Employees
Management	5	6.2%
Production	24	29.6%
Investment	2	2.5%
Distribution	3	3.7%
Marketing and promotion	7	8.7%
Government affairs	1	1.2%
Finance and legal	13	16.0%
Administrative	7	8.7%
Research and development	15	18.5%
Artiste management	4	4.9%
Total	81	100.0%

For the year ended December 31, 2020, total staff remuneration expenses including Directors' remuneration amounted to RMB16.7 million. Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. On top of salary payments, other employee benefits primarily include social insurance and housing provident contributions made by the Group, performance-based compensation and discretionary bonus.

The Group believes it has maintained good relationships with its employees. The employees are not represented by a labor union. As of the date of this report, the Group did not experience any strikes or any labor disputes with its employees which have had or are likely to have a material effect on its business.

The employees of the Group typically enter into standard employment contracts with a confidentiality clause and non-competition agreements with the Group. The Group places high value on recruiting, training and retaining its employees. The Group maintains high recruitment standards and provides competitive compensation packages. Remuneration packages for its employees mainly comprise base salary and bonus. The Group also provides both in-house and external trainings for its employees to improve their skills and knowledge.

The Group contributes to housing provident funds and various employee social security insurance that are organized by applicable local municipal and provincial governments, including housing, pension, medical, maternity, work-related injury and unemployment insurance, under which the Group makes contributions at specified percentages of the salaries of employees in accordance with applicable PRC laws, rules and regulations.

EVENTS AFTER THE REPORTING PERIOD

On January 15, 2021, the Company was listed on the Main Board of the Stock Exchange and made a global offering of 165,780,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price of HK$5.88 per share.

Pursuant to the over-allotment option described in the Prospectus, the Company allotted and issued 24,867,000 additional offer shares on February 10, 2021 at the offer price of HK$5.88 per share.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. LIU Xiaofeng (**劉小楓**), aged 43, is an executive Director, the chairman of the Board and the chief executive officer of our Company. Mr. Liu joined our Group in June 2014 and is primarily responsible for the overall corporate and business strategies and overseeing the management and operation of our Group.

With approximately 20 years of experience in media industry, Mr. Liu has gained an in-depth understanding of production and distribution of TV series and acquired rich management experience by managing our Group and developing our business. Mr. Liu founded our Group in June 2014 and has been the chief executive officer of our Group since then. Prior to the foundation of our Group, Mr. Liu worked in a number of well recognized media companies focusing on production and distribution of TV series. Mr. Liu served as the director of Phoenix Legend Films Co., Ltd. (鳳凰傳奇影業有限公司), a leading multimedia company focusing on investment, production and distribution of films and TV series, from October 2010 to June 2014. Prior to that, Mr. Liu served as the general manager of Nanjing Legend Image Co., Ltd. (南京傳奇影業有限公司). From 2003 to 2006, Mr. Liu worked as the deputy general manager of Jiangsu Langtaosha Pictures Co., Ltd. (江蘇省浪淘沙影業有限公司). Mr. Liu started his career as a reporter in July 2000 and subsequently served as a director of variety shows at Jiangsu Television (江蘇電視台) until July 2003.

Mr. Liu has profound influence in the drama series industry, evidenced by more than 20 drama series with over 1,000 episodes he has produced and distributed, some of which won the annual viewership rating champions of various TV channels, such as Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) and Second Time Is A Charm (第二次也很美). He is also the first to initiate the "Online first, TV next" ("先網後台") broadcasting model which introduced a new broadcasting arrangement among distribution channels. Attributable to his deep understanding and accurate prediction of the future trends of the drama series industry in the PRC, Mr. Liu is a first-mover in cooperation with online video platforms, thereby having seized the opportunities brought by the rise of such platforms. He is also the first to have adopted the platform business model to integrate premium industry resources to ensure our rapid and sustainable growth. Mr. Liu is a member of China Television Artists Association (中國電視藝術家協會), a council member of Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會) and the vice president of Film and Television Artists Association of Nanjing City (南京市電影電視藝術家協會). He graduated from Nanjing University (南京大學) in June 1997 and obtained his bachelor's degree in market information management.

Mr. Liu has not held directorship in any other listed company in the three years immediately preceding the date of this report.

DIRECTORS (CONT'D)

Executive Directors (cont'd)

Ms. ZHANG Qiuchen (張秋晨), aged 43, is an executive Director and the chief marketing officer of our Company. Ms. Zhang joined our Group in October 2014 and is primarily responsible for sales and distribution of TV/web series and publicity and branding of our Group.

Ms. Zhang has approximately 20 years of experience in sales, marketing and distribution of TV series in the PRC. She has distributed more than 20 drama series with over 1,000 episodes since 2000 and is regarded as one of the best individual distributors in the industry. Since October 2014, she has been the chief marketing officer and deputy director of distribution of Jiangsu Strawbear where she is primarily responsible for sales and distribution of our TV series and taking charge of certain work studio for development, production and sales of our web series. Prior to joining our Group, Ms. Zhang served as the general manager of Nanjing Tongqiu Films and TV Culture Communication Co., Ltd. (南京同秋影視文化傳播有限公司) and was responsible for sales and distribution of TV series from April 2011 to October 2014. Before that, from November 1997 to March 2011 she held various positions at Suzhou Funa Culture and Technology Co., Ltd. (蘇州福納文化科技股份有限公司), a professional media company specialized in the production and distribution of films and TV series.

Ms. Zhang obtained a bachelor's degree in administrative management from Nanjing University (南京大學) in July 2012 through online education.

Ms. Zhang has not held directorship in any other listed company in the three years immediately preceding the date of this report.

Mr. CHEN Chen (陳晨), aged 38, is an executive Director and the chief financial officer of our Company. Mr. Chen joined our Group in November 2014 and is primarily responsible for overseeing the financial operation and risk management and taking charge of departments of accounting, administration and government affairs of our Group.

Mr. Chen has more than 10 years of experience in financial management. Since November 2014, he has been the chief financial officer of Jiangsu Strawbear where he has accumulated knowledge and skills required in overseeing the financial management of our Group. Prior to joining our Group, Mr. Chen served as the head of financial department of Phoenix Legend Films Co., Ltd. (鳳凰傳奇影業有限公司) from September 2012 to July 2014 responsible for its accounting and financial management. From July 2009 to September 2012, he served as an accountant in the financial department of Nanjing Branch of Jiangsu Broadcasting Cable Information Network Corporation Limited (江蘇省廣電有線信息網絡股份有限公司南京分公司). Mr. Chen started his career at PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所) where he was trained as an auditor from August 2007 to June 2009.

Mr. Chen obtained a bachelor's degree in financial management from Nanjing University (南京大學) in June 2004, and a master's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in January 2007. Mr. Chen was accredited as an accountant (會計師) by Nanjing Professional Title (Professional Qualification) Leading Group (南京市職稱(職業資格)工作領導小組) in March 2011 and was recognized and cultivated as one of The First Class of Nanjing High-level Accounting Talents (南京市首期高層次會計人才) by Nanjing Municipal Bureau of Finance (南京市財政局) and Beijing National Accounting Institute (北京國家會計學院) in November 2013. Mr. Chen is also a member of Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會).

Mr. Chen has not held directorship in any other listed company in the three years immediately preceding the date of this report.

DIRECTORS (CONT'D)

Executive Directors (cont'd)

Ms. ZHAI Fang (翟芳), aged 43, is an executive Director, the chief operating officer and a joint company secretary of our Company. Ms. Zhai joined our Group in March 2017 and is primarily responsible for assisting in the daily operation and management and taking charge of the capital operation including investment and financing of our Group.

Ms. Zhai has more than 10 years of experience in equity investment and management. Since March 2017, she has been the chief operating officer of Jiangsu Strawbear and is responsible for capital operation including investment and financing. Prior to joining our Group, Ms. Zhai served as the vice president of strategic investment of China Allied Shengshi Culture (Beijing) Co., Ltd. (中聯盛世文化(北京)有限公司), a subsidiary of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司) (Stock Code: 1060.HK and S91.SGX), from January 2016 to December 2016 responsible for its strategic investment and financing. In April 2012, she joined Shanghai Fosun Capital Investment Management Co., Ltd. (上海復星創富投資管理有限公司), a leading investment firm under Fosun International Limited (復星國際有限公司) (Stock Code: 0656.HK), responsible for equity investment in consumer and entertainment sectors as assistant president and was appointed as executive general manager in April 2013. Before that, she was engaged in management work at Ping An Asset Management Co., Ltd. (平安資產管理有限責任公司) from September 2009 to April 2012.

Ms. Zhai obtained a master's degree in financial development from Shanghai Academy of Social Sciences (上海社會科學院) in June 2008, and an executive master of business administration's degree conferred jointly by Columbia University, London Business School and The University of Hong Kong in 2017.

Ms. Zhai has not held directorship in any other listed company in the three years immediately preceding the date of this report.

Non-executive Directors

Mr. WANG Xiaohui (王曉暉), aged 52, is a non-executive Director. Mr. Wang Xiaohui joined our Group in November 2018 and is primarily responsible for providing strategic advice and making recommendations on financial management and business development to our Board.

Mr. Wang Xiaohui joined our Group in November 2018 and has been one of our Directors since then. Mr. Wang has approximately 30 years of experience in journalism and content business. Mr. Wang joined iQIYI, Inc. (Stock Code: IQ. NASDAQ) in August 2016 as the chief content officer, primarily responsible for the procurement, production and operations of content business. Prior to joining iQIYI, Mr. Wang served in various positions at China National Radio (中央人民廣播電台), including the director of news comment department of news center from March 2000 to October 2001, the director of news department of news center from October 2001 to March 2002, the director of news program center from March 2002 to November 2003, the deputy director of Voice of China from November 2003 to June 2006, the director of finance office from June 2006 to September 2007, and the vice president from September 2007 to June 2016.

DIRECTORS (CONT'D)

Non-executive Directors (cont'd)

Mr. Wang Xiaohui's expertise in journalism and content business is highly recognized nationwide, evidenced by numerous honors and awards he received, including, among others, the 11th Changjiang Taofen Award (長江韜奮獎) awarded to him by the All-China Journalists Association (中華全國新聞工作者協會) in November 2010, which is recognized as one of top journalism accolades in China, and the Advanced Individual in the Reform of National Cultural System (全國文化體制改革工作先進個人) awarded jointly by the Publicity Department of the Central Committee of the Communist Party of China (中國共產黨中央委員會宣傳部), the Ministry of Culture of the PRC (中華人民共和國文化部), SARFT and GAPP in September 2012.

Mr. Wang obtained a bachelor's degree in journalism from Jilin University (吉林大學) in July 1990, an EMBA degree from Cheung Kong Graduate School of Business (長江商學院) in September 2013 and a Ph.D. in radio and television journalism from the Communication University of China (中國傳媒大學) in June 2012.

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

Except as disclosed above, Mr. Wang has not held directorship in any other listed company in the three years immediately preceding the date of this report.

Mr. WANG Jun (**汪駿**), aged 42, is a non-executive Director. Mr. Wang Jun joined our Group in May 2020 and is primarily responsible for providing strategic advice and making recommendations on financial management and business development to our Board.

Mr. Wang Jun joined our Group in May 2020 and has been one of our Directors since then. Mr. Wang has more than 10 years of experience in private equity investment. He was engaged by iQIYI, Inc. (Stock Code: IQ. NASDAQ) in January 2018 to provide advice on investment and financing activities. Prior to that, he served as a partner of Waterwood Group Limited (水木集團有限公司), a private equity firm, from December 2015 to October 2017. From June 2014 to August 2015, he served as a managing director of TBP Consulting (Hong Kong) Limited. From July 2008 to June 2014, he worked at J.P. Morgan Securities (Asia Pacific) Limited with his last position being the vice president.

Mr. Wang obtained a bachelor's degree in English from Tsinghua University (清華大學) in July 2000 and a master's degree in business administration from the University of Chicago in June 2008.

Except as disclosed above, Mr. Wang has not held directorship in any other listed company in the three years immediately preceding the date of this report.

DIRECTORS (CONT'D)

Independent Non-executive Directors

Mr. MA Zhongjun (馬中駿), aged 63, was appointed on December 18, 2020 as an independent non-executive Director. Mr. Ma joined our Group in December 2020 and is primarily responsible for providing independent opinion and judgement to our Board.

Mr. Ma is a first-degree state screenwriter and celebrated producer and has extensive experience in the film and television industry. Mr. Ma joined Ciwen Media Co., Ltd. (慈文傳媒股份有限公司) (Stock Code: 002343.SZ) in 2000 and has served in various portions, including the chairman of the board and general manager from September 2015 to May 2019 and the chief content officer since May 2019.

Mr. Ma's expertise in film and television industry is highly recognized nationwide, evidenced by numerous honors and awards he received, including, among others, the China Creative Industry Leader Award (中國創意產業領軍人物獎) by the sixth Annual Award of China's Creative Industry (第六屆中國創意產業年度大獎) in 2011, the Network Audio Visual Annual Content Innovation Figure Award (網絡視聽年度內容創新人物獎) by the fifth China Network Audio Visual Conference (第五屆中國網絡視聽大會) in 2017 and the "Top 10 TV Series Producers of the 12th TV Production Industry Award" (第十二屆電視製片業十佳電視劇出品人) by China Federation of Radio and Television Associations (中國廣播電影電視社會組織聯合會) in 2019. Mr. Ma is the vice chairman of Film and Television Production Committee of China Radio and Television Association (中國廣播電視協會電視製片委員會). He once studied at the advanced screenplay class jointly held by Shanghai Theatre Academy (上海戲劇學院) and Shanghai Labor Union (上海總工會).

Except as disclosed above, Mr. Ma has not held directorship in any other listed company in the three years immediately preceding the date of this report.

Mr. ZHANG Senquan (張森泉) (formerly known as ZHANG Min (張敏)), aged 44, was appointed on December 18, 2020 as an independent non-executive Director. Mr. Zhang joined our Group in December 2020 and is primarily responsible for providing independent opinion and judgement to our Board.

Mr. Zhang Senquan has over 12 years of professional experience in accounting and auditing. He worked for Ernst & Young Hua Ming (安永華明會計師事務所) from February 2008 to November 2012, last position as partner, for KPMG Huazhen (畢馬威華振會計師事務所) from November 2000 to February 2008, last position as senior manager and for Deloitte Touche Tohmatsu CPA Ltd. (德勤華永會計師事務所) from October 1999 to October 2000 as auditor.

Mr. Zhang is currently an independent non-executive director of various listed companies, including Jiande International Holdings Limited (建德國際控股有限公司) (formerly known as First Mobile Group Holdings Limited (第一電訊集團有限公司)) (Stock Code: 0865.HK), Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司) (Stock Code: 6188.HK), Natural Food International Holding Limited (五谷磨房食品國際控股有限公司) (Stock Code: 1837.HK) and Sang Hing Holdings (International) Limited (生興控股(國際)有限公司) (Stock Code: 1472.HK). Mr. Zhang is also an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd. (江蘇艾迪藥業股份有限公司) (Stock Code: 688488.SH) since May 2019.

DIRECTORS (CONT'D)

Independent Non-executive Directors (cont'd)

Mr. Zhang previously served as an independent non-executive director of Bonny International Holding Limited (博尼國際控股有限公司) (Stock Code: 1906.HK) from March 2019 to June 2020 and of Casablanca Group Limited (卡撒天嬌集團有限公司) (Stock Code: 2223.HK) from April 2015 to April 2018, and served as an independent director of Top Choice Medical Investment Co., Inc. (通策醫療投資股份有限公司) (Stock Code: 600763.SH) from December 2014 to February 2017. He served as the head of the strategic development department of Goodbaby International Holdings Limited (好孩子國際控股有限公司) (Stock Code: 1086.HK) from March 2013 to April 2014, and served as a joint company secretary and the chief financial officer of Huazhong In-Vehicle Holdings Company Limited (華眾車載控股有限公司) (Stock Code: 6830.HK) from May 2014 to July 2015. Mr. Zhang also served as managing director in Southwest Securities (HK) Brokerage Limited (西證(香港)證券經紀有限公司), a subsidiary of Southwest Securities International Securities Limited (西證國際證券股份有限公司) (Stock Code: 0812.HK) from February 2016 to March 2020. In addition, he has been acting as the chief executive officer of Zhong Rui Capital (Hong Kong) Limited (中瑞資本(香港)有限公司), a consulting company, since May 2018.

Mr. Zhang obtained a bachelor's degree in economics from Fudan University (復旦大學) in July 1999. Mr. Zhang was admitted as a member of the Chinese Institute of Certified Public Accountants in December 2001, admitted as a member of the Hong Kong Institute of Certified Public Accountants in September 2011 and further admitted as a member of the American Institute of Certified Public Accountants in September 2015.

Except as disclosed above, Mr. Zhang has not held directorship in any other listed company in the three years immediately preceding the date of this report.

Mr. CHUNG Chong Sun (**鍾創新**), aged 45, was appointed on December 18, 2020 as an independent non-executive Director. Mr. Chung joined our Group in December 2020 and is primarily responsible for providing independent opinion and judgement to our Board.

Mr. Chung has over 20 years of professional experience in financing and capital operations. He is the founder of Resourceful Minds Limited (滙路有限公司), a consulting company, and has been its director since its incorporation in September 2018, where he has been primarily responsible for the daily operations and providing strategic advice. From September 2018 to July 2019, he served as the chief financial officer of Xiaoi Robot Technology (H.K.) Limited. From December 2005 to September 2018, Mr. Chung worked at Hong Kong Exchanges and Clearing Limited with his last position being the senior vice president of its issuer services department, primarily responsible for establishing the ecosystem for the listing of mainland enterprises in Hong Kong, including, among others, mainland client relationship management and mainland marketing. From August 2003 to December 2005, Mr. Chung worked at mainland investment promotion unit in InvestHK of the government of Hong Kong with his last position being the manager of such unit, primarily responsible for introducing Hong Kong to overseas and Mainland entrepreneurs. From August 2001 to August 2003, Mr. Chung worked at Cooperative Rabobank U.A. Hong Kong Branch, a Dutch multinational bank with global operations, with his last position being the associate director of its merger and acquisition department. From May 2000 to July 2001, Mr. Chung worked as a senior executive in Deloitte & Touche Corporate Finance Limited (德勤企業財務顧問有限公司), where he was primarily responsible for execution of mergers and acquisitions projects and providing financial advice. From July 1997 to May 2000, Mr. Chung worked at Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) with his last position being the associate of its investment banking department.

DIRECTORS (CONT'D)

Independent Non-executive Directors (cont'd)

Mr. Chung is currently an independent non-executive director of Radiance Holdings (Group) Company Limited (金輝控股（集團）有限公司) (Stock Code: 9993.HK).

Mr. Chung obtained a bachelor's degree in business administration from the Chinese University of Hong Kong in May 1997. He is also a member of the American Institute of Certified Public Accountants and a CFA of CFA Institute.

Except as disclosed above, Mr. Chung has not held directorship in any other listed company in the three years immediately preceding the date of this report.

SENIOR MANAGEMENT

Mr. LIU Xiaofeng (**劉小楓**), aged 43, is our chief executive officer, the chairman of the Board and our executive Director. For details of his biography, please see "– Directors – Executive Directors."

Ms. ZHANG Qiuchen (**張秋晨**), aged 43, is our chief marketing officer and executive Director. For details of her biography, please see "– Directors – Executive Directors."

Mr. CHEN Chen (**陳晨**), aged 38, is our chief financial officer and executive Director. For details of his biography, please see "– Directors – Executive Directors."

Ms. ZHAI Fang (**翟芳**), aged 43, is our chief operating officer and executive Director. For details of her biography, please see "– Directors – Executive Directors."

JOINT COMPANY SECRETARIES

Ms. ZHAI Fang (**翟芳**), see "– Directors – Executive Directors."

Mr. WONG Keith Shing Cheung (**王承鏱**), aged 34, is a joint company secretary of our Company.

Mr. Wong Keith Shing Cheung has been a senior manager of SWCS Corporate Services Group (Hong Kong) Limited since March 2020, mainly responsible for managing the company secretarial and compliance work for companies listed on the Stock Exchange. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, Mr. Wong worked at KPMG, an international accounting firm, the investment department of Huajun Holdings Limited (now known as China Huajun Group Limited (中國華君集團有限公司), a company listed on the Stock Exchange (Stock Code: 0377.HK)) and the Listing Division of the Stock Exchange.

Mr. Wong obtained a bachelor's degree in finance, accounting and management from University of Nottingham in the United Kingdom in July 2009. He is currently a member of the Hong Kong Institute of Certified Public Accountants.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the first environmental, social and governance (ESG) report of Strawbear Entertainment Group. By disclosing the Company's sustainability concepts and practice in this report, the Company hope to enhance the stakeholders' understanding of and communication with the Company, thereby driving its continuous progress in a proactive way.

Prepared with reference to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") of the Stock Exchange, this report covers the ESG-related matters of Strawbear Entertainment Group during the year, and adopts the "comply or explain" provisions set out in the ESG Reporting Guide.

The scope of this report is consistent with that of the annual report, with a focus on disclosing the performance of Strawbear Entertainment Group with respect to ESG concepts and practice from January 1, 2020 to December 31, 2020. All the data are from the internal or statistical reports of Strawbear Entertainment Group.

RESPONSE TO THE ESG REPORTING PRINCIPLES OF THE STOCK EXCHANGE

Materiality: In line with the relevant regulatory requirements such as the ESG Reporting Guide of the Stock Exchange, the Company communicated with various stakeholders by different means, with benchmark analysis on the issues disclosed in the ESG reports of its industry peers to ultimately identify and select the material sustainability issues of Strawbear Entertainment Group.

Quantification: The Company has developed ESG indicator management tools that cover all its departments, to provide regular statistics of the quantitative key disclosure indicators for the entire "environmental" scope and part of the "social" scope under the ESG Reporting Guide, which are summarized and disclosed at the end of the year.

Consistency: Compared with the annual report of the Company, this report made no major adjustment to the scope of disclosure and used consistent statistical methods.

Balance: The Company strives to achieve objective and unbiased information disclosure. The contents of the report came from company's internal management documents, statistics and public disclosure, as well as public media reports, with no improper revisions.

COMMUNICATION WITH AND RESPONSE TO STAKEHOLDERS

Communication with and engagement of stakeholders, the groups closely related to the Company's development, constitute an important part of realizing the Company's sustainable development. Hence, the Company attaches great importance to the concerns and opinions of stakeholders. Each key functional department has established communication approaches with their corresponding stakeholders in daily operations, with regular communication and exchanges maintained with stakeholders through different channels.

Stakeholders	Expectations and requirements	Communication and response
Customers	Quality of customer service Product quality Meet diverse demands of customers Feedback channels	• Product innovation • Constant upgrade of products • Customer information and privacy protection • Exclusive customer service
Employees	Protect employees' rights and interests Career development platform Protect occupational health Work-life balance	• Consummate mechanism for career progression • Competitive remuneration and benefits • Employee training • Team building activities and budgets
Shareholders and investors	Financial results Business development Information disclosure Communication channels	• Regular disclosure of financial and operational information • General meetings • Corporate website and investor relations email
Suppliers and partners	Cooperation with integrity Information sharing Win-win cooperation Business ethnics and credibility	• Pubic tendering • Promote daily communication • Organize project cooperation • Perform agreements and supplier evaluation according to law • Special internal control and risk management
Government and regulators	Compliance with laws and regulations Tax payment according to law Business ethnics Support economic development	• Compliance management • Daily communication and reporting • Tax payment according to law
Society and the public	Support social welfare Participate in community development Protect natural environment	• Engage in charitable causes • Volunteer service • Promote resource and energy efficiency

A. ENVIRONMENTAL RESPONSIBILITY

The Company actively responds to the call for building a resource-saving and environment-friendly society, tries to reduce the environmental impact of resource consumption during operation, implement measures related to energy conservation and consumption reduction, supports the green modernization drive of the country and promotes the development of environmentally friendly operation.

A1 Emission

The Company does not involve sewage and exhaust emission in the operational process. Waste is only generated during decoration and office hours, which mainly includes daily life and office waste such as domestic waste, food waste, office waste and construction waste. The Company strictly follows the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) to effectively treat various types of waste. During the Reporting Period , the Company did not violate the above-mentioned laws and regulations. Due to the small number of employees, the amount of various types of waste is low. In 2020, the Company generated the following amounts of waste:

Table: Waste Generation in 2020

Category of pollutants	Type of pollutants	Unit	Total
Hazardous waste	Used toner cartridges	ton	0.0025
	Used batteries	ton	0.0205
	Used ink cartridges	ton	0.02
Non-hazardous waste	Office paper	ton	0.3
	Construction waste	ton	2
	Decoration waste	ton	2.02
	Domestic waste	ton	0.6
	Food waste	ton	0.3

Indicator	Unit	2020
Scope 1: Direct greenhouse gas (GHG) emissions	tCO2e	30.87
Intensity of direct GHG emissions	tCO2e/RMB10,000 revenue	0.00032
Scope 2: Indirect GHG emissions	tCO2e	77.24
Intensity of indirect GHG emissions	tCO2e/RMB10,000 revenue	0.00081
Total GHG emissions	tCO2e	108.11
Intensity of total GHG emissions	tCO2e/RMB10,000 revenue	0.0011

A2 Use of Resources

The energy consumption of the Company in its operational process mainly comprises electricity, gasoline and water. The Company has low consumption of resources and energy and does not have a significant impact on the environment and natural resources as it has small staff and only uses energy during office hours and when using cars. The Company implements the Environment Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) in depth, and practices the concept of green sustainable development in operation. During the Reporting Period , the Company did not violate the above-mentioned laws and regulations. The Company is mainly engaged in the creation, promotion and distribution of films and drama series, which do not produce large quantities of physically tangible products. Therefore, the Company does not use or consume large quantities of packaging materials.

Table: Energy Consumption in 2020

Type of energy	Unit	Total
Purchased electricity	kwh	96,000
Gasline	liter	10,145
Municipal water supply	ton	1,000
Total energy consumption	tons of standard coal	26.81
Energy use intensity	tons of standard coal/RMB10,000 revenue	2.82

A3 Environment and natural resources

The Company actively promotes the environmental practices of low-carbon office operations and adheres to green operation. In 2020, the Company actively used video conference and teleconference to carry out its work and reduced business travel, advocated all staff to save water and electricity and reduce paper waste in the office, promoted turning off lights when leaving office, strengthened the staff's awareness of green office and low-carbon life, and eliminated wasting.

B. SOCIAL

EMPLOYMENT AND LABOR PRACTICES

B1 Employment

The Company fully protects the legitimate interests of its staff in recruitment, promotion, resignation, working hours, salary and benefit, strictly abides by relevant laws and regulations such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), adheres to equal and compliant employment policy, and provides equal work opportunities for all employees. The Company has formulated internal Reporting System for Interest Conflict (《利益衝突申報制度》) to standardize the Company's business activities and practice behavior of the employees, safeguard the interests of the Company and customers, and establish a good professional image and professional ethics for the employees. Meanwhile, the Company has established remuneration management measures to standardize remuneration management, set up a fair, competitive and incentive remuneration system, protect employees' basic rights, legal holidays, and made contribution to the pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund for employees. As of December 31, 2020, the total number of employees of the Company was 81, and there was no employment discrimination, child labor and forced labor. A total of 13 employees left the Company in the whole year, including 8 male employees and 5 female employees.

Table: Employee Information of the Company in 2020

Number of employees by gender	Male employee	41
	Female employee	40
Number of employees by age	Under 30	35
	31-39	30
	Over 40	16
Percentage of employees by type	Senior management	5
	Middle management	14
	Average employees	62

B2 Health and safety

The Company has always paid attention to the health and safety of our employees and adopted various measures to avoid occupational hazards. The Company strictly abide by the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Occupational Safety and Health Regulations (《職業安全及健康條例》), and the Work Injury Insurance Regulations (《工傷保險條例》). During the Reporting Period, the Company did not violate the above-mentioned laws and regulations.

Safety of the crew

In order to maintain the safety production and creation order of the crew, and ensure the filming quality and progress, the Company has set up the management measures for the crew and formulated the Rules and Regulations for the Crew (劇組規章制度) to standardize the process of entering and leaving the crew. On the basis of "providing high-quality service, ensuring safety production, improving work efficiency and saving costs", the production department has strengthened the management of the crew's vehicles and drivers, and has set up a hotel registration and crew check-in system for the casting people to stay in the hotel to ensure the safe filming of the crew.

At the same time, for maintaining favorable working and living environment and the safety of filming area, the Company has adopted following measures to ensure the safe filming of the crew and eliminate potential safety hazard:

- Cooperating for fire control at the filming location, all employees are strictly prohibited to smoke in the non-smoking area and filming area of the crew, and the crew has the obligation to remind visitors not to smoke in the non-smoking area. Any violator will be fined;

- To ensure the fire safety of crew station, it is stipulated that all check-in staff are not allowed to cook, use open flame, store or use high-power electrical appliances in the guest room. For anyone who disobeys the dissuasion and violates the above regulations, the crew will check and confiscate the appliances and impose a fine;

- During the warehouse construction, the operators are required to check the circuits and electric tools first to ensure the safety of power supply and equipment before construction;

- During the operation and construction period, attention must be paid to the standardized operation of electric tools and personal safety, and the careful use of electric tools to avoid unnecessary personal injury;

- Keeps the operation room of warehouse clean, and the materials are forbidden to be stacked randomly to ensure safe production and reduce the damage of finished products for scenery setting;

- At the end of the construction, the persons on duty must check the doors, windows and the power supply of the warehouse to ensure safety and completely eliminate the hidden danger of fire and theft before leaving the operation room of the studio;

- Checks the fire prevention equipment regularly and takes necessary fire precaution measures strictly;

- Once a safety accident occurs, emergency rescue must be organized to minimize the accident loss and report to the leaders of the crew immediately. The leaders of the crew shall report to the leaders of the investors and relevant local authorities immediately. After the accident is handled, the crew shall submit a written report on the accident to the Company. The Company shall, according to the accident situation verified by investigation, investigate for the economic, administrative and legal responsibilities of the persons responsible.

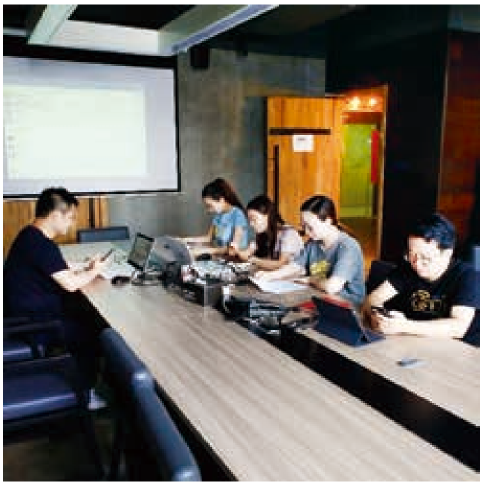
Prevention and control of epidemic

Since the outbreak of COVID-19, the Company has formulated manifold and all-round epidemic prevention and control strategies to actively resume work and ensure the health and safety of the employees. The epidemic prevention measures implemented by the Company in the office area and the crew are as follows:

- Establishes a leading group for epidemic prevention and control;
- Sets up the emergency process of epidemic prevention and control;
- Implements quarantine policy in strict accordance with national and regional epidemic prevention requirements;
- Carries out temperature measurement for employees entering the office building and daily temperature monitoring and physical condition monitoring for the crew;
- Uses 84 disinfection water and alcohol to disinfect three times a day in the morning, afternoon and evening, respectively;
- Each person is given two disposable surgical masks every day, a bottle of alcohol disinfectant to disinfect at any time before and after meals;
- The crew distributes vitamin C to each person on site to enhance the immunity of the employees;
- Keeps the filming site well ventilated and hygienic every day;
- The on-site operation staff of the crew shall be arranged in batches, and the activity distance of each department shall be more than 10 meters to ensure enough safety distance of the staff's activities.

B3 Development and training

The Company highly values career development of employees and takes personnel training as an important part of the Company's strategy to continuously improve the overall quality and professional skills of employees and enhance the core competitiveness of the enterprise. The Company has a staff training system to provide pre-post training for new employees to enable them to get familiar with the working environment as soon as possible and enter the work role. The Company also has professional training programme, organizes a series of special lectures, invites experts to teach and increases employees' understanding of relevant legal knowledge. In 2020, the Company organized training on new enterprise accounting standards and leasing standards for our employees to improve their professional knowledge.



Picture: Training Site

Case: Listing training for directors and senior management

In June 2020, the Company provided training for directors and senior management on listing such as information disclosure and publicity before listing, directors' responsibilities, interest disclosure, information disclosure, board of directors and general meeting, insider trading and notifiable transactions, connected transactions and announcements and circulars, to allow the management of the Company to have a better understanding of listing.

B4 Labor Standards

The Company strictly complies with relevant laws and regulations, including the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》), Compulsory Education Law of the People's Republic of China (《中華人民共和國義務教育法》) and Employment Ordinance (Chapter 571 of the Laws of Hong Kong) (《僱傭條例》(香港法例第57章)), forbids the employment of child labor and compulsory labor. During the Reporting Period, the Company did not engage child labor and forced labor and occurred other violations.

The Company attaches great importance to the physical and mental health of employees, caring for their lives, providing employees with good welfare and timely assistance and warmth to those in difficulties, carrying out employee caring activities after work, and creating a good working environment and atmosphere, so as to improve their happiness index in many aspects. In 2020, the Company elaborately prepared gifts and sent blessings to our employees on festivals to enhance their sense of identity, belonging and happiness.

OPERATIONAL PRACTICES

B5 Supply Chain Management

The Company attaches great importance to supply chain management and the relationship maintenance with our suppliers, and are committed to building a fair, honest and cooperative relationship for common development. The Company developed the Management Measures for Suppliers and Procurement of (《供應商與採購管理辦法》) to standardize the Company's procurement and payment business, strengthen internal management, prevent against operational risks, optimize and develop supplier resources, establish a supplier evaluation system, maintain a stable and reliable supplier team and provide reliable supplies and services for the production and construction of the enterprise.

The Company sets a List of Qualified Suppliers (《合格供應商名錄》), which aims to form a mechanism of saving the good while eliminating the bad based on the supplier resources survey, and takes it as the main basis for selecting cooperative suppliers in the procurement. Regular survey and assessment will be made for those suppliers who have already been included in the List of Qualified Suppliers. Cooperation with those suppliers who have been proved to be unqualified by investigation will be suspend. A strict authorization and approval system has been established by the Company for procurement and payment business to clarify the ways, authority, procedure, responsibility and related control measures for approver to authorize and approve procurement and payment business and ensure that incompatible positions handling procurement and payment business are separated, restricted and supervised. In 2020, the Company had 183 suppliers in total, among of which, 76 were in Eastern China, 4 in Southern China, 3 in Central China, 94 in Northern China, 5 in Northwestern China and 1 in Southwestern China.

B6 Product Responsibility

6.1 Intellectual property protection

In order to strengthen the Company's protection for intellectual property, standardize intellectual property management, inspire the employees' enthusiasm for invention and creation and promote the spread and application of scientific and technological achievements, the Company strictly abides by the provisions of the national laws and regulations such as the Patent Law of the People's Republic of China (《中華人民共和國專利法》) and the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) and strengthens its intellectual property management. Meanwhile, the Intellectual Property Management Measures (《知識產權管理辦法》), which mainly stipulates the patent rights, the intellectual property (including technical secrets, trademark rights, copyrights, commercial secrets and patents, trademarks, works, computer software introduced by the Company, etc.) and the rights conferred by the Anti-unfair Competition Law (《反不正當競爭法》) (including trade names, domain names, the exclusive right to network addresses, etc.), has been established within the Company. It has also established the Assessment System for Intellectual Property (知識產權評估制度), the Novelty Search and Retrieval System for Intellectual Property (知識產權查新及檢索制度), the Filing System for Intellectual Property (知識產權工作備案制度), the Determination System for Achievements Allocation (成果歸屬判定制度), the Centralized Management System for Intellectual Property Archives (知識產權檔案集中管理制度), the Confidentiality System for Intellectual Property (知識產權保密制度), the Commitment System for Intellectual Property Protection (知識產權保護承諾制度), the Contract System for Intellectual Property (知識產權合同制度), the Protection System for Intellectual Property (知識產權保護制度) and the Publicity System for Intellectual Property (知識產權宣傳制度), to provide institutional guarantee for the Company's intellectual property management. As of December 31, 2020, in addition to our drama series that had been broadcast and to be broadcast, the Company had reserved an aggregate of 34 IPs, including 7 original screenplays based on our own initial ideas and 27 adapted screenplays based on licensed IPs.

6.2 Responsible promotion

In the process of producing, publishing and promoting the television play, the Company strictly abides by the laws and regulations such as the Administrative Regulations on Radio and Television (《廣播電視管理條例》), the Administrative Provisions on the Production and Distribution of Radio and Television Programmes (《廣播電視節目製作經營管理規定》), the Administrative Regulations on Content of Television Series (《電視劇內容管理規定》), the Administrative Measures for the Filing and Disclosure of the Production of Television Drama (《電視劇拍攝製作備案公示管理辦法》), the Notice for Further Strengthening the Administration on Radio or Television Programmes and Online Audio-visual Entertainment Programmes (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》), the Circular on Further Strengthening the Administration of Online Audio-visual Programmes Including Web Series and Micro Films (《關於進一步加強網絡劇、微電影等網絡視聽節目管理的通知》), the Notice about Upgrading the Information Recording Filing System of the Internet Audio-visual Programme (《關於網絡視聽節目信息備案系統升級的通知》) and the Supplemental Notice of Circular on Further Strengthening the Administration of Online Audio-visual Programmes Including Web Series and Micro Films (《關於進一步完善網絡劇、微電影等網絡視聽節目管理的補充通知》) to conduct compliant promotion. In 2020, the Company mainly carried out the promotional work of several TV series and reserved projects such as The Love Lasts Two Minds (兩世歡), Inside Man (局中人) and Dear Missy (了不起的女孩).

6.3 Customer privacy protection

The Company takes the protection of customer information and data security as a key task and implements the Network Security Law (《網絡安全法》) and the Personal Information Security Specifications (《個人信息安全規範》) to safeguard the privacy issues increasingly concerned by regulators and the public. In 2020, the Company improved the management of information system and took the following measures to better protect customer information:

Data backup and management

- A data backup and disaster recovery management system was formulated to standardize the establishment of the Company's important data backup list, the backup responsibility, backup inspection and the recovery after system damage, and to reasonably prevent risks in the use of computers and information system;

- All kinds of backup data shall be checked regularly at least once a year with the inspection records, and the expired data shall be updated or destroyed in time;

- It was stipulated that timely contact shall be made with the user department to jointly study remedial measures and methods for damaged backup data;

- The backup data with expired storage period was stipulated to be destroyed in time after being approved by the responsible operator;

- The hardware and software disaster recovery plan was developed;

- Regular evaluation shall be made at least once a year on the risks associated with the Company's information system and the implementation of the risk management measures taken;

- The Qunhui network disk (群暉網盤) was used by the Company for resource sharing and data storage to ensure its data security.

Management for information system operation and maintenance

- Established the management system for information system operation and maintenance to standardize the Company's management and maintenance of information system and ensure the stable and safe operation of hardware and software in the system;

- Set strict requirements and standards for the management of computer room, hardware, UFIDA system application (用友系統應用管理), changes in information system, application control of information system, etc.

Account authority management

- Developed the account authority management system to ensure that only authorized users have the access to the system and service, standardized the management of business systems and infrastructure accounts and prevented unauthorized access;

- Principles covering establishment, change of authority, disabling of users and destroy of account were set and strictly implemented.

Computer room management

- Established the computer room management system to ensure the safe, stable and efficient operation of the Company's information system, regulate the computer room management and prevent the occurrence of all kinds of accidents and disasters;

- Implemented strict management for the environment, safety, cabinets and staff of the computer room, set various operative procedures, ensured the strict compliance of the computer room staff and maintained the safe operation of production system to safeguard the customers' data.

During the Reporting Period , the Company did not violate the above-mentioned laws and regulations.

B7 Anti-corruption

The Company resolutely eliminates the occurrence of corruption, fraud and other immoral behavior, advocates the corporate culture of honesty and integrity, provides professional ethics training for employees, establishes a complaint and report mechanism, and opens a special complaint and report channel for the illegal behaviors of the Company's employees.

According to the Anti-unfair Competition Law of the People's Republic of China (《中華人民共和國反不當競爭法》), the Interim Provisions on Prohibition of Commercial Bribery (《關於禁止商業賄賂的暫行規定》), the Company Law of the People's Republic of China (《中華人民共和國公司法》) and other laws and regulations, the Company has prepared the Staff Manual (《員工手冊》) and established the Management System for Anti-fraud, Anti-money laundering and Anti-bribery (《反舞弊、反洗錢、反賄賂管理制度》), Reporting System for Interest Conflict (《利益衝突申報制度》), etc. to standardize the behavior of the employees, strengthen the training of relevant laws and regulations and professional ethics of employees, urging them to perform professional ethics and avoiding fraud and corruption. New employees need to know the contents of Staff Manual and provide receipts with their signature. During the project cooperation, the Company resolutely implemented the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), Bidding Law of the People's Republic of China (《中華人民共和國招投標法》) and other relevant laws, regulations and policies, strengthened the construction of clean governance, and signed the Clean Governance Contract (《廉政合同》) with the partners to ensure that both parties act impartially under the law. During the Reporting Period , the Company did not violate the above-mentioned laws and regulations.

B8 Community investment

The company actively participate in social welfare activities, give play to our advantages and give back to the society. In 2020, the Company actively fights the epidemic and conveys love to the society.

The Company is committed to producing high-quality TV series and delivering positive energy to the society. In 2020, the Company invested, produced and released the poverty alleviation themed TV series, Unbending Will (石頭開花), which focused on 10 major difficulties in poverty alleviation in 10 poverty stricken areas with various regional characteristics, poverty degrees and difficulties in poverty alleviation. It told a touching story of the grassroots poverty alleviation cadres and other social poverty alleviation forces working together to help local people overcome the poverty. Under the background of COVID-19 spreading across the country in 2020, the Company produced the TV series, Breath of Destiny (一起深呼吸), vigorously promoting the moving stories of Chinese medical staff saving lives regardless of difficulties and dangers, and stimulating the confidence and enthusiasm of the people in epidemic prevention and fighting. In addition, the Company produced the modern revolution themed TV series, Inside Man (局中人), telling a story of two brothers who were originally divided into different camps, and finally joined the cause of proletarian democratic revolution because of the same ideals and belief, promoting the positive energy of socialism.

Following the principles of mutual respect, honest cooperation and common development, the Company actively participated in industry communication and cooperation, and jointly promoted the high-quality development of the culture and tourism industry under the new situation. In 2020, the Company participated in the Forum on Financial Support for High-quality Development of Digital Culture Industry (金融助力數字文化產業高質量發展座談會) to share the development of the Company and industry, and communicated with financial enterprises for the promotion of cooperation. The Company attended the Monthly Breakfast of Entrepreneur Service Day (月度企業家服務日早餐會) to expand the influence of culture and tourism brands, and continued to promote the prosperity and development of culture and tourism industry. The Company participated in the Theme Works Creation Promotion Meeting to celebrate the 100th Anniversary of the Founding of the Communist Party of China (慶祝中國共產黨成立100周年主題作品創作推進會) held by Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局) to promote the common development of the industry.

Picture: The Company's Participation in Onsite Communication at the Monthly Breakfast of Entrepreneur Service Day

Case: Participation in the Yangtze River Delta High-tech Visual & Audio Expo 2020

From October 16 to 18, 2020, the Company participated in the Yangtze River Delta High-tech Visual & Audio Expo (長三角高新視聽博覽會). With the theme of "Integration of New Energy, New Smart Visual and Audio", the Expo set up the exhibitions such as "New Feast of Visual and Audio", "New Visual and Audio Formats" and "New Visual and Audio Life", and held more than 20 forums and promotion activities involving media industry, online video, production of films and drama series, animation industry, etc. The heads from Shanghai Municipal Administration of Radio and Television (上海廣電局), Jiangsu Provincial Radio and Television Administration (江蘇廣電局), Zhejiang Provincial Radio and Television Administration (浙江廣電局) and Anhui Provincial Radio and Television Administration (安徽廣電局) signed the Strategic Cooperation Framework Agreement on High-quality Development of Integration of Radio, Television and Online Visual and Audio in Yangtze River Delta on the opening ceremony.

Picture: "New Smart Visual and Audio" activity of Yangtze River Delta High-tech Visual & Audio Expo

Case: Participation in the Grand Canal Culture and Tourism Industry Cooperation Forum

On September 4, 2020, in the roadshow of Grand Canal Culture and Tourism Industry Cooperation Forum (大運河文化旅游產業合作論壇) of the 2nd Grand Canal Culture and Tourism Expo (第二屆大運河文化旅游博覽會), Yu Xiaolai (于小涞), the project manager of Jiangsu Strawbear, introduced the new drama series project Two Capitals (兩京十五日), which was not only a panoramic view of Nanjing City in Ming Dynasty, but also demonstrated the Grand Canal as one of the most important historical and cultural heritages in Jiangsu Province. It was a high-quality project reflecting the history and culture of Jiangsu Province.

Picture: On the Grand Canal Culture and Tourism Industry Cooperation Forum

DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

GLOBAL OFFERING

On January 3, 2018, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. The Company's Shares were listed on the Main Board of the Stock Exchange on January 15, 2021.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the PRC in (i) licensing of broadcasting rights of our self-produced drama series to TV channels, online video platforms and third party distributors; (ii) licensing of broadcasting rights of outright-purchased drama series from online video platforms and drama series producers to TV channels, third party distributors and online video platforms; and (iii) production of made-to-order drama series per online video platforms' orders.

The Company is an investment holding company and the principal businesses of its principal subsidiaries are set out in Note 1 to the financial statements.

A list of the Company's principal subsidiaries as of December 31, 2020, together with, among others, their dates and places of incorporation and particulars of their issued share capital, are set out in Note 1 to the financial statements in this annual report.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the Group's business, an analysis of the Group's financial performance, events affecting the Group that have occurred subsequent to the end of the financial year, and an indication of likely future development in the Group's business, are set out in the section headed "Management Discussion and Analysis" of this report. A description of the principal risks and uncertainties faced by the Group, key relationship between the Group and its employees, customers and suppliers, the environmental policies of the Group and compliance with the relevant laws and regulations which have significant impact are set out below.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's results of operations are subject to various factors with the key risks summarized below:

- The Group's success depends, in a significant part, on the general prosperity and development of China's overall entertainment industry, and factors affecting the entertainment industry, especially the development of the drama series market, could have a material and adverse effect on the Group's business, financial condition and results of operations;

- iQIYI was the single largest customer of the Group in 2018, 2019 and 2020. If the Group fails to maintain business relationship with iQIYI or if iQIYI loses its leading market position or popularity, the business, financial condition and results of operations of the Group could be materially and adversely affected;

- The Group's income is generally project-based and non-recurring in nature and a failure to obtain new contracts could materially affect the financial performance of the Group;

- The Group's financial performance for a particular period highly depends on a limited number of drama series projects during the same period, which may result in wide fluctuations of financial performance;

- The Group's success is primarily dependent on, among others, the popularity and audience acceptance of the drama series produced and/or distributed by the Group, which is random and difficult to predict, and the Group may not be able to respond effectively to changes in market trends;

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

- The Group relies on major TV channels and top online video platforms for the distribution and broadcast of its drama series, with which the Group has limited bargaining power, and the loss of any one of them would materially and adversely affect the business, financial conditions, results of operations and prospects of the Group; and

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

Since the above is not an exhaustive list, investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

For more details of other risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" of the Prospectus.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a socially responsible corporation, the Group has endeavored to strictly comply with laws and regulations regarding environmental protection. During the period from the Listing Date to the date of this report, the businesses of the Group were in compliance with all the relevant laws and regulations with regard to environmental protection in all material aspects.

The Company recognizes the importance of environmental protection. The Company is committed to providing an eco-friendly energy environment for our staff and has developed energy conservation and carbon reduction policy so as to minimize negative environmental impacts.

For more details, please refer to the section headed "Environmental, Social and Governance Report" of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

RESULTS AND FINAL DIVIDENDS

The results of the Group for the year ended December 31, 2020 are set out in the financial statements of this report.

The Board has resolved not to recommend payment of a final dividend for the year ended December 31, 2020.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group is committed to operating in a sustainable manner while balancing the interests of its various stakeholders including the substantial shareholders, employees, customers, and suppliers.

Shareholders

The Group recognizes the importance of protecting the interests of the Shareholders and of having effective communication with them. The Group believes communication with the Shareholders is a two-way process and have thrived to ensure the quality and effectiveness of information disclosure, maintain regular dialogue with the Shareholders and listen carefully to the views and feedback from the Shareholders. This has been and will be done through general meetings, corporate communications, interim and annual reports and results announcements.

Staff

The Group understands that employees are its valuable assets, and the realization and enhancement of employees' values will facilitate the achievement of the Group's overall goals. The Group has been endeavoring to provide its staff with competitive compensation packages, attractive promotion opportunities and a respectful and professional working environment. The Group contributes to social security insurance and housing provident funds for the employees in all material aspects in accordance with applicable PRC laws, rules and regulations. The Group also provides the employees with holiday gifts and annual health checkups. The Group will continue to attract and retain more talent and the new talent will be offered advancement through performance-based compensation packages, on-the-job training programs and promotion opportunities.

Customers

The key customers of the Group include TV channels, online video platforms and third party distributors. The Group is committed to providing good quality service to its customers and enhance the loyalty of the customers by increasing the interaction with customers through communication and field visits from time to time in order to understand the customer demands, which provide good development to the Group's overall performance in the long run.

Suppliers

The Group believes that its suppliers are equally important in providing high-quality drama series. The Group has maintained solid and good relationships with its suppliers which ensures quality supply so as to provide high quality TV series and web series to customers.

For the year ended December 31, 2020, there was no significant and material dispute between the Group and its stakeholders.

FINANCIAL SUMMARY

A summary of the Group's financial results, assets and liabilities for the last four financial years are set out on page 193 of this report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2020, the Group's sales to its five largest customers accounted for 84.1% of the Group's total revenue, and the Group's sales to its single largest customer accounted for 58.1% of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2020, the Group's purchases from its five largest suppliers accounted for 63.8% of the Group's total purchases, and the Group's purchases from its single largest supplier accounted for 19.9% of the Group's total purchases.

Except iQIYI, as of the date of this report, all of the Group's five largest customers and suppliers during the Reporting Period were Independent Third Parties. Except iQIYI, none of the Directors, their respective associates or any Shareholder who owned more than 5% of the Company's issued share capital had any interest in any of the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group in 2020 are set out in Note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2020 are set out in Note 29 to the financial statements.

RESERVES

Details of movements in the reserves of the Group in 2020 are set out in the consolidated statement of changes in equity on page 102 of this report.

DISTRIBUTABLE RESERVES

Our distributable reserves comprise undistributed profits. As of December 31, 2020, the Company did not have any retained profits under HKFRS as reserves available for distribution to our equity shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax concession and exemption granted to Shareholders by virtue of their holding of securities in the Company.

BANK AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as of December 31, 2020 are set out in Note 26 to the financial statements.

LOAN AND GUARANTEE

During the year ended December 31, 2020, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to Directors, senior management of the Company, the Controlling Shareholders or any of their respective connected persons.

DIRECTORS

The Directors during the year ended December 31, 2020 and up to the date of this report are:

Executive Directors

Mr. LIU Xiaofeng *(Chairman)*
Ms. ZHANG Qiuchen
Mr. CHEN Chen
Ms. ZHAI Fang

Non-Executive Directors

Mr. WANG Xiaohui
Mr. WANG Jun

Independent Non-executive Directors

Mr. MA Zhongjun
Mr. ZHANG Senquan
Mr. CHUNG Chong Sun

In accordance with article 113 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting.

Details of the Directors to be re-elected at the AGM will be set out in the circular to the Shareholders to be despatched in due course.

BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" of this report.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the Directors has entered into a service contract or an appointment letter with the Company, under which they agreed to act as Directors for an initial term of three years commenced from the Listing Date or until the third annual general meeting of the Company after the Listing Date (whichever ends earlier), which may be terminated by not less than one month's notice in writing served by either the Director or the Company.

The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Associations and the applicable Listing Rules.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

REMUNERATION POLICY

As of December 31, 2020, the Group had 81 employees. Total staff remuneration expenses including Directors' remuneration in 2020 amounted to RMB16.7 million. Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. On top of salary payments, other employee benefits primarily include social insurance and housing provident contributions made by the Group, performance-based compensation and discretionary bonus.

The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

For details of the Directors and the five highest paid individuals during the Reporting Period, please refer to Notes 8 and 9 to the financial statements. For details of the remuneration of the senior management of the Group during the Reporting Period, please refer to page 86 of this annual report.

RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the Company's retirement and employee benefits are set out in Note 2.3 to the financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent from the Listing Date to the date of this report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As of the date of this report, 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) and Dongyang Liubai Film Culture Co., Ltd. (東陽留白影視文化有限公司). Mr. Wang Xiaohui 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 the above, as of December 31, 2020, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, none of the Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party from the Listing Date to the date of this report.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of the date of this report, the interest or short position of the Directors or chief executives 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	Nature of interest	Number of Shares(1)	Approximate percentage of shareholding(1)
Mr. Liu	Founder of a discretionary trust(2)	290,480,000	42.22%
	Interest held through voting powers entrusted by other persons(3)	109,520,000	15.92%
Ms. Zhai	Founder of a discretionary trust(4)	32,000,000	4.65%

Notes:

(1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the date of this report (without taking into account the Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options).

(2) Leading Glory is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu. Accordingly, each of Master Sagittarius, Master Genius and Mr. Liu is deemed to be interested in all the Shares held by Leading Glory.

(3) Pursuant to the Voting Arrangement Agreements, Mr. Liu, Master Sagittarius and Leading Glory are able to exercise voting rights entrusted from the other signing parties and are therefore deemed to be interested in the shareholding interest in our Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganization and Corporate Development – Voting Arrangement and Lock-up Arrangements" in the Prospectus.

(4) Golden Basin is owned as to (i) 99% by Smart Century, the holding vehicle used by Family Trust Singapore, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai as the settlor and protector and Ms. Zhai's wholly-owned holding company Gold Fish as the beneficiary; and (ii) 1% by Gold Fish which is wholly owned by Ms. Zhai. Accordingly, each of Gold Fish, Smart Century and Ms. Zhai is deemed to be interested in all the Shares held by Golden Basin.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONT'D)

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[1]
Mr. Liu	Interest in a controlled corporation[2]	37,648,000	5.47%

Notes:

(1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as of the date of this report (without taking into account the Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options).

(2) Gorgeous Horizon, being the beneficial owner of the Pre-IPO Share Options, is wholly owned by Success Tale which is wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary.

Interests in the associated corporation

Name of Director	Nature of interest	Name of associated corporation[1]	Approximate percentage of shareholding
Mr. Liu	Beneficial owner	Jiangsu Strawbear	77.9%
	Interest held through voting powers entrusted by other persons[2]	Jiangsu Strawbear	22.1%
Ms. Zhang	Beneficial owner	Jiangsu Strawbear	1.0%
Ms. Zhai	Beneficial owner	Jiangsu Strawbear	0.1%

Notes:

(1) Jiangsu Strawbear is deemed as a subsidiary of our Company under the Contractual Arrangements, and therefore is an associated corporation of our Company by virtue of the SFO.

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

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONT'D)

Interests in the associated corporation (cont'd)

Save as disclosed above, as of December 31, 2020, so far as it was known to the Directors or chief executives of the Company, none of the Directors or the chief executives 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.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As of the date of this report, none of the Company or any of its subsidiaries is a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

CHANGES TO DIRECTORS' INFORMATION

Since the Listing Date, there was no change to information which is required to be disclosed and has been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules for the Reporting Period.

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

As of the date of this report, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors and chief executives 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	Approximate percentage of shareholding
Master Sagittarius	Beneficiary of trust(1)	290,480,000	42.22%
Master Genius	Interest in a controlled corporation(1)	290,480,000	42.22%
Leading Glory	Beneficial interest(1)(2)	290,480,000	42.22%
Gorgeous Horizon	Beneficial interest(1)	37,648,000	5.47%
Success Tale	Interest in a controlled corporation(1)	37,648,000	5.47%
Employee Trust Hong Kong	Trustee(1)	37,648,000	5.47%
Ms. Liu	Founder of a discretionary trust(3)	73,600,000	10.70%
Gold Pisces	Beneficiary of trust(3)	73,600,000	10.70%
Beyond Vast	Interest in a controlled corporation(3)	73,600,000	10.70%
Glesason Global	Beneficial interest(3)	73,600,000	10.70%
Taurus Holding	Beneficial interest(4)	97,320,000	14.15%
iQIYI, Inc.	Interest in a controlled corporation(4)	97,320,000	14.15%
Baidu Holdings Limited	Interest in a controlled corporation(4)	97,320,000	14.15%
Baidu, Inc.	Interest in a controlled corporation(4)	97,320,000	14.15%
Li Yanhong	Interest in a controlled corporation(4)	97,320,000	14.15%
Family Trust Singapore	Trustee(1)	290,480,000	42.22%
	Trustee(3)	73,600,000	10.70%
	Trustee(5)	32,000,000	4.65%
Ma Sean	Interest in a controlled corporation(6)	103,652,000	15.07%
Snow Lake Capital (HK) Limited	Investment manager(6)	103,652,000	15.07%
Snow Lake China Master Fund, Ltd.	Beneficial interest(6)	71,000,000	10.32%
Snow Lake China Offshore Fund, Ltd.	Interest in a controlled corporation(6)	71,000,000	10.32%

Notes:

(1) Leading Glory is owned as to (i) 99% by Master Genius, the holding vehicle used by Family Trust Singapore, the trustee of the LXF Family Trust which is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary; and (ii) 1% by Master Sagittarius which is wholly owned by Mr. Liu. Accordingly, each of Master Sagittarius, Master Genius and Mr. Liu is deemed to be interested in all the Shares held by Leading Glory.

Gorgeous Horizon, being the beneficial owner of the Pre-IPO Share Options, is wholly owned by Success Tale which is wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a discretionary trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary.

(2) Pursuant to the Voting Arrangement Agreements, Leading Glory are able to exercise voting rights entrusted from the other signing parties and are therefore deemed to be interested in the shareholding interest in our Company held by the other signing parties by virtue of the SFO. For further details, see "History, Reorganization and Corporate Development — Voting Arrangement and Lock-up Arrangements" in the Prospectus.

(3) Glesason Global is owned as to (i) 99% by Beyond Vast, the holding vehicle used by Family Trust Singapore, the trustee of the LSS Family Trust which is a discretionary trust established by Ms. Liu as the settlor and protector and Ms. Liu's wholly-owned holding company Gold Pisces as the beneficiary; and (ii) 1% by Gold Pisces which is wholly owned by Ms. Liu. Accordingly, each of Gold Pisces, Beyond Vast and Ms. Liu is deemed to be interested in all the Shares held by Glesason Global.

INTERESTS AND SHORT POSITIONS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO (CONT'D)

Notes: (cont'd)

(4) Taurus Holding is wholly owned by iQIYI, Inc. , which is owned as to 91.70% by Baidu Holdings Limited, a wholly-owned subsidiary of Baidu, Inc. Baidu, Inc. is owned as to 56.40% by Li Yanhong. Therefore, each of iQIYI, Inc., Baidu Holdings Limited, Baidu, Inc. and Li Yanhong is deemed to be interested in the Shares directly held by Taurus Holding by virtue of the SFO.

(5) Golden Basin is owned as to (i) 99% by Smart Century, the holding vehicle used by Family Trust Singapore, the trustee of the Gold Fish Trust which is a discretionary trust established by Ms. Zhai as the settlor and protector and Ms. Zhai's wholly-owned holding company Gold Fish as the beneficiary; and (ii) 1% by Gold Fish which is wholly owned by Ms. Zhai. Accordingly, each of Smart Century, Gold Fish and Ms. Zhai is deemed to be interested in all the Shares held by Golden Basin.

(6) Snow Lake Capital (HK) Limited is wholly owned by Ma Sean. Therefore, Ma Sean is deemed to be interested in the Share held by Snow Lake Capital (HK) Limited by virtue of the SFO.

Snow Lake China Master Fund, Ltd. is owned as to 90.43% by Snow Lake China Offshore Fund, Ltd. Therefore, Snow Lake China Offshore Fund, Ltd. is deemed to be interested in the Share held by Snow Lake China Master Fund, Ltd. by virtue of the SFO.

57,343,000 of 103,652,000 Shares are underlying Shares held through derivative interests. 46,309,000 Shares are currently held by Snow Lake Capital (HK) Limited, representing approximately 6.73% of the Shares in issue as of the date of this report.

Save as disclosed above, as of December 31, 2020, the Directors were not aware of any persons (who were not directors or chief executives 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.

PRE-IPO SHARE OPTION SCHEME

The Company approved and adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") on May 11, 2020 to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The Board may determine any Directors and employees of any member of the Group (including nominees and/or trustees of any employee benefit trusts established for them), which the Board considers, in its sole discretion, have contributed to the Group, to take up options to subscribe for Shares. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme and the maximum entitlement of each participant under the Pre-IPO Share Option Scheme at any time shall not exceed 37,648,000 Shares, representing 5.68% of the Shares in issue as at the Listing Date and 5.47% of the total issued share capital of the Company as of the date of this report.

The Pre-IPO Share Option Scheme shall be valid and effective for a period commencing on May 11, 2020 and ending on December 21, 2020, being the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information contained in the Prospectus, after which no further options shall be offered or granted, but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. An option may be accepted by a participant within 10 business days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Pre-IPO Share Option Scheme. A nominal consideration of RMB1.00 is payable by a grantee upon acceptance of the grant of the options.

PRE-IPO SHARE OPTION SCHEME (CONT'D)

The subscription price in relation to each Share issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme shall be determined by the Board at its discretion and set out in the relevant offer, provided that it shall not be less than the nominal value of a Share as at the date of grant.

On May 11, 2020, an aggregate of 37,648,000 Pre-IPO Share Options, representing 5.68% of the Shares in issue as at the Listing Date and 5.47% of the total issued share capital of the Company as of the date of this report, had been conditionally granted to Mr. Liu, our founder, an executive Director and the chief executive officer of our Company, to recognize his significant contribution to our Group. As of the date of this report, all of the Pre-IPO Share Options were not exercised, cancelled, forfeited or lapsed, and remained outstanding.

For more details of the Pre-IPO Share Option Scheme, please refer to "D. Other Information – (1) Pre-IPO Share Option Scheme" of Appendix IV of the Prospectus of the Company and Note 32 to the financial statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the Prospectus and this report, there was no equity-linked agreement entered into by the Company or any of its subsidiaries or subsisted during the Reporting Period.

CONNECTED TRANSACTIONS

Pursuant to the requirements of the Listing Rules, the transactions between the Company and its connected persons constitute connected transactions of the Company. The Company regulates and manages such transactions in compliance with the Listing Rules. The followings are the non-exempt connected transactions conducted by the Group during the Reporting Period.

Contractual Arrangements

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

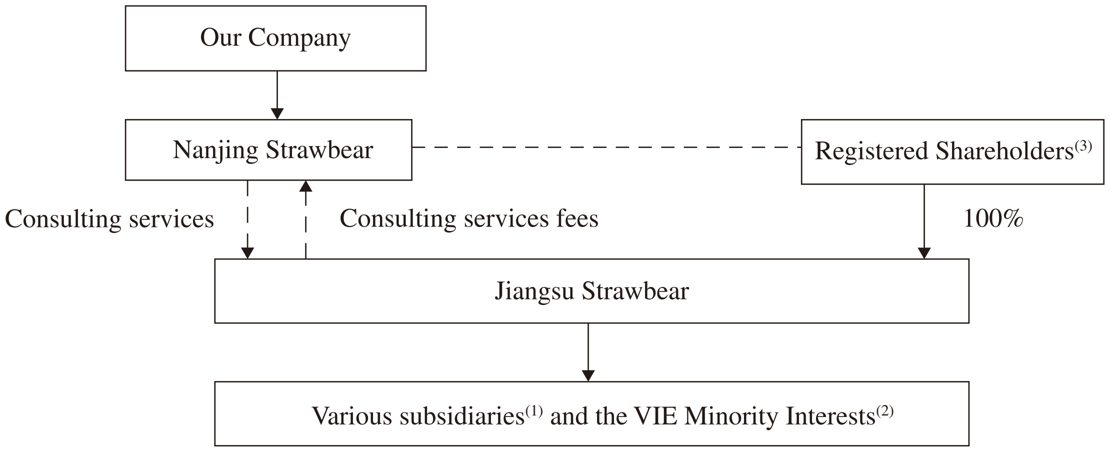
In order for the Group to conduct the Relevant Businesses in compliance with the applicable PRC laws and regulations, as part of the Reorganization, we entered into the Contractual Arrangements with Jiangsu Strawbear and the Registered Shareholders (as defined below) on November 20, 2018, which were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

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

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

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



Notes:

→ denotes direct legal and beneficial ownership in the equity interest.

- -► denotes contractual relationship.

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

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

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

(3) As of the date of this report, Jiangsu Strawbear was held as to 100% by the following persons (collectively, the "**Registered Shareholders**"):

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

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Summary of the Material Terms of the Contractual Arrangements

A brief description of the specific agreements that comprise the Contractual Arrangements is set out below. For details of the specific agreements, please refer to the section headed "Contractual Arrangements" of the Prospectus.

(1) Exclusive Business Cooperation Agreement

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

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

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

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

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Summary of the Material Terms of the Contractual Arrangements (cont'd)

(2) Exclusive Option Agreement

Nanjing Strawbear, Jiangsu Strawbear and the Registered Shareholders entered into an exclusive option agreement on November 20, 2018 which was amended and restated on February 20, 2019 (the "**Exclusive Option Agreement**"), pursuant to which Nanjing Strawbear (or its designees) was granted an irrevocable, unconditional and exclusive right (the "**Exclusive Option Rights**") to purchase from the Registered Shareholders all or any part of their equity interests in Jiangsu Strawbear for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Registered Shareholders shall return any amount of the purchase price they have received to Nanjing Strawbear or its designees. Upon receiving the notice issued by Nanjing Strawbear (or its designees) to exercise their Exclusive Option Rights (the "**Notice**"), the Registered Shareholders and Jiangsu Strawbear will take all necessary actions to engage in and complete the approval, filing, or registration procedures with regulatory authorities without any delay, so that the relevant equity interest in Jiangsu Strawbear as set out in the Notice, without any security interest attached to them, can be effectively registered under the name of Jiangsu Strawbear (or its designees).

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

(3) Equity Pledge Agreement

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

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

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Summary of the Material Terms of the Contractual Arrangements (cont'd)

(4) Voting Rights Proxy Agreement and Powers of Attorney

Nanjing Strawbear, Jiangsu Strawbear and the Registered Shareholders entered into a voting rights proxy agreement on November 20, 2018 which was amended and restated on February 20, 2019 (the "**Voting Rights Proxy Agreement**") with an annexure of the powers of attorney (the "**Powers of Attorney**") executed by the Registered Shareholders, pursuant to which the Registered Shareholders unconditionally and irrevocably appoint Nanjing Strawbear and its designees as their attorney-in-fact, to exercise all the rights that they have as the shareholders of Jiangsu Strawbear as set out in the then-valid articles of association of Jiangsu Strawbear.

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

(5) Spouse Undertakings

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

Business Activities of Consolidated Affiliated Entities

Consolidated Affiliated Entities of the Group includes Jiangsu Strawbear and its subsidiaries and VIE Minority Interests. The principal business of the Consolidated Affiliated Entities is TV/web series and web films production and distribution.

The Importance and Financial Contribution of the Consolidated Affiliated Entities to the Group

Under the Contractual Arrangements, the Group has obtained control of the Consolidated Affiliated Entities and is entitled to receive all of the economic interest returns generated by the consolidated affiliated entities. The following table sets forth the financial contributions of the Consolidated Affiliated Entities to the Group during the Reporting Period:

	For the year ended December 31, 2020		As of December 31, 2020	
	Revenue	% of total revenue	Total assets	% of the total assets
	(RMB in thousands, except percentages)			
Consolidated Affiliated Entities	701,720	73.7%	1,560,146	83.9%

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Governing Framework

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

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

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

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Risks in relation to the Arrangements and Actions Taken to Reduce Risks

There are the certain risks that are associated with the Contractual Arrangements, including:

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

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

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

(iv) The shareholders of Jiangsu Strawbear may have conflicts of interest with us, which may materially and adversely affect our business;

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

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

For details, please refer to the section headed "Risk Factors – Risks Relating to the Contractual Arrangements" of the Prospectus.

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

(i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory inquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and

(iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Nanjing Strawbear and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Risks in relation to the Arrangements and Actions Taken to Reduce Risks (cont'd)

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

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

(ii) each of our Directors is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of our Group;

(iii) we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and

(iv) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Mr. Liu, Ms. Liu, Ms. Zhang and Ms. Zhai, all of which are the members of the Registered Shareholders, are connected persons of our Company.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the legal structure and business of our Group, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements related thereto or renewal of existing transactions, contracts and agreements to be entered into by, among others, our Consolidated Affiliated Entities and any member of our Group (the "**New Intergroup Agreements**") technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules after the Listing, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholders' approval requirements.

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Annual Review by the Independent Non-executive Directors and the Auditors

The independent non-executive Directors, upon review of the overall performance of and compliance with the Contractual Arrangements, confirmed that:

(i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements,

(ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and

(iii) any new contracts entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

The auditor of the Company has carried out procedures on the transactions carried out pursuant to the Contractual Arrangements from the Listing Date to the date of this report in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and a letter has been provided to the Board and a copy has been sent to the Hong Kong Stock Exchange and has provided a letter to the Board with a copy to the Stock Exchange confirming that:

(i) the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements; and

(ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," our Consolidated Affiliated Entities will be treated as our wholly-owned subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, our Consolidated Affiliated Entities will provide the Group's management and the Company's reporting accountants' full access to its relevant records for the purpose of their review of the continuing connected transactions.

CONNECTED TRANSACTIONS (CONT'D)

Contractual Arrangements (cont'd)

Material Changes

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between the Group and the Consolidated Affiliated Entities during the Reporting Period. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the Reporting Period.

During the Reporting Period, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2020, the Company had not encountered interference or encumbrance from any PRC governing bodies in operating its businesses through its Consolidated Affiliated Entities under the Contractual Arrangements.

Partially-exempt Continuing Connected Transactions

Summary of the Material Terms of the Continuing Connected Transaction Agreements

Screenplays Development Framework Agreement

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a screenplays development framework agreement (the "**Screenplays Development Framework Agreement**"), pursuant to which our Group shall adapt creative works including novels into screenplay and license the adaptation right and filming right related thereto to iQIYI in exchange for the screenplay development fee. The initial term of the Screenplays Development Framework Agreement commenced on the Listing Date and will expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

Visual Effects Post-Production Service Purchasing Framework Agreement

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and Aite Visual Innovation Digital Technology Wuxi Co., Ltd. (艾特視創數字科技無錫有限公司) ("**Aite Visual Innovation**") entered into a visual effects post-production service purchasing framework agreement (the "**Visual Effects Post-Production Service Purchasing Framework Agreement**"), pursuant to which Aite Visual Innovation shall provide visual effects post-production services for our self-produced drama series, and we shall pay visual effects production fees to Aite Visual Innovation. The initial term of the Visual Effects Post-Production Service Purchasing Framework Agreement commenced on the Listing Date and will expire on May 15, 2021, after which Aite Visual Innovation will cease to be a connected person of our Company, and therefore any transaction to be entered into between Aite Visual Innovation and our Group will cease to be a continuing connected transaction of our Company.

CONNECTED TRANSACTIONS (CONT'D)

Partially-exempt Continuing Connected Transactions (cont'd)

Reasons for the Transactions and Pricing Policies

Screenplays Development Framework Agreement

Given our strong content production and distribution capabilities, we are able to attract well-known drama series screenwriters to develop screenplays for us. iQIYI is an innovative market-leading online entertainment service provider in China and produces popular, trend-setting original content, including drama series. It has massive demands for high-quality creative works which could in turn enhance its user experience and attract more customers to its online platforms. As such, our services provided to iQIYI under the Screenplays Development Framework Agreement are in the ordinary and usual course of our business. We believe that, through entering into the Screenplays Development Framework Agreement, the creative works provided by our Group to iQIYI could be widely distributed through subsequent adaption thereof into films, television series and web series, thereby enhancing the popularity of our Group's content products and unleashing the monetization potential of our Group's intellectual property. In addition, the terms offered by our Group to iQIYI under the existing underlying agreements are no more favorable than those offered to our other customers which are Independent Third Parties, and we charge iQIYI screenplay development service fee with reference to the prevailing market price which is no less than those offered to our other independent customers, and various related commercial factors, hence our screenplay development services provided to iQIYI are profitable and are in the interests of our Group and the Shareholders as a whole.

The screenplay development fees we charge iQIYI shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various related commercial factors, including the nature, popularity, quality and commercial potential of the relevant IP.

Visual Effects Post-Production Service Purchasing Framework Agreement

As a major drama series producer in the PRC, we have a high demand for visual effects post-production services for our drama series. Given that the ordinary visual effects post-production process is relatively labor-intensive, we tend to engage third parties to carry out the ground works in a relatively cost-effective manner. As such, the purchasing of visual effects post-production services under the Visual Effects Post-Production Service Purchasing Framework Agreement are in the ordinary and usual course of our business. In addition, the prices and terms offered by Aite Visual Innovation to our Group are no less favorable than those offered by our other suppliers which are Independent Third Parties, hence the visual effects post-production services purchasing arrangements under the Visual Effects Post-Production Service Purchasing Framework Agreement are in the interests of our Group and the Shareholders as a whole.

The visual effects production fees Aite Visual Innovation charges our Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors, including the duration of the visual effects to be added, the corresponding production difficulty level of such visual effects, the number of digital assets involved and the corresponding production difficulty level of such digital assets. The aforesaid pricing policies are no less favorable than those provided by our other independent suppliers.

CONNECTED TRANSACTIONS (CONT'D)

Partially-exempt Continuing Connected Transactions (cont'd)

Annual Caps and Historical Amounts during the Reporting Period

Pursuant to the Prospectus, the maximum total amount of fees receivable/payable by us under the partially-exempt continuing connected transactions for each of the three years ending December 31, 2020, 2021 and 2022 should not exceed the caps set out below:

	Proposed annual caps for the years ending December 31,		
	2020	2021	2022
	(RMB in millions)		
Total amount of fees receivable under the Screenplays Development Framework Agreement	2.0	3.0	3.0
Total amount of fees payable under the Visual Effects Post-Production Service Purchasing Framework Agreement	13.4	20.0	N/A

During the year ended December 31, 2020, the total amount of fees receivable under the Screenplays Development Framework Agreement amounted to RMB2.0 million, the total amount of fees payable under the Visual Effects Post-Production Service Purchasing Framework Agreement amounted to RMB2.5 million, which fall within the proposed annual cap as set out above.

Listing Rules Implications

iQIYI, Inc. is the holding company of Taurus Holding, a substantial Shareholder, and hence an associate of Taurus Holding. Therefore, the transactions contemplated under the Screenplays Development Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules upon Listing as iQIYI, Inc. is a connected person of the Company.

Aite Visual Innovation is a company owned as to 46.805% by Mr. Mi Chunlin (米春林) ("**Mr. Mi**"), a former director of Nova Film who resigned from his directorship at Nova Film with effect from May 16, 2020, and hence an associate of Mr. Mi who is and will be our connected person until May 15, 2021, being the end of the twelve months from the date of Mr. Mi's resignation. Therefore, the transactions contemplated under the Visual Effects Post-Production Service Purchasing Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules upon Listing as Aite Visual Innovation is a connected person of the Company. As Aite Visual Innovation will cease to be a connected person of our Company from May 16, 2021, any transactions to be entered into between Aite Visual Innovation and our Group from then on will no longer constitute continuing connected transactions of our Company.

As the highest applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of these transactions are expected to be, on an annual basis, more than 0.1% but less than 5%, such transactions are subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS (CONT'D)

Other Non-exempt Continuing Connected Transactions

Summary of the Material Terms of the Continuing Connected Transaction Agreements

Made-to-order Drama Series Production Framework Agreement

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a made-to-order drama series production framework agreement (the "**Made-to-order Drama Series Production Framework Agreement**"), pursuant to which our Group shall, among others, produce made-to-order drama series for iQIYI in exchange for production service fees payable by iQIYI. The initial term of the Made-to-order Drama Series Production Framework Agreement commenced on the Listing Date and will expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

Drama Series Copyrights Licensing Framework Agreement

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a drama series copyrights licensing framework agreement (the "**Drama Series Copyrights Licensing Framework Agreement**"), pursuant to which our Group shall, among others, license the broadcasting rights and other copyrights, if applicable, of our self-produced drama series to iQIYI, and iQIYI shall pay licensing fees to our Group. The initial term of the Drama Series Copyrights Licensing Framework Agreement commenced on the Listing Date and will expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

Drama Series Broadcasting Rights Purchasing Framework Agreement

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a drama series broadcasting rights purchasing framework agreement (the "**Drama Series Broadcasting Rights Purchasing Framework Agreement**"), pursuant to which iQIYI shall license to our Group the broadcasting rights of certain drama series, which we will further license to TV channels or third-party agents, and we shall pay licensing fees to iQIYI. The initial term of the Drama Series Broadcasting Rights Purchasing Framework Agreement commenced on the Listing Date and will expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

Distribution Revenue Sharing Framework Agreement

On December 18, 2020, our Company (for itself and on behalf of our subsidiaries and Consolidated Affiliated Entities) and iQIYI, Inc. (for itself and on behalf of its subsidiaries and consolidated affiliated entities) entered into a distribution revenue sharing framework agreement (the "**Distribution Revenue Sharing Framework Agreement**"), pursuant to which our Group shall share with iQIYI the revenue generated from the distribution of the made-to-order drama series produced by our Group for iQIYI. The initial term of the Distribution Revenue Sharing Framework Agreement commenced on the Listing Date and will expire on December 31, 2022, and such term would automatically renew for a term of three years unless we serve written notice to cease cooperation.

CONNECTED TRANSACTIONS (CONT'D)

Other Non-exempt Continuing Connected Transactions (cont'd)

Reasons for the Transactions and Pricing Policies

Made-to-order Drama Series Production Framework Agreement

We are an early mover in collaborating with online video platforms and provide diversified content developed by ourselves or licensed from our content partners to different online video platforms according to their preferences and specific demands. iQIYI is a market-leading online entertainment service provider in China which distributes popular, trend-setting content, including made-to-order drama series. As such, our services provided to iQIYI under the Made-to-order Drama Series Production Framework Agreement are in the ordinary and usual course of our business. In addition, the terms offered by our Group to iQIYI under the existing underlying agreements are no more favorable than those offered to our other customers which are Independent Third Parties and we will charge iQIYI a pre-determined fixed fee with the level of profit margin that is no less than those offered to our other independent customers. Given that iQIYI is a market-leading online entertainment service provider in China and has abundant capital capacity and massive user base, providing our made-to-order drama series production services to iQIYI would diversify our revenue sources and hedge the operational risks of a single business resulting from the evolving market and regulatory restrictions. Therefore, our made-to-order drama series production services provided to iQIYI are profitable and are in the interests of our Group and the Shareholders as a whole.

We primarily charge iQIYI a pre-determined fixed fee based on negotiations between the parties on a cost-plus basis taking into consideration our target profit margin for the production services we provide and with reference to the prevailing market price and various commercial factors, including the nature, popularity, quantity, quality and commercial potential of target made-to-order drama series. In addition, we are also entitled to an advertising commission for bringing in advertisers calculated as a percentage of the advertising revenue derived from the underlying drama series as specified in the relevant agreement. The aforesaid pricing policies are no more favorable than those available to our other independent customers.

Drama Series Copyrights Licensing Framework Agreement

We commenced producing our own drama series and licensing the related copyrights of these self-produced drama series to major TV channels and online video platforms since our inception. Substantially all our self-produced drama series are broadcast on both TV channels and online video platforms. iQIYI is a market-leading online entertainment service provider in China and its platform features popular original content, as well as a comprehensive selection of professionally produced and partner-generated content. As such, the copyrights licensing arrangements under the Drama Series Copyrights Licensing Framework Agreement are in the ordinary and usual course of our business.

According to the Frost & Sullivan Report, the number of web series broadcast by iQIYI, including the web series that are produced by iQIYI or directly purchased by it from third-party companies or produced by third-party companies that are commissioned by iQIYI, reached 21, 35 and 40 in 2017, 2018 and 2019, respectively, representing approximately 22.1%, 30.4% and 32.0% of the total number of web series in the PRC, respectively for the same periods. As such, iQIYI has a massive demand for high-quality content generated by professional producers like us. By entering into the Drama Series Copyrights Licensing Framework Agreement, we believe we can enhance our distribution network and business relationship with iQIYI, which has been a major player in content distribution market with sizable procurement budgets for drama series. In addition, the prices and terms offered by our Group to iQIYI are no more favorable than those offered to our other customers which are Independent Third Parties, hence the copyrights licensing arrangements under the Drama Series Copyrights Licensing Framework Agreement are profitable and are in the interests of our Group and the Shareholders as a whole.

The licensing fees we charge iQIYI shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors, including the total investment amount, scope of license and exclusivity, the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the expected popularity and target audience base of drama series, as well as our target profit margin. The aforesaid pricing policies are no more favorable than those available to our other independent customers.

CONNECTED TRANSACTIONS (CONT'D)

Other Non-exempt Continuing Connected Transactions (cont'd)

Reasons for the Transactions (cont'd)

Drama Series Broadcasting Rights Purchasing Framework Agreement

We commenced licensing broadcasting rights of outright-purchased drama series from online video platforms to TV channels or third-party agents in 2017. Such business model has diversified our revenue streams and further enhanced our cooperation with top online video platforms by providing them with more monetization opportunities at the same time. As such, the purchasing of broadcasting rights of outright-purchased drama series under the Drama Series Broadcasting Rights Purchasing Framework Agreement are in the ordinary and usual course of our business. In addition, the prices and terms offered by iQIYI to our Group are no less favorable than those offered by our other suppliers which are Independent Third Parties, hence the broadcasting rights purchasing arrangements under the Drama Series Broadcasting Rights Purchasing Framework Agreement are profitable and are in the interests of our Group and the Shareholders as a whole.

The licensing fees iQIYI charges our Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and various commercial factors, including the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the expected popularity and target audience base of drama series, as well as the target profit margin of iQIYI. The aforesaid pricing policies are no less favorable than those provided by our other independent suppliers.

Distribution Revenue Sharing Framework Agreement

The business model of sharing of distribution revenue represents our efforts to explore opportunities to further cooperate with online video platforms to diversify our monetization methods by leveraging our strong distribution ability. Under this business model, we bring in online video platforms at an early stage as either co-investors or copyright owners for whom we produce made-to-order drama series, and then distribute such drama series to TV channels. By doing so, we are entitled to the distribution rights of the relevant drama series for distribution to TV channels, from which we can share part of the distribution revenue of such drama series in addition to the production fees for these drama series. As such, the sharing of distribution revenue under the Distribution Revenue Sharing Framework Agreement is in the ordinary and usual course of our business and is profitable and in the interests of our Group and the Shareholders as a whole.

The revenue sharing ratio shall be determined after arm's length negotiation between the parties with reference to the prevailing market price, target distribution channels, and various related commercial factors, including the popularity, number of episodes, quality and commercial potential of the drama series.

Annual Caps and Historical Amounts during the Reporting Period

Pursuant to the Prospectus, the maximum total amount of fees receivable/payable by us under the non-exempt continuing connected transactions for each of the three years ending December 31, 2020, 2021 and 2022 should not exceed the caps set out below:

	Proposed annual caps for the years ending December 31,		
	2020	2021	2022
	(RMB in millions)		
Total amount of fees receivable under the Made-to-order Drama Series Production Framework Agreement	370.0	790.0	1,300.0
Total amount of fees receivable under the Drama Series Copyrights Licensing Framework Agreement	450.0	460.0	440.0
Total amount of fees payable under the Drama Series Broadcasting Rights Purchasing Framework Agreement	55.0	100.0	116.0
Total amount of fees payable under the Distribution Revenue Sharing Framework Agreement	45.0	45.0	45.0

CONNECTED TRANSACTIONS (CONT'D)

Other Non-exempt Continuing Connected Transactions (cont'd)

Annual Caps and Historical Amounts during the Reporting Period (cont'd)

During the year ended December 31, 2020, the total amount of fees receivable under the Made-to-order Drama Series Production Framework Agreement amounted to RMB223.6 million, the total amount of fees receivable under the Drama Series Copyrights Licensing Framework Agreement amounted to RMB327.6 million, the total amount of fees payable under the Drama Series Broadcasting Rights Purchasing Framework Agreement amounted to RMB28.0 million, and the total amount of fees payable under the Distribution Revenue Sharing Framework Agreement amounted to nil, which fall within the proposed annual cap as set out above.

Listing Rules Implications

iQIYI, Inc. is the holding company of Taurus Holding, a substantial Shareholder, and hence an associate of Taurus Holding.

Therefore, the transactions contemplated under the Made-to-order Drama Series Production Framework Agreement, the Drama Series Copyrights Licensing Framework Agreement, the Drama Series Broadcasting Rights Purchasing Framework Agreement and the Distribution Revenue Sharing Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules upon Listing as iQIYI, Inc. is a connected person of the Company.

As the highest applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of these transaction are expected to, on an annual basis, exceed 5%, such transactions will be subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Annual Review by the Independent Non-executive Directors and the Auditors

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set out above conducted by the Group during the Reporting Period has followed the pricing principles of such continuing connected transactions.

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that these transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Company; and

(iii) in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Board engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

CONNECTED TRANSACTIONS (CONT'D)

Other Non-exempt Continuing Connected Transactions (cont'd)

Annual Review by the Independent Non-executive Directors and Auditors (cont'd)

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company has provided a letter to the Board containing its findings and conclusions, confirming that:

(i) nothing has come to their attention that causes the auditor to believe that the abovementioned continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

(iv) with respect to the aggregate amount of each of the abovementioned continuing connected transactions, nothing has come to their attention that causes the auditor to believe that the amounts have exceeded the annual cap set by the Company.

A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Save as disclosed above, for the year ended December 31, 2020, there is no other related party transaction or continuing related party transaction set out in Note 35 to the financial statements which constitutes discloseable connected transaction or continuing connected transaction under the Listing Rules. In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules (as amended from time to time).

NON-COMPETITION UNDERTAKINGS

As disclosed in the Prospectus, the Group's Controlling Shareholders have executed the Deed of Non-competition in favor of the Company on December 18, 2020. Pursuant to the Deed of Non-competition, the Controlling Shareholders and/or their respective close associates (other than members of our Group) have confirmed that as of the date of the Deed of Non-competition, neither of the Controlling Shareholders or their respective close associates (other than members of our Group) have, in any form, engaged in, assisted or supported any third party in the operation of, participate, or have any interest in, any business that, directly or indirectly, competes or will compete or may compete with the business carried on or contemplated to be carried on by any member of our Group from time to time, namely investment, development, production and distribution of TV series, web series and films.

Each of them has confirmed in writing to the Company of their compliance with the Deed of Non-competition for disclosure in this annual report during the year ended December 31, 2020. No new business opportunity was informed by them as of December 31, 2020.

The independent non-executive Directors have reviewed the implementation of the Deed of Non-competition and are of the view that the non-competition undertakings have been complied with for the year ended December 31, 2020.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

The Shares were not listed on the Stock Exchange during the year ended December 31, 2020. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in Note 35 to the financial statements and in the section headed "Connected Transactions" of Director's Report in this report, neither contract of significance made between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries, nor contract of significance made for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during the year ended December 31, 2020.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period from the Listing Date to the date of this report.

DONATIONS

During the Reporting Period, the Group made no charitable and other donations.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended December 31, 2020, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

PERMITTED INDEMNITY PROVISION

In accordance with article 192 of the Articles of Associations, the Directors and other officers shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

The Company has maintained directors' liability insurance to protect the Directors against any potential losses arising from his/her actual or alleged misconduct.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 83 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued Shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the period from the Listing Date to the date of this report.

AUDIT COMMITTEE

The Audit Committee has, together with the management and auditor of the Company, reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2020.

AUDITOR

The Company has appointed Ernst & Young as the auditor of the Company for the year ended December 31, 2020. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

By order of the Board

Mr. Liu Xiaofeng
Chairman

Nanjing, China, April 21, 2021

The Board is pleased to present the corporate governance report of the Company for the period from the Listing Date to the date of this report.

CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the interest of the Company and its Shareholders.

The Company has adopted the applicable code provisions as set out in the CG Code as set out in Appendix 14 to the Listing Rules since the Listing Date. As the Shares of the Company were not listed on the Stock Exchange during the year ended December 31, 2020, the CG Code was not applicable to the Company during that period, but has become applicable to the Company since the Listing Date. Save as disclosed in this report, the Board considered that the Company has complied with applicable code provisions set out in the CG Code since the Listing Date.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors, senior management members, and employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

As the Shares of the Company were not listed on the Stock Exchange during the year ended December 31, 2020, related rules under the Model Code that Directors shall observe did not apply to the Company during that period. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the period from the Listing Date to the date of this report. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management members or relevant employees of the Group for the period from the Listing Date to the date of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 in the CG Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Liu is currently serving as the chairman of the Board as well as the chief executive officer of our Company. As Mr. Liu is the founder of our Group and has been managing our Group's business and overall strategic planning since its establishment, our Directors consider that vesting the roles of chairman and chief executive officer in Mr. Liu is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group. Taking into account all the corporate governance measures that we implemented upon Listing, our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Accordingly, our Company had not segregated the roles of its chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole.

THE BOARD

Board Composition

As of the date of this annual report, the Board comprises 4 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors as follows:

Executive Directors

Mr. LIU Xiaofeng *(Chairman)*
Ms. ZHANG Qiuchen
Mr. CHEN Chen
Ms. ZHAI Fang

Non-Executive Directors

Mr. WANG Xiaohui
Mr. WANG Jun

Independent Non-executive Directors

Mr. MA Zhongjun
Mr. ZHANG Senquan
Mr. CHUNG Chong Sun

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

Independent Non-executive Directors

For the period from the Listing Date to the date of this report, the Board has at all times met the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

For the period from the Listing Date to the date of this report, the Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent.

Appointment and Re-election of Directors

Each of the Directors (including non-executive Directors) has entered into a service contract or an appointment letter with the Company, under which they agreed to act as Directors for an initial term of three years commenced from the Listing Date or until the third annual general meeting of the Company after the Listing Date (whichever ends earlier), which may be terminated by not less than one month's notice in writing served by either the Director or the Company.

THE BOARD (CONT'D)

Appointment and Re-election of Directors (cont'd)

Details of the Directors' service contracts and letters of appointment are set out in the section headed "Directors' Report – Service Contracts and Letters of Appointment" in this annual report.

In accordance with article 109(a) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

In addition, article 113 of the Articles of Association provides that all Directors appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

Details of the Directors to be re-elected at the AGM will be set out in the circular to the Shareholders to be despatched in due course.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company and the Shareholders as a whole.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance cover to protect Directors from possible legal action against them.

THE BOARD (CONT'D)

Remuneration of Directors and Senior Management

Details of the remuneration of the members of the Board for the year ended December 31, 2020 are set out in Note 8 to the financial statements in this annual report.

The remuneration of the Directors by band during the year ended December 31, 2020 are set out below:

Remuneration Band	Number of Individuals
Nil to RMB300,000	7
RMB300,001 to RMB500,000	1
RMB500,001 to RMB1,000,000	1

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

A summary of trainings received by the Directors during the Reporting Period is as follows:

Name of Directors	Nature of Continuous Professional Development Programme
Executive Directors	
Mr. LIU Xiaofeng *(Chairman)*	(1)&(2)
Ms. ZHANG Qiuchen	(1)&(2)
Mr. CHEN Chen	(1)&(2)
Ms. ZHAI Fang	(1)&(2)
Non-Executive Directors	
Mr. WANG Xiaohui	(1)&(2)
Mr. WANG Jun	(1)&(2)
Independent Non-executive Directors	
Mr. ZHANG Senquan	(1)&(2)
Mr. MA Zhongjun	(1)&(2)
Mr. CHUNG Chong Sun	(1)&(2)

THE BOARD (CONT'D)

Continuous Professional Development of Directors (cont'd)

Note:

(1) Attending the training for Director covering a wide range of topics, including but not limited to the management of inside information, discloseable transactions and connected transactions, duty of disclosure of interests, the laws applicable to the Company and the Company's continuing compliance obligations;

(2) Reading relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interests.

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of the Board that are relevant to the business growth. Pursuant to the Board Diversity Policy, the Company seeks to achieve diversity of the Board through the consideration of a number of factors when selecting candidates to the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Stock Exchange and the Company and are available to Shareholders upon request.

Rule 3.21 of the Listing Rules requires the audit committee to comprise non-executive directors only, with a minimum of three members with independent non-executive directors in majority and at least one member with appropriate professional qualifications or accounting or related financial management expertise. The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" in this annual report.

Audit Committee

The Audit Committee consists of two independent non-executive Directors and one non-executive Director, being Mr. ZHANG Senquan (chairman of the Audit Committee who holds appropriate accounting qualifications), Mr. WANG Jun and Mr. CHUNG Chong Sun.

The main duties of the Audit Committee are to assist the Board in reviewing compliance, accounting policies, financial reporting procedures and risk management and internal control systems; supervising the implementation of the internal audit system; advising on the appointment or replacement of external auditors; and liaising between the internal audit department and external auditors.

Since the Company was listed on the Stock Exchange on January 15, 2021, no meeting of the Audit Committee was held in 2020.

BOARD COMMITTEES (CONT'D)

Audit Committee (cont'd)

The Audit Committee held a meeting on March 29, 2021, which was attended by all members of the Audit Committee, and reviewed, among other things, the audited consolidated financial statements of the Group for the year ended December 31, 2020, the effectiveness of the risk management and internal control systems of the Company.

Remuneration Committee

The Remuneration Committee consists of two independent non-executive Directors and one executive Director, being Mr. MA Zhongjun (chairman of the Remuneration Committee), Mr. LIU Xiaofeng and Mr. CHUNG Chong Sun.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of each Director and senior management, the remuneration policy and structure for all Directors and senior management; and reviewing and approving compensations payable to the Directors and senior management.

Since the Company was listed on the Stock Exchange on January 15, 2021, no meeting of the Remuneration Committee was held in 2020.

The Remuneration Committee held a meeting on March 29, 2021, which was attended by all members of the Remuneration Committee, and reviewed, among other things, the remuneration package of the Directors and the remuneration policy of the Group's senior management.

Nomination Committee

The Nomination Committee consists of two independent non-executive Directors and one executive Director, being Mr. MA Zhongjun (chairman of the Nomination Committee), Mr. LIU Xiaofeng and Mr. CHUNG Chong Sun.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

BOARD COMMITTEES (CONT'D)

Nomination Committee (cont'd)

The Nomination Committee will recommend to the Board for the appointment of a Director including an independent non-executive Director in accordance with the following selection criteria and nomination procedures:

(a) identify individuals who are suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the Board Diversity Policy, the requirements in the Company's constitution, the Listing Rules and applicable laws and regulations, and the relevant candidates' contributions to the Board in terms of qualifications, skills, experiences, independence and gender diversity;

(b) assess the independence of independent non-executive Directors to determine their eligibility with reference to the factors set out in Rule 3.13 of the Listing Rules and any other factors deemed appropriate by the Nomination Committee or the Board. If a proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, to assess his/her ability to devote sufficient time to the Board matters; and

(c) develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship, including but not limited to evaluating the balance of skills, knowledge and experience on the Board, and in light of this evaluation prepare a description of the role and capabilities required for a particular appointment.

Since the Company was listed on the Stock Exchange on January 15, 2021, no meeting of the Nomination Committee was held in 2020.

The Nomination Committee held a meeting on March 29, 2021, which was attended by all members of the Nomination Committee, and reviewed, among other things, the structure, size and composition of the Board, assessed the independence of independent non-executive Directors to determine their eligibility and discussed the re-appointment of directors and succession planning for directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and compliance manual applicable to employees and Directors, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the relevant papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries of the Company with copies circulated to all Directors or Board Committee members for information and records.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors/Board committee members. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

Attendance Records of Board and Board Committee Meetings and General Meetings

According to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. According to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors.

Since the Shares were listed on the Main Board of the Stock Exchange on January 15, 2021, only one Board meeting was held on March 29, 2021 , which was attended by all members of the Board, to consider and approve the audited final results for the year ended December 31, 2020 of the Group and no general meeting or meeting among the Chairman and independent non-executive Directors were held, during the period from the Listing Date and up to the date of this report. The Company expects to convene at least four regular board meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2020.

The management has provided to the Board such explanations and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Group's performance, positions and prospects from time to time.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 94 to 98 of this annual report.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditor of the Company, Ernst & Young, for the year ended December 31, 2020, is set out below:

Type of Services	Amount (RMB in thousands)
Audit services (including the service fee of initial public offering)	6,680
Non-audit services (including tax and internal control consultation)	830
Total	7,510

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control measures and reviewing their effectiveness, and is also responsible for reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, to promote effective and efficient operations, to ensure reliable financial reporting and compliance with applicable laws and regulations, as well as to safeguard the Group's assets and Shareholders' interests.

The Group's risk management and internal control measures focus primarily on (i) financial reporting risk management; (ii) information system risk management; (iii) human resources risk management; and (v) other general risk management.

The Group also has an internal audit function, which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control measures, and reports their findings to the Board on, at least, an annual basis. The Company implements and strictly enforces procedures on inside information according to the relevant procedures stated under the "Guidelines on Disclosure of Inside Information" promulgated by the SFC in June 2012.

The Board has reviewed the effectiveness of the risk management and internal control measures of the Group for the year ended December 31, 2020 to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions to be adequate. The review was conducted through discussions with the management of the Company, its external and internal auditors and the assessment performed by the Audit Committee. The Board also made reference to the results of the agreed-upon procedures in connection with the internal control of the Company performed by the internal control consultant engaged by the Company in preparation for the Listing, and these procedures did not identify any material internal control deficiencies of the Group.

The Board considers that the current risk management and internal control measures cover the existing businesses of the Group, and will continue to be optimized in line with the business development of the Group.

JOINT COMPANY SECRETARIES

Ms. ZHAI Fang, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board's policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Mr. WONG Keith Shing Cheung, a senior manager of SWCS Corporate Services Group (Hong Kong) Limited (a company secretarial service provider), as the other joint company secretary to assist Ms. Zhai to discharge her duties as company secretary of the Company. The primary corporate contact person at the Company is Ms. Zhai, the joint company secretary of the Company.

Since the Company was listed on the Stock Exchange on January 15, 2021, Rule 3.29 of the Listing Rules was not applicable to the Company for year ended December 31, 2020.

DIVIDEND POLICY

Subject to the requirements of the Articles of Association, Cayman Islands law and other applicable laws and regulation, the Board has absolute discretion to recommend any dividend. The determination to pay dividends will be made at the discretion of the Board and will depend upon the Group's operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that the Directors consider relevant. The Company will continue to re-evaluate its dividend policy in light of its financial condition and the prevailing economic environment.

All Dividends, bonuses or other distributions or the proceeds of the realization of any of the foregoing unclaimed for one year after having been declared by the Company until claimed and, notwithstanding any entry in any books of the Company may be invested or otherwise made use of by the Board for the benefit of the Company or otherwise howsoever, and the Company shall not constitute a trustee in respect thereof. All Dividends, bonuses or other distributions or the proceeds of the realization of any of the foregoing unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall be reverted to the Company and, in the case where any of the same are securities of the Company, may be re-allotted or re-issued for such consideration as the Board thinks fit and the proceeds thereof shall accrue to the benefit of the Company absolutely.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

SHAREHOLDERS' RIGHTS (CONT'D)

Convening of extraordinary general meeting and putting forward proposals

In accordance with article 64 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders may put forward proposals for consideration at a general meeting of the Company according to article 64 of the Articles of Association requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures of article 64 are set out above.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders and investors who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Room 2508, Building A Wanda Plaza, No. 98, Jiangdong Zhong Road, Jianye District, Nanjing, Jiangsu, PRC (email address:ir@Strawbearfilm.com).

Changes to the contact details above will be communicated through the Company's website at www.strawbearentertainment.com, which also contains information and updates on the Group's business developments and operations, as well as press releases and financial information.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted the Articles of Association on December 18, 2020, which has been effective from the Listing Date. From the Listing Date to the date of this report, the said Articles of Association did not have any change.

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report
To the shareholders of Strawbear Entertainment Group
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Strawbear Entertainment Group (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 99 to 192, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONT'D)

Key audit matter	How our audit addressed the key audit matter
Amortisation of inventories	
During the year ended 31 December 2020, the amount of inventories recognised as costs of sales was RMB692,541,000. The amortisation of inventories of drama series is determined by estimating the consumption of resources based on the revenue forecast of the respective drama series and with reference to the consumption pattern of similar drama series. This involves management's estimation of remaining ultimate revenues for the rest of the life cycle of the respective drama series. In estimating the total estimated revenue, the management takes into account the genre of the drama series, the production costs, the ranges of prices of similar drama series in the market and the historical purchase prices of similar drama services of potential customers. The Group's disclosures about the amortisation of inventories are included in notes 2.3 and 3 to the financial statements.	We obtained an understanding of the process of the amortisation of inventories and tested management's internal controls over the process. We assessed the accounting policy of the Group in respect of the amortisation of inventories including benchmarking the policy against industry practice. We checked the number of episodes of each drama series in the estimated revenue calculation list provided by management to that on the distribution licence of each drama series issued by the relevant authorities. We evaluated the Group's assessment of the estimated selling prices of drama series by reference to past experience and historical selling prices for similar types of drama series and checked to the subsequent selling prices, if any. We reviewed management's estimated revenue calculation list for the drama series as at 31 December 2020 and performed the recalculation of the management's estimated revenue for each drama series.

KEY AUDIT MATTERS (CONT'D)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
The carrying amount of goodwill at 31 December 2020 was RMB112,983,000. The Group performs its impairment test of goodwill on an annual basis. Management's annual impairment test is important to our audit because the assessment process is complex and requires significant judgement and estimates including cash-generating unit identification, annual revenue growth rate, pre-tax discount rate and terminal growth rate. The Group's disclosures about the impairment testing of goodwill are included in notes 2.3, 3 and 15 to the financial statements.	We evaluated management's identification of cash-generating units within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan, budget and financial projections and analysis of the industry. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the pretax discount rate, the terminal growth rate applied and the valuation model with forecasted cash flows. We also evaluated the adequacy of the related disclosures about impairment testing of goodwill in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Environmental, Social and Governance Report, the Directors' Report and the Corporate Governance Report, which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Chairman's Statement, the Environmental, Social and Governance Report, the Directors' Report and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	*5*	**952,362**	765,097
Cost of sales		**(692,541)**	(657,457)
Gross profit		**259,821**	107,640
Other income and gains	*5*	**24,882**	34,343
Selling and distribution expenses		**(80,972)**	(33,498)
Administrative expenses		**(68,017)**	(17,655)
Other expenses		**–**	(128)
Finance costs	*7*	**(9,944)**	(9,734)
Share of profit of a joint venture		**307**	–
Changes in fair value of financial liabilities at fair value through profit or loss		**(77,657)**	(14,996)
PROFIT BEFORE TAX	*6*	**48,420**	65,972
Income tax expense	*10*	**(30,228)**	(15,572)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,192**	50,400
Attributable to:			
Owners of the parent		**18,430**	50,032
Non-controlling interests		**(238)**	368
		18,192	50,400
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	*12*	**4.6 cents**	12.5 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**9,411**	2,665
Right-of-use assets	14(a)	**7,916**	894
Goodwill	15	**112,983**	108,341
Other intangible assets	16	**26,192**	42,920
Investment in a joint venture	17	**14,818**	14,000
Investment in an associate	18	**–**	300
Deferred tax assets	27	**24,774**	28,053
Total non-current assets		**196,094**	197,173
CURRENT ASSETS			
Inventories	19	**856,338**	919,119
Trade and notes receivables	20	**440,731**	485,396
Prepayments, other receivables and other assets	21	**238,840**	340,906
Due from a related party	35(b)	**–**	3,000
Restricted cash	22	**2,319**	54,312
Pledged deposits	23	**30,000**	–
Cash and cash equivalents	23	**95,598**	52,349
Total current assets		**1,663,826**	1,855,082
CURRENT LIABILITIES			
Trade payables	24	**238,351**	449,190
Other payables and accruals	25	**587,759**	734,535
Interest-bearing bank and other borrowings	26	**159,000**	125,000
Lease liabilities	14(b)	**2,250**	509
Due to a joint venture	35(b)	**73,295**	51,000
Due to a related party	35(b)	**–**	105,926
Tax payable		**5,259**	6,604
Dividend payable		**80,000**	81,507
Total current liabilities		**1,145,914**	1,554,271
NET CURRENT ASSETS		**517,912**	300,811
TOTAL ASSETS LESS CURRENT LIABILITIES		**714,006**	497,984

	Notes	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**714,006**	497,984
NON-CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss	*28*	**475,428**	289,521
Lease liabilities	*14(b)*	**5,270**	–
Deferred tax liabilities	*27*	**8,671**	14,012
Total non-current liabilities		**489,369**	303,533
Net assets		**224,637**	194,451
EQUITY			
Equity attributable to owners of the parent			
Share capital	*29*	**–**	–
Reserves	*30*	**223,707**	194,451
		223,707	194,451
Non-controlling interests		**930**	–
Total equity		**224,637**	194,451

Mr. Liu Xiaofeng
Director

Mr. Chen Chen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent							
	Share capital RMB'000	Capital reserve* RMB'000	Statutory surplus reserve* RMB'000	Statutory award or option reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Year ended 31 December 2020								
At 1 January 2020	–	10,000	8,089	41,951	134,411	194,451	–	194,451
Total comprehensive income for the year	–	–	–	–	18,430	18,430	(238)	18,192
Equity-settled share award expense (note 32)	–	–	–	10,729	–	10,729	–	10,729
Acquisition of subsidiaries	–	–	–	–	–	–	1,265	1,265
Acquisition of non-controlling interests	–	97	–	–	–	97	(97)	–
Transfer to statutory surplus reserve	–	–	5,231	–	(5,231)	–	–	–
At 31 December 2020	–	10,097	13,320	52,680	147,610	223,707	930	224,637
Year ended 31 December 2019								
At 1 January 2019	–	10,000	7,343	41,951	85,125	144,419	1,543	145,962
Total comprehensive income for the year	–	–	–	–	50,032	50,032	368	50,400
Transfer to statutory surplus reserve	–	–	746	–	(746)	–	–	–
Dividend declared by a subsidiary to its then shareholders	–	–	–	–	–	–	(1,911)	(1,911)
At 31 December 2019	–	10,000	8,089	41,951	134,411	194,451	–	194,451

* These reserve accounts comprise the consolidated other reserves of RMB223,707,000 (2019: RMB194,451,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**48,420**	65,972
Adjustments for:			
Depreciation of property, plant and equipment	*13*	**2,511**	1,179
Depreciation of right-of-use assets	*14(a)*	**1,883**	945
Amortisation of other intangible assets	*16*	**29,410**	4
Interest income from loans receivable	*5*	**(10,010)**	(9,415)
Share of profit of a joint venture		**(307)**	–
Finance costs		**9,944**	8,267
Equity-settled share award expense	*32*	**10,729**	–
Changes in fair value of financial liabilities at fair value through profit or loss	*28*	**77,657**	14,996
Gain on disposal of items of property, plant and equipment	*5*	**(152)**	–
Gain on disposal of an associate	*5*	**(56)**	–
Impairment of trade receivables	*20*	**6,974**	1,528
		177,003	83,476
Decrease/(increase) in inventories		**66,437**	(260,391)
Decrease/(increase) in trade and notes receivables		**49,593**	(306,580)
Decrease in prepayments, other receivables and other assets		**30,331**	58,962
Decrease/(increase) in amounts due from a related party		**3,000**	(3,000)
Decrease/(increase) in restricted cash		**51,993**	(54,312)
(Decrease)/increase in trade payables		**(221,107)**	206,439
(Decrease)/increase in other payables and accruals		**(103,654)**	352,058
Cash generated from operations		**53,596**	76,652
Income tax paid		**(40,843)**	(37,518)
Net cash flows from operating activities		**12,753**	39,134

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Net cash flows from operating activities		**12,753**	39,134
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*13*	**(2,569)**	(130)
Proceeds from disposal of items of property, plant and equipment		**216**	–
Purchases of shares in a joint venture		**–**	(14,000)
Disposal of an associate		**356**	–
Advances of loans to third parties		**–**	(92,760)
Interest received from loans receivable		**7,205**	–
Acquisition of subsidiaries, net of cash acquired	*31*	**(47,629)**	(79,680)
Repayment of advances of loans to third parties		**95,760**	–
Increase in pledged deposits		**(30,000)**	–
Net cash flows from/(used in) investing activities		**23,367**	(186,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financial liabilities at fair value through profit or loss		**108,250**	–
New bank loans		**191,000**	110,000
Loans from a joint venture		**20,000**	73,000
Repayment of bank loans		**(167,500)**	(35,000)
Repayment of other borrowings		**(15,000)**	(38,000)
Repayment of loans from a related party		**(100,000)**	–
Payment for deferred listing expenses		**(7,416)**	–
Dividend paid to a non-controlling shareholder		**(1,507)**	(404)
Interest paid		**(18,804)**	(6,087)
Repayment of principal portion of lease liabilities		**(1,894)**	(979)
Net cash flows from financing activities		**7,129**	102,530
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**43,249**	(44,906)
Cash and cash equivalents at beginning of year		**52,349**	97,255
CASH AND CASH EQUIVALENTS AT END OF YEAR		**95,598**	52,349
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**95,598**	52,349
Cash and cash equivalents as stated in the consolidated statement of cash flows and consolidated statement of financial position		**95,598**	52,349

1. CORPORATE AND GROUP INFORMATION

Strawbear Entertainment Group (the "**Company**") is a limited liability company incorporated in the Cayman Islands on 3 January 2018. The registered office address of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries were principally involved in the production, distribution and licensing of broadcasting rights of TV/Web series ("**drama series**").

The shares of the company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 January 2021.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Strawbear Pictures Limited	British Virgin Islands 9 January 2018	US$1,000	100%	–	Investment holding
Strawbear Film Limited	Hong Kong 31 January 2018	US$1,000	–	100%	Investment holding
Nanjing Strawbear Business Consulting Co., Ltd. ("**Nanjing Strawbear**") (南京稻草熊商務諮詢有限公司)* *(note (a))*	People's Republic of China ("**PRC**")/ Mainland China 17 September 2018	US$1,000,000	–	100%	Investment holding
Shanghai Strawbear Business Consulting Co., Ltd. ("**Shanghai Strawbear**") (上海稻草熊商務諮詢有限公司)* *(note (a))*	PRC/Mainland China 3 September 2018	US$1,000,000	–	100%	Investment holding
Jiangsu Strawbear Film Co., Ltd. ("**Jiangsu Strawbear**") (江蘇稻草熊影業有限公司)* *(note (b))*	PRC/Mainland China 13 June 2014	RMB10,000,000	–	100%	Investment in, production, distribution and licensing of broadcasting rights of drama series

1. CORPORATE AND GROUP INFORMATION (CONT'D)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Horgos Strawbear Film Co., Ltd. ("**Horgos Strawbear**") (霍爾果斯稻草熊影業有限公司)* *(note (b))*	PRC/Mainland China 4 August 2016	RMB3,000,000	–	100%	Investment in, production, distribution and licensing of broadcasting rights of drama series
Beijing Strawbear Film Co., Ltd. ("**Beijing Strawbear**") (北京稻草熊影業有限公司)* *(note (b))*	PRC/Mainland China 2 September 2019	RMB3,000,000	–	100%	Investment in, production, distribution and licensing of broadcasting rights of drama series
Hangzhou Yide Cultural Creativity Co., Ltd. ("**Hangzhou Yide**") (杭州懿德文化創意有限公司)* *(note (c))*	PRC/Mainland China 25 June 2015	RMB12,500,000	–	100%	Engagement in the business of literature copyright agency and development
Nova Film Technology (Jiangsu) Co., Ltd. ("**Nova Film**") (諾華視創電影科技(江蘇)有限公司)* *(note (b))*	PRC/Mainland China 29 May 2012	RMB10,000,000	–	90.1%	Special effects editing and other post-production work for films and drama series
Wuxi Strawbear Cultural Media Co., Ltd. ("**Wuxi Strawbear**") (無錫稻草熊文化傳媒有限公司)* *(note (c))*	PRC/Mainland China 4 June 2020	RMB1,000,000	–	60%	Screenplay development and assessment

1. CORPORATE AND GROUP INFORMATION (CONT'D)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Honeybear Entertainment Cultural Media Co., Ltd. ("**Beijing Honeybear**") (北京蜜熊娛樂文化傳媒有限公司)* *(note (c))*	PRC/Mainland China 10 September 2020	RMB3,000,000	–	51%	Cultural and artistic activities and performance agency
Xiangshan Xingyu Yinyue Culture Media Co., Ltd. ("**Xingyu Yinyue**") (象山星宇愔樂文化傳媒有限公司)* *(note (c))*	PRC/Mainland China 19 November 2020	RMB5,000,000	–	51%	Cultural and artistic activities and performance agency

Notes:

(a) These entities are registered as wholly-foreign-owned enterprises under PRC law.

(b) Due to regulatory prohibitions on foreign ownership in the production, distribution and licensing of broadcasting rights of drama series business in the PRC, the principal business carried out by Jiangsu Strawbear, Horgos Strawbear, Beijing Strawbear and Nova Film (the "**Consolidated Affiliated Entities**") was prohibited or restricted from foreign ownership. The wholly-owned subsidiary of the Company, Nanjing Strawbear, has entered into a series of contractual arrangements (the "**Contractual Arrangements**") with the Consolidated Affiliated Entities and their respective equity holders (hereafter the equity holders of the Consolidated Affiliated Entities referred to as the "**Registered Shareholders**"). The Contractual Arrangements enable Nanjing Strawbear to exercise effective control over the Consolidated Affiliated Entities and obtain substantially all economic benefits of the Consolidated Affiliated Entities. Accordingly, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries and consolidated the assets, liabilities and results of operations of Consolidated Affiliated Entities in the financial statements of the Group. These entities are owned through Contractual Arrangements.

(c) These entities are limited liability enterprises established under PRC law.

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

During the year, the Group acquired Nova Film from a third party. Further details of this acquisition are included in note 31 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2020, together with the relevant transitional provisions, had been early adopted by the Group in the preparation of the financial statements for the year ended 31 December 2019. They have been prepared under the historical cost convention, except for financial assets at fair value through comprehensive income and financial liabilities at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 BASIS OF PREPARATION (CONT'D)

Basis of consolidation (cont'd)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-Contracts*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendment to HKFRS 16	*Covid-19 – Related Rent Concessions*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] No mandatory effective date yet determined but available for adoption
[5] As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
[6] As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations and goodwill (cont'd)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Electronic equipment	19.0%–33.3%
Vehicles	19.0%
Office equipment	19.0%
Leasehold improvements	20.0%–33.3%
Mechanical equipment	19.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 3 to 5 years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years, which is shorter of legal registered period and the period over which the trademark is expected to generate net cash inflows from the commercialisation of product.

Backlog

Backlog is stated at cost less any impairment loss and is amortised based on the consumption upon the fulfilment of the underlying contracts with customers.

Patents

Patents are stated at cost less any impairment loss and are amortised on the straight-line basis over their estimated useful lives of 8 years, which is determined based on weighted average legal registered periods of patents after considering the expected usage, technical obsolescence and estimates of useful lives of similar assets.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leases (cont'd)

Group as a lessee (cont'd)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	2-5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statements of financial position.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets (cont'd)

Subsequent measurement (cont'd)

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 6 months past due.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of financial assets (cont'd)

Simplified approach

For trade receivables and that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, financial liabilities at fair value through profit or loss, amounts due to a joint venture and a related party, dividend payable and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities (cont'd)

Subsequent measurement (cont'd)

Financial liabilities at fair value through profit or loss (cont'd)

The Group designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss.

Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognised in profit or loss.

The preferred shares are classified as non-current liabilities because the holders of the preferred shares cannot demand the Company to redeem the preferred shares until at least 12 months after the end of the reporting period.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss. If an entity revises its estimates of payments or receipts (excluding modifications in accordance with HKFRS 9.5.4.3 and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset or amortised cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The adjustment is recognised in profit or loss as income or expense.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Inventories

Inventories include the cost of completed drama series, drama series in production and undeveloped scripts and purchased copyrights or broadcasting rights of drama series. Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses.

The amounts of inventories recognised as cost of sales for a given period are determined using the drama series forecast computation method. Under this method, the amortisation of inventories and the accrual of participations and residuals are based on the proportion of the drama series' revenues recognised for such period to the drama series' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a drama series' life cycle).

Accounting for the co-investment arrangements and co-financing arrangements

Under the co-investment arrangements where the Group acts as an executive producer, the investment from the other co-investors is considered as the selling of shares of interests and copyrights in drama series to such co-investors by the Group. If the co-investors bear full risk for the shares of interests and copyrights of drama series they invested in, the amounts received from such co-investors are recognised as reductions of the costs of the drama series upon the receipt of the licence for distribution of drama series from the National Radio and Television Administration of the PRC ("**NRTA**").

When co-investors are not entitled to any shares of copyrights in drama series they invested in under co-investment arrangements and the Group is obligated to share the licensing revenue with such co-investors at a fixed return basis or based on the respective investment ratios, and the amounts received from such co-investors are recognised as financial liabilities.

The amounts paid under co-financing arrangements to the third-party investors by the Group in order to obtain shares of legal rights (i.e. copyrights, broadcasting rights) of drama series are recognised as prepayments under the co-investment arrangements and reclassified as inventories upon the receipt of the licence for distribution of drama series from the NRTA.

The amounts paid under co-financing arrangements to third-party investors by the Group where the Group are not entitled to any shares of legal rights (i.e. copyrights, broadcasting rights) of the drama series are recognised as financial assets.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax (cont'd)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition (cont'd)

Revenue from contracts with customers (cont'd)

The Group is mainly involved in the licensing of broadcasting rights of drama series. Revenue is measured based on the fair value of consideration received or receivable specified in the contracts with customers.

(a) Licensing of broadcasting rights of drama series

Revenue from the licensing of the broadcasting rights of drama series is recognised at the point in time when the drama series is available to the licensee, generally on delivery of the drama series after the approval from the NRTA or receipt of the licence for distribution of drama series from the provincial counterpart of the NRTA when a customer is provided with a right to use the drama series as it exists at the point in time when the licence is granted. The Group does not expect to have any contracts where the period between the transfer of the licensed drama series to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(b) Production of made-to-order drama series

Revenue from the production of made-to-order drama series is recognised over time, using an input method to measure progress towards complete production of made-to-order drama series, because the Group's performance creates or enhances an asset(for example, work in progress) that the customer controls as the asset is created or enhanced.

Broadcasting are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Net licensing fees received from investments in drama series as a non-executive producer with share of legal rights (i.e. copyrights, broadcasting rights) are recognised when the investors' right to receive payment has been established, it is probable that the economic benefits associated with the investment income will flow to the Group and the amount can be measured reliably. Revenue of this type is measured at the amount of net licensing fees paid to the Group and the relevant inventories are recognised in cost of sales when the revenue is recognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition (cont'd)

Revenue from other sources (cont'd)

Net licensing fees received from investments in drama series without share of legal rights (i.e. copyrights, broadcasting rights) are recognised in accordance with HKFRS 9. Revenue of this type is measured at the amount of changes in fair value of these financial assets, which accumulatively and eventually equals to the total of the net licensing fees paid to the Group less the sum paid by the Group under the co-financing arrangement.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value is measured at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Share-based payments (cont'd)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government and the central government, respectively. These subsidiaries are required to contribute a certain percentage of payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the financial statements. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual Arrangements

The Consolidated Affiliated Entities are engaged in the production, distribution and licensing of broadcasting rights of drama series. Under the scope of "Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2019 Version)", foreign investors are prohibited to invest in such businesses.

The Group exercises control over the Consolidated Affiliated Entities and enjoys substantially all economic benefits of the Consolidated Affiliated Entities through the Contractual Arrangements.

The Group does not have any equity interests in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Company has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is therefore considered to have control over them. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the Consolidated Affiliated Entities in the financial statements during the reporting period.

Principal versus agent

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal that obtains control of any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; and (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, and when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision and write-down of inventories to net realisable value

The Group's management reviews the conditions of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a project-by-project basis at the end of each reporting period and makes provision for obsolete projects. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of producing and distributing drama series of a similar nature. The Group's management reassesses the estimation at the end of each reporting period.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. All non-financial assets of the Group are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing period and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical expected default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as the debtors and the economic environment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

Estimation uncertainty (cont'd)

Provision for expected credit losses on other receivables

The Group has applied the general approach to provide for expected credit losses for other receivables and considered the default event, historical loss rate and adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate, details of which are set out in note 21 to the financial statements.

Amortisation of inventories

The amount of inventories recognised as costs of sales for a given period is determined using the revenue forecast computation method. Under this method, the amortisation of inventories and the accrual of participations and residuals are based on the proportion of the drama series' revenues recognised for such period to the drama series' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a drama series' life cycle).

Management regularly reviews the basis of the amortisation and will adjust the amortisation method when expected changes in the drama series' estimated remaining ultimate revenues arise.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2020 was RMB14,895,000 (2019: RMB13,608,000). Further details are contained in note 27 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB112,983,000 (2019: RMB108,341,000). Further details are given in note 15.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

During the year, the Group operated within one geographical location as all of the Group's revenue was generated from customers located in Mainland China. All of the non-current assets of the Group were located in Mainland China.

4. OPERATING SEGMENT INFORMATION (CONT'D)

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2020 RMB'000	2019 RMB'000
Customer 1	**553,164**	208,484
Customer 2	**N/A***	172,824
Customer 3	**N/A***	140,094

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	**947,534**	760,245
Revenue from other sources		
Net licensing fee received from investments in drama series as a non-executive producer with share of copyrights	**4,828**	770
Net licensing fee received from investments in drama series as a non-executive producer without share of copyrights	**–**	4,082
	952,362	765,097

Revenue from contracts with customers

(i) Disaggregated revenue information

	2020 RMB'000	2019 RMB'000
Type of goods or services		
Licensing of the broadcasting rights of self-produced drama series	**516,302**	571,412
Licensing of the broadcasting rights of outright-purchased drama series	**108,782**	183,272
Made-to-order drama series production	**280,189**	–
Others	**42,261**	5,561
Total revenue from contracts with customers	**947,534**	760,245

Geographical markets

All of the Group's revenue was generated from customers located in Mainland China during the year.

5. REVENUE, OTHER INCOME AND GAINS (CONT'D)

Revenue from contracts with customers (cont'd)

(i) Disaggregated revenue information (cont'd)

	2020 RMB'000	2019 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**658,622**	760,245
Services transferred over time	**288,912**	–
Total revenue from contracts with customers	**947,534**	760,245

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period.

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	**318,268**	41,758

All revenue arising from made-to-order drama series production for the reporting period was recognised from performance obligations partially satisfied in previous periods due to constraints on variable consideration.

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Licensing of the broadcasting rights of self-produced drama series
The performance obligation is satisfied as the broadcasting rights are authorised and the customer can begin exhibiting or selling the drama series and payment is generally due within three months to six months.

Licensing of the broadcasting rights of outright-purchased drama series
The performance obligation is satisfied as the broadcasting rights are authorised and payment is generally due within three months to six months.

Made-to-order drama series production
The performance obligation is satisfied as the drama series are complete in accordance with the terms of the contracts and the customer can begin exhibiting or selling the drama series.

5. REVENUE, OTHER INCOME AND GAINS (CONT'D)

Revenue from contracts with customers (cont'd)

(ii) Performance obligations (cont'd)

Others

The revenue received from the licensing of side products of drama series including games, advertisements, sale of script copyrights, distribution agency service and others, and payment is generally due within three months to six months.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020 RMB'000	2019 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**132,075**	316,741

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

An analysis of other income and gains is as follows:

	2020 RMB'000	2019 RMB'000
Government grants – related to income *(note)*	**12,551**	20,396
Bank interest income	**560**	407
Investment income from the co-investment arrangements in drama series	**1,033**	4,125
Interest income from loans receivable	**10,010**	9,415
Gain on disposal of items of property, plant and equipment	**152**	–
Gain on disposal of an associate	**56**	–
Others	**520**	–
	24,882	34,343

Note:

The government grants mainly represent incentives awarded by the local governments to support the Group's operation. There were no unfulfilled conditions or contingencies attached to these government grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		**692,541**	657,457
Depreciation of property, plant and equipment	*13*	**2,511**	1,179
Depreciation of right-of-use assets	*14(a)*	**1,883**	945
Amortisation of other intangible assets*	*16*	**29,410**	4
Government grants	*5*	**(12,551)**	(20,396)
Bank interest income	*5*	**(560)**	(407)
Interest income from loans receivable	*5*	**(10,010)**	(9,415)
Changes in fair value of financial liabilities at fair value through profit or loss		**77,657**	14,996
Lease payments not included in the measurement of lease liabilities	*14(c)*	**1,385**	1,088
Listing expenses		**24,304**	–
Auditor's remuneration		**2,279**	219
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**4,297**	2,124
Pension scheme contributions		**104**	222
Staff welfare expenses		**131**	343
		4,532	2,689
Gain on disposal of items of property, plant and equipment	*5*	**(152)**	–
Impairment of trade receivables	*20*	**6,974**	1,528

* The amortisation of other intangible assets is included in "Cost of sales" and "Administrative expenses" in profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans	**6,825**	2,597
Interest on other borrowings from third parties	**1,130**	557
Interest on borrowings from a related party	**1,246**	4,913
Interest on discounted notes receivable	**566**	124
Interest expense under the co-investment arrangements in drama series	**–**	1,467
Interest on lease liabilities	**177**	76
	9,944	9,734

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2020 RMB'000	2019 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,443**	1,452
Pension scheme contributions	**11**	190
Equity-settled share award expense	**10,729**	–
	12,183	1,642

Mr. Liu Xiaofeng, Mr. Chen Chen, Ms. Zhang Qiuchen, and Ms. Zhai Fang were appointed as executive directors of the Company on 24 June 2020. Mr. Wang Xiaohui and Mr. Wang Jun were appointed as non-executive directors of the Company on 24 June 2020. Mr. Liu Xiaofeng was appointed as the chief executive of the Company on 24 June 2020. Mr. Ma Zhongjun, Mr. Zhang Senquan and Mr. Chung Chong Sun were appointed as independent non-executive directors of the Company on 18 December 2020.

During the year, one director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONT'D)

Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive directors during the year.

Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
Year ended 31 December 2020					
Executive directors:					
Mr. Liu Xiaofeng	–	550	3	10,729	11,282
Mr. Chen Chen	–	391	3	–	394
Ms. Zhang Qiuchen	–	212	2	–	214
Ms. Zhai Fang	–	290	3	–	293
	–	1,443	11	10,729	12,183

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
Year ended 31 December 2019					
Executive directors:					
Mr. Liu Xiaofeng	–	557	68	–	625
Mr. Chen Chen	–	387	50	–	437
Ms. Zhang Qiuchen	–	210	34	–	244
Ms. Zhai Fang	–	298	38	–	336
	–	1,452	190	–	1,642

There were no fees and other emoluments payable to the non-executive directors during the year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included 4 directors (2019: 4 directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2019: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries, bonuses, allowances and benefits in kind	**188**	192
Pension scheme contributions	**2**	24
	190	216

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2020	2019
Nil to HK$1,000,000	**1**	1

During the year, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the year.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Xin Jiang Kashgar/Horgos special economic areas during the period from 2010 to 2020 could enjoy Enterprise Income Tax ("**EIT**") exemption for five years starting from the year in which the first revenue was generated. Horgos Strawbear enjoyed the benefit under the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》, and was entitled to such EIT exemption for the year ended 31 December 2019. According to the Filing Record of Preferential EIT《企業所得稅優惠事項備案表》, Horgos Strawbear obtained the approval from the PRC tax bureau for entitlement of EIT exemption from 1 January 2019 to 31 December 2023.

10. INCOME TAX (CONT'D)

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law. Nova Film is recognised as High and New Technology Enterprises and was entitled to a preferential tax rate of 15% (2019: 15%) during the year. Beijing Strawbear is recognised as Small and Low-profit Enterprises, and the first RMB1,000,000 of assessable profits of this subsidiary are taxed at 5% and the remaining assessable profits are taxed at 10% during the year.

(a) The major components of the income tax expense of the Group during the year are analysed as follows:

	2020 **RMB'000**	2019 RMB'000
Current – Mainland China		
Charge for the year	**34,054**	27,474
Deferred tax *(note 27)*	**(3,826)**	(11,902)
Total tax charge for the year	**30,228**	15,572

(b) A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2020 **RMB'000**	2019 RMB'000
Profit before tax	**48,420**	65,972
Tax at the statutory tax rate of 25% in Mainland China	**12,105**	16,493
Effect of tax rate differences in other jurisdictions	**19,414**	3,749
Tax effect of tax exemption granted to subsidiaries	**(4,245)**	(4,399)
Expenses not deductible for tax	**2,728**	590
Adjustments to current income tax of previous years	**–**	(978)
Tax losses not recognised	**226**	117
Tax charge at the Group's effective tax rate	**30,228**	15,572

11. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends	–	1,911

The board of directors has resolved not to recommend payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

For the year ended 31 December 2019, a subsidiary of the Group, Jiangsu Blue Boiling Point Film and Culture Co., Ltd., which was deregistered on 20 December 2019, declared dividends of RMB1,911,000 to its then shareholder. The dividends with an aggregate amount of RMB1,911,000 were paid during the year ended 31 December 2020.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares has been retrospectively adjusted for the effect of the Share subdivision on 11 May 2020 on the assumption that the share subdivision had been in effect on 1 January 2019.

The calculations of basic and diluted earnings per share are based on:

	2020 RMB'000	2019 RMB'000
Earnings Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**18,430**	50,032

	Number of shares	
	2020	2019
Shares Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**400,000,000**	400,000,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of preferred shares and share options granted by the Company had an anti-dilute effect on the basic earnings per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment RMB'000	Vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Mechanical equipment RMB'000	Total RMB'000
31 December 2020						
At 1 January 2020:						
Cost	411	4,254	526	1,263	–	6,454
Accumulated depreciation	(247)	(2,277)	(293)	(972)	–	(3,789)
Net carrying amount	164	1,977	233	291	–	2,665
At 1 January 2020, net of accumulated depreciation	164	1,977	233	291	–	2,665
Additions	203	916	116	928	406	2,569
Acquisition of a subsidiary *(note 31(b))*	3,829	–	287	32	2,604	6,752
Disposals	(2)	(62)	–	–	–	(64)
Depreciation provided during the year	(893)	(829)	(224)	(375)	(190)	(2,511)
At 31 December 2020, net of accumulated depreciation	3,301	2,002	412	876	2,820	9,411
At 31 December 2020:						
Cost	13,249	4,603	1,732	2,245	3,010	24,839
Accumulated depreciation	(9,948)	(2,601)	(1,320)	(1,369)	(190)	(15,428)
Net carrying amount	3,301	2,002	412	876	2,820	9,411

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Electronic equipment RMB'000	Vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Mechanical equipment RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019:						
Cost	157	3,507	43	603	–	4,310
Accumulated depreciation	(42)	(1,142)	(4)	(201)	–	(1,389)
Net carrying amount	115	2,365	39	402	–	2,921
At 1 January 2019, net of accumulated depreciation	115	2,365	39	402	–	2,921
Additions	27	–	103	–	–	130
Acquisition of a subsidiary *(note 31(a))*	72	345	165	211	–	793
Depreciation provided during the year	(50)	(733)	(74)	(322)	–	(1,179)
At 31 December 2019, net of accumulated depreciation	164	1,977	233	291	–	2,665
At 31 December 2019:						
Cost	411	4,254	526	1,263	–	6,454
Accumulated depreciation	(247)	(2,277)	(293)	(972)	–	(3,789)
Net carrying amount	164	1,977	233	291	–	2,665

14. LEASES

The Group as a lessee

The Group has lease contracts for office premises used in its operations. Leases of office premises generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Office premises RMB'000
As at 1 January 2019	1,730
Additions	109
Depreciation provided during the year	(945)
As at 31 December 2019 and at 1 January 2020	894
Additions	8,814
Additions as a result of acquisition of a subsidiary *(note 31(b))*	91
Depreciation provided during the year	(1,883)
At 31 December 2020	7,916

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 **RMB'000**	2019 RMB'000
Carrying amount at 1 January	**509**	1,379
New leases	**8,814**	109
Additions as a result of acquisition of a subsidiary *(note 31(b))*	**91**	–
Accretion of interest recognised during the year	**177**	76
Payments	**(2,071)**	(1,055)
Carrying amount at end of year	**7,520**	509
Analysed into:		
Current portion	**2,250**	509
Non-current portion	**5,270**	–

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

14. LEASES (CONT'D)

The Group as a lessee (cont'd)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**177**	76
Depreciation charge of right-of-use assets	**1,883**	945
Expenses relating to short term leases (included in administrative expenses)	**1,385**	1,088
Total amount recognised in profit or loss	**3,445**	2,109

(d) The total cash outflow for leases is disclosed in note 33 to the financial statements.

15. GOODWILL

	2020 RMB'000	2019 RMB'000
Cost and carrying amount at beginning of year	**108,341**	–
Acquisition of a subsidiary *(note 31)*	**4,642**	108,341
Cost and net carrying amount at end of year	**112,983**	108,341

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

(a) Hangzhou Yide cash-generating unit which is engaged in the production of drama series; and

(b) Nova Film cash-generating unit which is engaged in special effects editing and other post-production work for films and drama series.

15. GOODWILL (CONT'D)

Impairment testing of goodwill (cont'd)

The recoverable amounts of the Hangzhou Yide cash-generating unit and Nova Film cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The pre-tax discount rate applied to the cash flow projections and the growth rate, gross profit margin and annual revenue growth rate used to extrapolate the cash flows of the Hangzhou Yide cash-generating unit and Nova Film cash-generating unit beyond the five-year period are as follows:

Hangzhou Yide cash-generating unit

	2020	2019
	%	%
Gross profit margin	**14**	14
Terminal growth rate	**3**	3
Pre-tax discount rate	**19.4**	20.9

Nova Film cash-generating unit

	2020
	%
Annual revenue growth rate	**7.5**
Terminal growth rate	**3**
Pre-tax discount rate	**19.6**

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2020	2019
	%	%
Hangzhou Yide cash-generating unit	**108,341**	108,341
Nova Film cash-generating unit	**4,642**	–
Total	**112,983**	108,341

15. GOODWILL (CONT'D)

Key assumptions used in the value in use calculation

The calculation of value in use is based on the following assumptions:

Cash-generating units	Key assumptions
Hangzhou Yide	• Gross profit margin and operating expenses • Pre-tax discount rates • Terminal growth rates
Nova Film	• Annual revenue growth rate • Pre-tax discount rates • Terminal growth rates

Gross profit margin and operating expenses – Gross profit margin are based on the average gross profit margin achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect management's commitment to maintain them at an acceptable level.

Annual revenue growth rate – the predicted revenue growth rate for the five years subsequent to the date of assessment is based on the historical data and management's expectation on the future market.

Pre-tax discount rates – the rates reflect management's estimate of the risks specific to the unit.

Terminal growth rates – the rates are based on published industry research.

The values assigned to the key assumptions on gross profit margin and operating expenses, annual revenue growth rate, discount rates and terminal growth rates are consistent with management's past experience and external information sources.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Trademarks RMB'000	Backlog RMB'000	Patents RMB'000	Total RMB'000
31 December 2020					
At 1 January 2020:					
Cost	3	30	42,900	–	42,933
Accumulated amortisation	(3)	(10)	–	–	(13)
Net carrying amount	–	20	42,900	–	42,920
Cost at 1 January 2020, net of accumulated amortisation	–	20	42,900	–	42,920
Acquisition of a subsidiary *(note 31(b))*	382	–	–	12,300	12,682
Amortisation provided during the year	(110)	(3)	(28,400)	(897)	(29,410)
At 31 December 2020	272	17	14,500	11,403	26,192
At 31 December 2020:					
Cost	587	30	42,900	12,300	55,817
Accumulated amortisation	(315)	(13)	(28,400)	(897)	(29,625)
Net carrying amount	272	17	14,500	11,403	26,192
31 December 2019					
At 1 January 2019:					
Cost	3	30	–	–	33
Accumulated amortisation	(2)	(7)	–	–	(9)
Net carrying amount	1	23	–	–	24
Cost at 1 January 2019, net of accumulated amortisation	1	23	–	–	24
Acquisition of a subsidiary *(note 31(a))*	–	–	42,900	–	42,900
Amortisation provided during the year	(1)	(3)	–	–	(4)
At 31 December 2019	–	20	42,900	–	42,920
At 31 December 2019:					
Cost	3	30	42,900	–	42,933
Accumulated amortisation	(3)	(10)	–	–	(13)
Net carrying amount	–	20	42,900	–	42,920

17. INVESTMENT IN A JOINT VENTURE

	2020 RMB'000	2019 RMB'000
Share of net assets	**14,818**	14,000

The Group's balances and transactions with the joint venture are disclosed in note 35 to the financial statements.

Particulars of the joint venture are as follows:

Name	Place and date of incorporation and business	Nominal value of issued/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Nanjing Huawen Strawbear Cultural Partnership (Limited Partnership) ("**Nanjing Huawen**")	PRC/Mainland China 29 November 2019	RMB71,000,000	19.72%	Production of drama series

The above investment is indirectly held by the Company. Nanjing Huawen is accounted for as a joint venture considering that the decisions about the key operating activities of Nanjing Huawen require the unanimous consent of all of its investors.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2020 RMB'000	2019 RMB'000
Share of the joint venture's profit for the year	**307**	–
Share of the joint venture's total comprehensive income	**307**	–
Aggregate carrying amount of the Group's investment in the joint venture	**14,818**	–

18. INVESTMENT IN AN ASSOCIATE

	2020 RMB'000	2019 RMB'000
Share of net assets	–	300

The Group's balances of prepayments, other receivables and other assets and transactions with the associate are disclosed in notes 21 and 35 to the financial statements, respectively.

The associate was disposed of by the Group to a third party for a cash consideration of RMB356,000 in May 2020, resulting in a net gain on disposal of RMB56,000.

Particulars of the associate are as follows:

Name	Place and date of incorporation and place of business	Nominal value of issued/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Wuxi Youkong Yinghua Media Co., Ltd. ("**Youkong Yinghua**")	PRC/Mainland China 1 November 2017	RMB1,500,000	20%	Screenplay development and assessment

19. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**78,631**	60,873
Work in progress	**331,339**	462,944
Finished goods	**446,368**	395,302
	856,338	919,119

20. TRADE AND NOTES RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**443,022**	491,881
Notes receivable	**10,000**	–
	453,022	491,881
Impairment	**(12,291)**	(6,485)
	440,731	485,396

The Group's trading terms with its customers are mainly on credit. The credit period is generally 15 to 365 days, depending on the specific payment terms in each contract. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction dates and net of loss allowance, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	**115,162**	340,901
3 to 6 months	**218,206**	817
6 to 12 months	**2,268**	125,626
1 to 2 years	**86,291**	12,882
2 to 3 years	**4,169**	5,170
Over 3 years	**4,635**	–
	430,731	485,396

20. TRADE AND NOTES RECEIVABLES (CONT'D)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing and past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

	Trade receivables ageing					
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	More than 3 years and past due	Total
Expected credit loss rate	**Note (a)**	**1.07%**	**6.33%**	**33.75%**	**100.00%**	**2.77%**
Gross carrying amount RMB'000	**197,646**	**144,163**	**92,119**	**6,293**	**2,801**	**443,022**
Expected credit losses RMB'000	**–**	**1,538**	**5,828**	**2,124**	**2,801**	**12,291**

As at 31 December 2019

	Trade receivables ageing					
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	More than 3 years and past due	Total
Expected credit loss rate	Note (a)	Note (a)	2.07%	12.43%	100.00%	1.32%
Gross carrying amount RMB'000	114,892	358,674	6,801	5,904	5,610	491,881
Expected credit losses RMB'000	–	–	141	734	5,610	6,485

Note:

(a) The Group estimated the expected credit loss rate to be minimal on the current trade receivables and trade receivables aged less than 1 year and past due.

20. TRADE AND NOTES RECEIVABLES (CONT'D)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**6,485**	4,957
Impairment losses recognised *(note 6)*	**6,974**	1,528
Amount written off as uncollectible	**(1,168)**	–
At end of year	**12,291**	6,485

The increase in the loss allowance of RMB6,974,000 (2019: RMB1,528,000) was mainly due to an increase of trade receivable which were aged over 1 year and past due.

Included in the Group's trade receivables were amounts due from the Group's related parties of RMB107,203,000 (2019: RMB270,522,000), which were repayable on credit terms similar to those offered to the major customers of the Group.

The Group's notes receivable were all aged within one year and were neither past due nor impaired.

The Group's trade receivables with an aggregate net carrying value of approximately RMB379,791,222 (2019: RMB120,000,000) were pledged to secure the bank loans granted to the Group (note 26).

As at 31 December 2020, notes receivable of RMB10,000,000 (2019: Nil) whose fair values approximate to their carrying values were classified as financial assets through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2020.

At 31 December 2020, the Group endorsed certain notes receivable accepted by banks in Mainland China (the "**Endorsed Notes**") to certain of its suppliers in order to settle trade payables due to such suppliers with carrying amounts in aggregate of RMB10,000,000 (2019: Nil). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default.

As at 31 December 2020, the Group continued to recognised the full carrying amount of the Endorsed Notes and the associated trade payables settled with an amount of RMB10,000,000 (2019: Nil) because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments under the co-investment arrangements	52,108	45,448
Prepayments *(note a)*	115,103	113,041
Deductible input value-added tax	26,791	13,244
Prepaid income tax	5,444	–
Deposits and other receivables	11,796	8,493
Prepaid listing expenses	7,416	–
Loans receivable *(note b)*	20,182	160,680
	238,840	340,906

Notes:

(a) Included in the prepayments, other receivables and other assets are prepayments to the Group's related parties of RMB3,310,000 (2019: RMB3,310,000).

(b) Loans receivable represent the financial investments in certain drama series and loans provided to third parties. Included in the loans receivable were the financial investments of RMB10,600,000 (2019: RMB116,126,000) in certain drama series provided to third parties. The Group made an investment in certain drama series under arrangements, under which the Group is entitled to a fixed investment return based on the principal investment amount, agreed rate of return and investment period rather than exposure to the risk of variable returns of the invested drama series. The remaining balances represent loans provided to third parties.

As at 31 December 2020

	Effective interest rate	Maturity	RMB'000
Denominated in RMB	12%	31 December 2020	10,600

As at 31 December 2019

	Effective interest rate	Maturity	RMB'000
Denominated in RMB	13%	On demand	29,766
Denominated in RMB	12%	31 December 2020	15,600
Denominated in RMB	12%	On demand	70,760

An impairment analysis was performed at the end of each reporting period. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate.

As at 31 December 2020 and 2019, the Group estimated that the expected loss rate for loans receivable, deposits and other receivables was minimal under the 12-month expected credit loss method.

22. RESTRICTED CASH

At 31 December 2020, restricted bank balances of RMB2,319,000 (2019: RMB54,312,000), represent the cash in a bank account received from the joint venture for the production of drama series, which shall only be used with the consent from the joint venture and the Group.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	**2020 RMB'000**	2019 RMB'000
Cash and bank balances		**95,598**	52,349
Time deposits		**30,000**	–
		125,598	52,349
Less: Pledged time deposits:			
Pledged for short term bank loans	*26(a)*	**30,000**	–
Cash and cash equivalents		**95,598**	52,349

At the end of the reporting period, all of the cash and cash equivalents of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within one year depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	**238,351**	449,190

24. TRADE PAYABLES (CONT'D)

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	**89,143**	284,097
3 to 6 months	**64,966**	34,075
6 to 12 months	**29,447**	106,040
1 to 2 years	**50,837**	14,770
2 to 3 years	**3,958**	7,920
Over 3 years	**–**	2,288
	238,351	449,190

Included in the trade payables were trade payables of RMB16,083,000 (2019: RMB64,626,000) due to the Group's related parties which were repayable within 120 days, which represented credit terms similar to those offered by the related parties to their major customers.

The trade payables are non-interest-bearing and are normally settled on terms of 90 to 365 days.

25. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Amount received under the co-investment arrangements without share of copyrights	**11,517**	1,272
Other payables *(note a)*	**66,085**	84,264
Other tax payables	**26,990**	21,747
Interest payable	**308**	1,370
Payroll and welfare payable	**630**	347
Accrued liabilities	**71,223**	89,773
Contract liabilities *(note b)*	**411,006**	535,762
	587,759	734,535

Notes:

(a) Other payables are non-interest-bearing and repayable on demand.

25. OTHER PAYABLES AND ACCRUALS (CONT'D)

Notes:(cont'd)

(b) Details of contract liabilities are as follows:

	2020 RMB'000	2019 RMB'000
Short-term advances received from customers		
Licensing of the broadcasting rights of self-produced drama series	77	142,642
Made-to-order drama series production	406,793	393,120
Others	4,136	–
Total contract liabilities	411,006	535,762

Contract liabilities include short-term advances received from the licensing of broadcasting rights of self-produced drama series, made-to-order drama series production and others.

Included in contract liabilities are advances received from the Group's related parties of RMB406,793,000 (2019: RMB535,762,000).

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2020 RMB'000
Current			
Bank loans – secured *(note a)*	5.66	2021	130,000
Bank loans – secured *(note b)*	4.35	2021	10,000
Bank loans – secured *(note b)*	4.35	2021	4,000
Bank loans – secured *(note b)*	4.35	2021	5,000
Bank loans – unsecured	5.01	2021	10,000
			159,000

	Effective interest rate (%)	Maturity	2019 RMB'000
Current			
Bank loans – secured *(notes a and c)*	5.66	2020	110,000
Other borrowings – unsecured *(note d)*	10.00	2020	5,000
Other borrowings – unsecured *(note d)*	12.00	2020	10,000
			125,000

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONT'D)

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**159,000**	110,000
Other borrowings repayable:		
Within one year or on demand	**–**	15,000
	159,000	125,000

Notes:

(a) The Group's bank loans are secured by the pledge of certain of the Group's trade receivables amounting to RMB379,791,222 (2019: RMB120,000,000) and short term deposits amounting to RMB30,000,000 (2019: Nil) and are guaranteed by subsidiaries.

(b) The Group's bank loans are guaranteed by a subsidiary.

(c) The shareholder, namely Mr. Liu Xiaofeng, had guaranteed certain of the Group's bank loans up to RMB110,000,000 as at 31 December 2019, which have been fully released in August and November 2020.

(d) The Group's other borrowings as at 31 December 2019 represented the financial investments in certain drama series received from the third party investors and are unsecured and repayable within one year.

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairment of trade receivables	Accrued expenses	Write-down of inventories	Unrealised profit attribute to the intra-group transaction	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	1,239	10,924	3,988	–	–	16,151
Deferred tax credited to profit or loss during the year *(note 10)*	382	11,520	–	–	–	11,902
Gross deferred tax assets at 31 December 2019	1,621	22,444	3,988	–	–	28,053
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	1,452	(4,639)	(533)	428	1,551	(1,741)
Gross deferred tax assets at 31 December 2020	3,073	17,805	3,455	428	1,551	26,312

27. DEFERRED TAX (CONT'D)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2019	–	–	–
Fair value adjustments arising from acquisition of a subsidiary *(note 31(a))*	14,012	–	14,012
Gross deferred tax liabilities at 31 December 2019	14,012	–	14,012
Fair value adjustments arising from acquisition of a subsidiary *(note 31(b))*	1,764	–	1,764
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	(7,223)	1,656	(5,567)
Gross deferred tax liabilities at 31 December 2020	8,553	1,656	10,209

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**24,774**	28,053
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(8,671)**	(14,012)
	16,103	14,041

27. DEFERRED TAX (CONT'D)

Deferred tax liabilities (cont'd)

The Group has tax losses arising in Mainland China of RMB14,895,000 (2019: RMB13,608,000), that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB239,320,000 (2019: RMB148,466,000).

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On 29 November 2018, the Company issued Series Seed redeemable preferred shares ("**Series A Shares**") to a third party investor, Taurus Holding Ltd., ("**Taurus Holding**"), at a consideration of US$40,000,000 (equivalent to RMB275,461,000). On 21 May 2020, the Company issued and allotted 26,720,000 Series A Shares of a par value of US$0.000025 each to Taurus Holding at a consideration of US$15,139,000 (equivalent to RMB108,250,000).

The key terms of the preferred shares are summarised as follows:

(1) Pre-emptive right to purchase

Each holder of Series A Shares shall have the pre-emptive right to purchase such Pre-emptive Rights Holder's Pro Rata Share of all (or any part) of any New Securities that the Company may from time to time issue after the date of the Shareholders Agreement.

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

(2) Conversion

Unless converted earlier pursuant to (a) below, each holder of Series A Shares shall have the right, at such holder's sole discretion, to convert all or any portion of the holder's Series A Shares into Ordinary Shares at any time. The conversion rate for the Series A Shares shall be determined by dividing the Series A Issue Price for each of the Series A Shares by its conversion price. The conversion price for each of the Series A Shares, subject to adjustments from time to time in accordance with the provisions hereof, is referred to hereinafter as the "Conversion Price". The initial Conversion Price for each of the Series A Shares shall be its Series A Issue Price of US$22,662.89 per shares.

(a) Subject to and in compliance with the provisions of the conversion, any Series A Share may, at the option of its holder, be converted at any time into fully-paid and non-assessable Ordinary Shares based on the then-effective Conversion Price.

(b) Without any action being required by the holder of such Series A Share and whether or not the certificates representing such Series A Share are surrendered to the Company or its transfer agent, each of the Series A Shares shall automatically be converted into Ordinary Shares, at the then Conversion Price, upon the earlier of: (i) the date specified by written consent or agreement of the holders of at least a majority of the Series A Shares then outstanding, and (ii) the closing of a Qualified Public Offering. In the event of the automatic conversion of the Series A Shares upon a Qualified Public Offering as aforesaid, the Person(s) entitled to receive the Ordinary Shares issuable upon such conversion of Series A Shares shall not be deemed to have converted such Series A Shares until immediately prior to the closing of such Qualified Public Offering.

(3) Redemption

Notwithstanding anything to the contrary herein, at any time upon or following the occurrence of any of the following events: (i) a Qualified Public Offering shall not have been closed prior to the fifth (5th) anniversary of the Series A Closing; (ii) prior to the consummation of a Qualified Public Offering, the Founder ceases to be employed by any Group Company or to devote his full time, attention and efforts to the business of the Group Companies for any reason and within 30 days upon occurrence of any such event, the Founder and Taurus Holding have not reached a written agreement regarding solution with respect to such event; (iii) prior to the consummation of a Qualified Public Offering, seventy-five percent (75%) of the Key Persons (other than the Founder) terminates his/her employment with any Group Company, or any Group Company terminates the seventy-five percent (75%) of the Key Persons' (other than the Founder) employment for cause; (iv) any Group Company, the Founder or any of the Key Persons breaches any obligation about non-competition and full time commitment; or (v) any Group Company or the Founder directly or indirectly issues or transfers any Shares to any Taurus Holding Competitor or any of its Affiliates or direct or indirect shareholders.

The price at which each Series A Share shall be redeemed or acquired shall be equal to the greater of: the fair market value of such Series A Shares on a per Share basis as of the date of the Redemption Request; or Series A Issue Price*(1+10%*N), plus all declared but unpaid dividends per share thereon up to the date of redemption, proportionally adjusted for share subdivisions, share dividends, reorganisations, reclassifications, consolidations or mergers; N = a fraction the numerator of which is the number of calendar days between the Series A Original Issue Date and the relevant redemption date on which such Series A Share is redeemed and the denominator of which is 365.

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

(4) Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the assets of the Company available for distribution shall be distributed to the shareholders of the Company as follows:

(a) The holders of the Series A Shares shall be entitled to receive, prior to any distribution to the holders of any other class or series of Shares, an amount per Series A Share equal to 110% of the Series A Issue Price plus any declared but unpaid dividends (the "**Series A Preference Amount**"). In the event that the Company has insufficient assets to permit payment of the Series A Preference Amount in full to all holders of Series A Shares, then the assets of the Company shall be distributed ratably to the holders of the Series A Shares in proportion to the Series A Preference Amount each such holder of Series A Shares would otherwise be entitled to receive.

(b) Subject to the payment of all amounts due to the holders of the Series A Shares in accordance with (a) above, the balance of the assets of the Company available for distribution shall be distributed ratably to the holders of Shares (on an as-converted basis).

	Total RMB'000
As at 1 January 2019	274,525
Changes in fair value	14,996
As at 31 December 2019 and 1 January 2020	289,521
Issue of preferred shares	108,250
Changes in fair value	77,657
As at 31 December 2020	475,428

The Company has used the Market Approach or Backsolve Method when applicable to determine the underlying share value of the Company and adopted the equity allocation model to determine the fair values of the preferred shares as of the dates of issuance and as at 31 December 2020 and 2019.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019.

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

Significant unobservable inputs

	2020	2019
Time to IPO	2021/1/15	2023/11/29
Time to liquidation/redemption	2023/11/29	2023/11/29
Risk-free rate	1.20%	2.63%
Equity volatility – IPO	40%	41%
Equity volatility – liquidation/redemption	45%	41%
DLOM – Series A	2%	11%

Quantitative sensitivity analysis

	2020 RMB'000	2019 RMB'000
1 year increase in time to exit event	183	(2,150)
1% increase in risk-free rate	(163)	(5,435)
1% decrease in risk-free rate	201	6,226
10% increase in equity volatility	70	(6,794)
10% decrease in equity volatility	(211)	4,266
5% increase in DLOM	N/A	(16,014)
5% decrease in DLOM	N/A	16,014
1% increase in DLOM	(4,865)	(3,197)
1% decrease in DLOM	4,865	3,197

29. SHARE CAPITAL

	2020 US$'000	2019 US$'000
Authorised:		
50,000 ordinary shares of US$1 each	–	50
2,000,000,000 ordinary shares of US$0.000025 each	50	–
	50	50
Issued but credit fully paid:		
10,000 ordinary shares of US$1 each	–	10
400,000,000 ordinary shares of US$0.000025 each	10	–
	10	10

The movement in the Company's share capital during the year is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2019 and 31 December 2019	10,000	–
Share sub-division on 11 May 2020 *(note (a))*	399,990,000	–
At 31 December 2020	400,000,000	–

Notes:

(a) On 11 May 2020, the Company's issued and unissued 50,000 shares of a par value of US$1.00 each were subdivided into 2,000,000,000 shares with a par value of US$0.000025 each. As a result, (i) the authorised share capital of the Company shall be US$50,000 divided into 2,000,000,000 shares of US$0.000025 par value each, and (ii) the issued share capital of the Company shall be 400,000,000 shares and 70,600,000 Series A Preferred Shares of US$0.000025 par value each.

(b) On 21 May 2020, the Company issued and allotted 26,720,000 Series A Preferred Shares of a par value of US$0.000025 each to Taurus Holding for a consideration of US$15,138,810 (equivalent to RMB108,250,000) which was fully received in May 2020.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 102 of the financial statements.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group, details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their statutory surplus reserve until the reserve reaches 50% of their registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

31. BUSINESS COMBINATIONS

(a) On 31 January 2019, the Group acquired a 100% interest in Hangzhou Yide from independent third parties. Hangzhou Yide is engaged in the business of literature copyright agency and development. The acquisition was made as part of the Group's strategy to expand its market share of drama series licensing. The purchase consideration for the acquisition was in the form of cash, with RMB100,000,000 paid before the acquisition date, RMB13,400,000 paid in 2019, RMB50,600,000 paid in 2020 and the remaining RMB16,000,000 has not yet been paid.

31. BUSINESS COMBINATIONS (CONT'D)

(a) (cont'd)

The fair values of the identifiable assets and liabilities of Hangzhou Yide as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	*13*	793
Inventories		118,997
Prepayments, other receivables and other assets		67,638
Other intangible assets	*16*	42,900
Cash and cash equivalents		18,720
Trade payables		(5,888)
Other payables and accruals		(137,489)
Deferred tax liabilities	*27*	(14,012)
Due to a related party		(20,000)
Total identifiable net assets at fair value		71,659
Goodwill on acquisition	*15*	108,341
Cash consideration		180,000

The goodwill of RMB108,341,000 recognised above comprises the value of expected synergies arising from this acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	180,000
Cash and cash equivalents acquired	(18,720)
Net outflow of cash and cash equivalents included in cash flows from investing activities for the year ended 31 December 2018	(15,000)
Net outflow of cash and cash equivalents included in cash flows from investing activities for the year ended 31 December 2019	(79,680)
Net outflow of cash and cash equivalents included in cash flows from investing activities for the year ended 31 December 2020	(50,600)
Cash consideration unpaid at 31 December 2020	16,000

31. BUSINESS COMBINATIONS (CONT'D)

(a) (cont'd)

Since the acquisition, Hangzhou Yide contributed nil to the Group's revenue and RMB1,182,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year of 2019, the revenue of the Group and profit of the Group for the year ended 31 December 2019 would have been RMB765,097,000 and RMB46,230,000, respectively.

(b) On 23 June 2020, the Group acquired a 89.0% interest in Nova Film from independent third parties. Nova Film is engaged in the business of special effects editing and other post-production work for films and drama series. The acquisition was made as part of the Group's strategy to enhance its comprehensive drama series production capabilities. The purchase consideration for the acquisition was the amount due from Nova Film of RMB12,500,000.

The fair values of the identifiable assets and liabilities of Nova Film as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	*13*	6,752
Prepayments, other receivables and other assets		20,333
Other intangible assets	*16*	12,682
Right-of-use assets	*14(a)*	91
Trade receivables		11,902
Cash and cash equivalents		2,677
Interest-bearing bank borrowings		(25,500)
Trade payables		(10,268)
Other payables and accruals		(7,985)
Deferred tax liabilities	*27*	(1,764)
Lease liabilities	*14(b)*	(91)
Total identifiable net assets at fair value		8,829
Non-controlling interests		(971)
Goodwill on acquisition	*15*	4,642
Purchase consideration		12,500

The goodwill of RMB4,642,000 recognised above comprises the value of expected synergies arising from this acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

31. BUSINESS COMBINATIONS (CONT'D)

(b) (cont'd)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	–
Cash and cash equivalents acquired	(2,677)
Net inflow of cash and cash equivalents included in cash flows from investing activities for the year ended 31 December 2020	2,677
Cash consideration unpaid at 31 December 2020	–

Since the acquisition, Nova Film contributed RMB19,371,000 to the Group's revenue and RMB1,052,000 to the consolidated loss for the year ended 31 December 2020.

Had the combination taken place at the beginning of the year of 2020, the revenue of the Group and profit of the Group for the year ended 31 December 2020 would have been RMB973,656,000 and RMB17,554,000, respectively.

32. SHARE AWARDS

(a) Pursuant to the share transfer agreements dated 5 March 2018 and 1 November 2018, the shareholders of the Company agreed to transfer certain of their equity interests in the Company at nil consideration to Gold Fish Management Holding Limited ("**Gold Fish**"), which is controlled by a key employee of the Group. Upon completion of the shares transfer, Gold Fish holds a total of 8% equity interests in the Company.

The fair value of the 8% equity interests in the Company amounted to RMB41,951,000, which was by reference to the valuation result appraised by an independent valuer as at the base date of the valuation. As the shares transfer came into effect immediately in March 2018 and November 2018 and did not have any vesting or service conditions, or restriction for future transfer, the amount of RMB41,951,000 was considered as a compensation for Ms. Zhai Fang's services for and contributions to the Group, and was therefore accounted for as a share-based compensation expense in the Group's profit or loss for the year ended 31 December 2018.

(b) On 11 May 2020, the Company adopted the Pre-IPO Share Option Scheme. Following the adoption of the Pre-IPO Share Option Scheme, 37,648,000 Pre-IPO Share Options, representing approximately 8% equity interests in the Company, were granted to Mr. Liu Xiaofeng, an executive director and the chief executive officer of the Company, to recognise his significant contribution to the Group. The Pre-IPO Share Options required no performance target except that Mr. Liu Xiaofeng remains as an employee of the Group during the vesting period.

32. SHARE AWARDS (CONT'D)

(b) (cont'd)

The exercise price of the Pre-IPO Share Options is no less than its par value, which will determined by the Board of Directors. 5% of the Pre-IPO Share Options is exercisable after 24 months from the date of the option scheme agreement; 10% of the Pre-IPO Share Options are exercisable after 36 months from the date of the share option scheme agreement; 15% of the Pre-IPO Share Options are exercisable after 48 months from the date of the option scheme agreement; 30% of the Pre-IPO Share Options are exercisable after 60 months from the date of the option scheme agreement and 40% of the Pre-IPO Share Options are exercisable after 72 months from the date of the option scheme agreement.

The following share options were outstanding under the Pre-IPO Share Option Scheme in 2020:

	Weighted average exercise price US$ per share	Number of options '000
At 1 January 2020	–	–
Granted during the year	0.000025	37,648
At 31 December 2020	0.000025	37,648

The fair value of the Pre-IPO Share Options granted in 2020 was approximately RMB77,152,000, of which the Group recognised a share-based compensation expense of RMB10,729,000 for the year ended 31 December 2020.

The fair value of equity-settled share options granted in 2020 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2020
Expected volatility (%)	53.00
Risk-free interest rate (%)	2.02
Expected life of options (years)	10
Weighted average share price (US$)	0.29
Forfeiture rate (%)	–

No other feature of the options granted was incorporated into the measurement of fair value.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash settlements of loans receivable from a third party of RMB35,570,000 (2019: RMB54,066,000), by offsetting against the amount due to a third party.

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB8,814,000 (2019: RMB109,000), in respect of lease arrangements for office premises.

During the year, the Group had non-cash settlements of purchase consideration for the acquisition of Nova Film of RMB12,500,000 by offsetting against the prepayments, other receivables and other assets.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Amount due to a related party RMB'000	Amount due to a joint venture RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Financial liabilities at fair value through profit or loss RMB'000
At 1 January 2019	66,000	81,013	–	1,036	1,379	274,525
Additions	–	–	–	–	109	–
Changes from financing cash flows	59,000	–	51,000	–	(979)	–
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	–	14,996
Acquisition of a subsidiary	–	20,000	–	–	–	–
Interest accrued	–	4,913	–	6,345	76	–
Interest paid	–	–	–	(6,011)	(76)	–
At 31 December 2019 and 1 January 2020	125,000	105,926	51,000	1,370	509	289,521
Additions	–	–	–	–	8,814	–
Changes from financing cash flows	8,500	(100,000)	20,000	–	(1,894)	108,250
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	–	77,657
Acquisition of a subsidiary	25,500	–	–	–	91	–
Interest accrued	–	1,246	4,167	8,521	177	–
Interest paid	–	(7,172)	(1,872)	(9,583)	(177)	–
At 31 December 2020	159,000	–	73,295	308	7,520	475,428

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	1,385	1,088
Within financing activities	2,071	1,055
	3,456	2,143

34. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
The co-investment arrangements	43,945	109,700
Outright-purchased drama series	2,032	–
Made-to-order drama series	139,134	31,872
	185,111	141,572

35. RELATED PARTY TRANSACTIONS

Details of the Company's related parties are as follows:

Company	Relationship with the Company
Liu Xiaofeng	The ultimate controlling shareholder
Zhao Min	Close family member of a shareholder
Youkong Yinghua	An associate of the Group
Nanjing Huawen	A joint venture of the Group
Beijing iQIYI Technology Co., Ltd. ("**Beijing iQIYI**")	An entity controlled by a shareholder
Beijing Qiyi Century Technology Co., Ltd. ("**Qiyi Century**")	An entity controlled by a shareholder
Beijing iQIYI Internet Technology Co., Ltd. ("**iQIYI Internet**")	An entity controlled by a shareholder
Hainan iQIYI Information Technology Co., Ltd. ("**Hainan iQIYI**")	An entity controlled by a shareholder
Shanghai Shaoyin Music Entertainment Co., Ltd. ("**Shanghai Shaoyin**")	An entity controlled by shareholders

35. RELATED PARTY TRANSACTIONS (CONT'D)

(a) The Group had the following transactions with related parties during the year:

	Notes	2020 RMB'000	2019 RMB'000
Sales of goods to:			
Qiyi Century	*(i)*	**2,288**	92,528
iQIYI Internet	*(i)*	**74,367**	112,719
Beijing iQIYI	*(i)*	**463,301**	3,237
Hainan iQIYI	*(i)*	**13,208**	–
Purchases of goods from:			
Beijing iQIYI	*(ii)*	**27,050**	148,933
iQIYI Internet	*(ii)*	**920**	–
Youkong Yinghua	*(ii)*	**458**	1,563
Borrowings from:			
Nanjing Huawen	*(iv)*	**20,000**	51,000
Repayments of loans to:			
Beijing iQIYI	*(iii)*	**100,000**	–
Interest expenses to:			
Beijing iQIYI	*(iii)*	**1,246**	4,913
Nanjing Huawen	*(iv)*	**4,149**	–
Loans to:			
Zhao Min	*(v)*	**–**	3,000
Shanghai Shaoyin	*(v)*	**3,000**	–
Repayments of loans from:			
Zhao Min	*(v)*	**3,000**	–
Shanghai Shaoyin	*(v)*	**3,000**	–

35. RELATED PARTY TRANSACTIONS (CONT'D)

(a) The Group had the following transactions with related parties during the year: (cont'd)

Notes:

(i) The sales to related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(iii) The Group obtained a loan from Liu Xiaofeng. Liu Xiaofeng transferred all rights and interest of the loan to Beijing iQIYI on 29 November 2018. The loan bore interest at 5% per annum, was guaranteed by Liu Xiaofeng and has been fully repaid in 2020.

(iv) The Group obtained an unsecured loan from Nanjing Huawen to invest in drama series, while the amount of RMB30,000,000 bears interest at 10% per annum, the amount of RMB21,000,000 is interest-free, and the amount of RMB20,000,000 bears interest at 10% per annum.

(v) The Group provided loans to Zhao Min and Shanghai Shaoyin and the loans were unsecured, interest-free and have been fully repaid in 2020.

(b) Outstanding balances with related parties:

(i) Trade receivables

	2020 RMB'000	2019 RMB'000
iQIYI Internet	**93,203**	270,522
Hainan iQIYI	**14,000**	–
	107,203	270,522

(ii) Prepayments, other receivables and other assets

	2020 RMB'000	2019 RMB'000
Youkong Yinghua	**3,310**	3,310

35. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Outstanding balances with related parties: (cont'd)

(iii) Trade payables

	2020 RMB'000	2019 RMB'000
Qiyi Century	–	2,288
Beijing iQIYI	**15,163**	62,338
iQIYI Internet	**920**	–
	16,083	64,626

(iv) Other payables and accruals

	2020 RMB'000	2019 RMB'000
Beijing iQIYI	**406,793**	535,762

(v) Due from a related party

	2020 RMB'000	2019 RMB'000
Zhao Min	–	3,000

(vi) Due to a joint venture

	2020 RMB'000	2019 RMB'000
Nanjing Huawen	**73,295**	51,000

35. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Outstanding balances with related parties: (cont'd)

(vii) Due to a related party

	2020 RMB'000	2019 RMB'000
Beijing iQIYI	–	105,926

Except for the amount due to Beijing iQIYI and Nanjing Huawen as stated in note 35(a)(iii) and (iv) above and transactions detailed elsewhere in notes 20, 21, 24 and 25, the balances with related parties are unsecured, interest-free and repayable on demand.

Except for the amounts stated in 35(b)(v), (vi) and (vii) above, the balances with related parties are trade in nature.

(c) Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	1,443	1,541
Equity-settled share award expense	10,729	–
Pension scheme contributions	11	203
Total compensation paid to key management personnel	12,183	1,744

Further details of directors' emoluments are included in note 8 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at fair value through other comprehensive income		
	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Notes receivables	10,000	–	10,000
Trade receivables	–	430,731	430,731
Financial assets included in prepayments, other receivables and other assets	–	31,978	31,978
Restricted cash	–	2,319	2,319
Pledged deposits	–	30,000	30,000
Cash and cash equivalents	–	95,598	95,598
	10,000	590,626	600,626

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities at fair value through profit or loss	475,428	–	475,428
Trade payables	–	238,351	238,351
Lease liabilities	–	7,520	7,520
Interest-bearing bank and other borrowings	–	159,000	159,000
Financial liabilities included in other payables and accruals	–	149,133	149,133
Due to a joint venture	–	73,295	73,295
Dividend payable	–	80,000	80,000
	475,428	707,299	1,182,727

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (cont'd)

2019

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	485,396	485,396
Financial assets included in prepayments, other receivables and other assets	169,173	169,173
Due from a related party	3,000	3,000
Restricted cash	54,312	54,312
Cash and cash equivalents	52,349	52,349
	764,230	764,230

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities at fair value through profit or loss	289,521	–	289,521
Trade payables	–	449,190	449,190
Lease liabilities	–	509	509
Interest–bearing bank and other borrowings	–	125,000	125,000
Financial liabilities included in other payables and accruals	–	176,679	176,679
Due to a joint venture	–	51,000	51,000
Due to a related party	–	105,926	105,926
Dividend payable	–	81,507	81,507
	289,521	989,811	1,279,332

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted cash, pledged deposits, trade and notes receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals, dividend payable and interest-bearing bank and other borrowings, lease liabilities, amounts due from/to a joint venture and related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2020 were assessed to be insignificant. The fair value of the financial liabilities at fair value through profit or loss is estimated by the market approach and equity allocation model.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 as at the end of reporting period have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, and thus their fair values approximate to their carrying values.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONT'D)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	10,000	–	10,000

The Group did not have any financial assets measured at fair value as at 31 December 2019.

Liabilities measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial liabilities at fair value through profit or loss	–	–	475,428	475,428

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONT'D)

Fair value hierarchy (cont'd)

Liabilities measured at fair value: (cont'd)

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial liabilities at fair value through profit or loss	–	–	289,521	289,521

The changes in Level 3 instruments of financial liabilities at fair value through profit or loss and a summary of significant unobservable inputs to the valuation of these financial instruments together with a quantitative sensitivity analysis for the years ended 31 December 2020 and 2019 are presented in note 28.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets included in prepayments, other receivables and other assets, interest-bearing bank and other borrowings, financial liabilities included in other payables and accruals and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables, trade payables and lease liabilities, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Credit risk (cont'd)

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	443,022	443,022
Notes receivable**	10,000	–	–	–	10,000
Financial assets included in prepayments, other receivables and other assets					
– Normal**	31,978	–	–	–	31,978
Restricted cash					
– Not yet past due	2,319	–	–	–	2,319
Pledged deposits					
– Not yet past due	30,000	–	–	–	30,000
Cash and cash equivalents					
– Not yet past due	95,598	–	–	–	95,598
	169,895	–	–	443,022	612,917

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Credit risk (cont'd)

Maximum exposure and year-end staging (cont'd)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	491,881	491,881
Financial assets included in prepayments, other receivables and other assets					
– Normal**	169,173	–	–	–	169,173
Due from a related party					
– Normal**	3,000	–	–	–	3,000
Restricted cash					
– Not yet past due	54,312	–	–	–	54,312
Cash and cash equivalents					
– Not yet past due	52,349	–	–	–	52,349
	278,834	–	–	491,881	770,715

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of notes receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 20 and note 21 to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, lease liabilities and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	2,174	162,919	–	–	165,093
Trade payables	238,351	–	–	–	–	238,351
Lease liabilities	–	676	1,906	4,925	921	8,428
Financial liabilities at fair value through profit or loss	–	–	–	–	475,428	475,428
Financial liabilities included in other payables and accruals	148,616	–	517	–	–	149,133
Due to a joint venture	73,295	1,250	417	–	–	74,962
Dividend payable	80,000	–	–	–	–	80,000
	540,262	4,100	165,759	4,925	476,349	1,191,395

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Liquidity risk (cont'd)

	31 December 2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	1,555	129,048	–	–	130,603
Trade payables	449,190	–	–	–	–	449,190
Lease liabilities	–	283	751	–	–	1,034
Financial liabilities at fair value through profit or loss	–	–	–	–	490,137	490,137
Financial liabilities included in other payables and accruals	175,407	–	1,272	–	–	176,679
Due to a joint venture	51,000	–	–	–	–	51,000
Due to a related party	105,926	–	–	–	–	105,926
Dividend payable	81,507	–	–	–	–	81,507
	863,030	1,838	131,071	–	490,137	1,486,076

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Capital management (cont'd)

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total equity multiplied by 100% as at the date indicated. Net debt includes lease liabilities, interest-bearing bank and other borrowings, an amount due to a joint venture and amounts due to a related party less cash and cash equivalents. Capital represents total equity of the Group. The debt-to-equity ratios as at end of the reporting periods were as follows:

	2020 **RMB'000**	2019 RMB'000
Interest-bearing bank and other borrowings	**159,000**	125,000
Lease liabilities	**7,520**	509
Due to a joint venture	**73,295**	51,000
Due to a related party	**–**	105,926
Less: Cash and cash equivalents	**(95,598)**	(52,349)
Net debt	**144,217**	230,086
Equity attributable to owners of the parent	**223,707**	194,451
Debt-to-equity ratio	**64%**	118%

39. EVENTS AFTER THE REPORTING PERIOD

On 15 January 2021, the Company was listed on the Main Board of the Stock Exchange and made a global offering of 165,780,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price of HK$5.88 per share.

Pursuant to the over-allotment option granted by the Company to the international underwriters, the Company allotted and issued 24,867,000 additional offer shares on 10 February 2021 at the offer price of HK$5.88 per share.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 **RMB'000**	2019 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**52,680**	41,951
Total non-current assets	**52,680**	41,951
CURRENT ASSETS		
Due from a subsidiary	**383,607**	275,461
Cash and cash equivalents	**109**	5
Total current assets	**383,716**	275,466
NET CURRENT ASSETS	**383,716**	275,466
TOTAL ASSETS LESS CURRENT LIABILITIES	**436,396**	317,417
NON-CURRENT LIABILITIES		
Financial liabilities at fair value through profit or loss	**475,428**	289,521
Total non-current liabilities	**475,428**	289,521
Net assets	**(39,032)**	27,896
EQUITY		
Share capital	**–**	–
Reserves *(note)*	**(39,032)**	27,896
Total equity	**(39,032)**	27,896

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONT'D)

Note:

A summary of the Company's reserves is as follows:

	Share award or option reserve RMB'000	Retain profits/ (accumulated losses) RMB'000	Total equity RMB'000
At 1 January 2019	41,951	939	42,890
Loss for the year	–	(14,994)	(14,994)
At 31 December 2019 and 1 January 2020	41,951	(14,055)	27,896
Equity-settled share award expense	10,729	–	10,729
Loss for the year	–	(77,657)	(77,657)
At 31 December 2020	52,680	(91,712)	(39,032)

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2021.

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Revenue	542,864	679,109	765,097	**952,362**
Gross profit	152,052	209,863	107,640	**259,821**
Profit before tax	92,634	40,148	65,972	**48,420**
Income tax expense	(28,604)	(29,635)	(15,572)	**(30,228)**
Profit for the year	64,030	10,513	50,400	**18,192**
Attributable to				
Owners of the parent	60,566	12,434	50,032	**18,430**
Non-controlling interests	3,464	(1,921)	368	**(238)**

ASSETS AND LIABILITIES

	As at December 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Total assets	872,997	1,079,887	2,052,255	**1,859,920**
Total liabilities	679,499	933,925	1,857,804	**1,635,283**
Total equity	193,498	145,962	194,451	**224,637**
Non-controlling interests	3,464	1,543	–	**930**
Equity attributable to owners of the parent	190,034	144,419	194,451	**223,707**

DEFINITIONS AND GLOSSARIES

In this annual report, the following expressions have the meanings set out below unless the context otherwise requires:

"AGM"	annual general meeting of the Company
"Articles of Association"	the amended and restated memorandum and articles of association of the Company adopted on December 18, 2020 with effect from the Listing Date (as amended from time to time)
"Audit Committee"	the audit committee of the Board
"Beijing Honeybear"	Beijing Honeybear Entertainment Cultural Media Co., Ltd (北京蜜熊娛樂文化傳媒有限公司), a limited liability company established in the PRC on September 10, 2020 and an indirectly non-wholly-owned subsidiary of our Company
"Beijing iQIYI"	Beijing iQIYI Technology Co., Ltd. (北京愛奇藝科技有限公司), a limited liability company established in the PRC on March 27, 2007, a wholly-owned subsidiary of iQIYI, Inc. and a connected person of our Company
"Beijing Strawbear"	Beijing Strawbear Film Co., Ltd. (北京稻草熊影業有限公司), a limited liability company established in the PRC on September 2, 2019 and indirectly controlled by our Company through the Contractual Arrangements
"Beyond Vast"	BEYOND VAST LIMITED, a BVI business company incorporated under the laws of the BVI on August 12, 2020 and wholly owned by Family Trust Singapore, the trustee of the LSS Family Trust
"Board" or "Board of Directors"	the board of Directors of the Company
"broadcasting right"	refers to (i) the right of broadcasting (廣播權), in terms of drama series broadcast via TV channels; and (ii) the right to network dissemination of information (信息網絡傳播權), in terms of drama series and films broadcast via online video platforms, for the purpose of this report
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"China" or the "PRC"	the People's Republic of China, but for the purpose of this report and for geographical reference only, references herein to "China" and the "PRC" do not apply to Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company" or "our Company"	Strawbear Entertainment Group (稻草熊娱乐集团), an exempted company with limited liability incorporated under the laws of Cayman Islands on January 3, 2018, the Shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"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

"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, Nanjing Strawbear, Jiangsu Strawbear and its registered shareholders, details of which are described in "Contractual Arrangements" in the Prospectus
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, unless the context otherwise requires, refers to Mr. Liu, Master Sagittarius and Leading Glory
"COVID-19"	novel coronavirus pneumonia
"Deed of Non-competition"	a deed of non-competition undertakings dated December 18, 2020 entered into by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of our subsidiaries), particulars of which are summarized in the section headed "Relationship with Our Controlling Shareholders" in the prospectus
"Director(s)"	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
"Employee Trust Hong Kong"	Vistra Trust (Hong Kong) Limited, an Independent Third Party professional trust company established in Hong Kong
"Family Trust Singapore"	Vistra Trust (Singapore) Pte. Limited, an Independent Third Party professional trust company established in Singapore
"first-run broadcast" or "first-run"	the first round broadcast of a drama series on the TV channel or online video platform
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
"Gold Fish"	Gold Fish Management Holding Limited, a BVI business company incorporated under the laws of the BVI on January 30, 2018 and wholly owned by Ms. Zhai
"Gold Fish Trust"	the discretionary trust established by Ms. Zhai as the settlor and the protector, with Family Trust Singapore as the trustee, details of which are set out in the section headed "History, Reorganization and Corporate Development" in the Prospectus
"Gold Pisces"	Gold Pisces Holding Limited, a BVI business company incorporated under the laws of the BVI on December 19, 2017 and wholly owned by Ms. Liu
"Golden Basin"	GOLDEN BASIN GLOBAL LIMITED, a BVI business company incorporated under the laws of the BVI on April 1, 2020 and owned as to 99% by Smart Century and 1% by Gold Fish
"Gorgeous Horizon"	GORGEOUS HORIZON LIMITED, a BVI business company incorporated under the laws of the BVI on August 28, 2020 and wholly owned by Success Tale

"Group", "our Group", "the Group", "we" or "us"	our Company and our subsidiaries and Consolidated Affiliated Entities at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"Hangzhou Yide"	Hangzhou Yide Cultural Creativity Co., Ltd. (杭州懿德文化創意有限公司), a limited liability company established in the PRC on June 25, 2015 and an indirectly wholly-owned subsidiary of our Company
"HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards, which collectively include Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Horgos Strawbear"	Horgos Strawbear Film Co., Ltd. (霍爾果斯稻草熊影業有限公司), a limited liability company established in the PRC on August 4, 2016 and indirectly controlled by our Company through the Contractual Arrangements
"Independent Third Party(ies)"	an individual or a company which, to the best of our Director's knowledge, information, and belief, having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules
"IP(s)"	refers to intellectual properties such as existing films, drama series or other literary or artistic works, concepts, stories and expressions that can be used or considered, entirely or partially, to create and/or produce new drama series or films
"IP reserve"	a reserve of IPs for future production of drama series or films
"iQIYI"	iQIYI, Inc. (Stock Code: IQ. NASDAQ) and its subsidiaries and consolidated affiliated entities, one of the largest Chinese online video platforms listed in the U.S. with approximately 476.0 million average MAUs in 2019
"Jiangsu Strawbear"	Jiangsu Strawbear Film Co., Ltd. (江蘇稻草熊影業有限公司), a limited liability company established in the PRC on June 13, 2014 and indirectly controlled by our Company through the Contractual Arrangements

"Leading Glory"	LEADING GLORY INVESTMENTS LIMITED, a BVI business company incorporated under the laws of the BVI on April 1,2020 and owned as to 99% by Master Genius and 1% by Master Sagittarius
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on January 15, 2021
"Listing Date"	the date, namely January 15, 2021, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"LSS Family Trust"	the discretionary trust established by Ms. Liu as the settlor and the protector, with Family Trust Singapore as the trustee
"LXF Family Trust"	the trust established by Mr. Liu as the settlor and the protector, with Employee Trust Hong Kong as the trustee and Master Sagittarius as the beneficiary
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Master Genius"	MASTER GENIUS GLOBAL LIMITED, a BVI business company incorporated under the laws of the BVI on August 28, 2020 and wholly owned by Family Trust Singapore, the trustee of the LXF Family Trust
"Master Sagittarius"	Master Sagittarius Holding Limited, a BVI business company incorporated under the laws of the BVI on December 18, 2017 and wholly owned by Mr. Liu, one of our Controlling Shareholders
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Liu"	Mr. LIU Xiaofeng (劉小楓), chairman of the Board, an executive Director, the chief executive officer of our Company, one of our Controlling Shareholders and one of the Registered Shareholders of Jiangsu Strawbear
"Ms. Liu"	Ms. LIU Shishi (劉詩施), one of our substantial Shareholders and one of the Registered Shareholders of Jiangsu Strawbear
"Ms. Zhai"	Ms. ZHAI Fang (翟芳), an executive Director, the chief operating officer of our Company and one of the Registered Shareholders of Jiangsu Strawbear
"Ms. Zhang"	Ms. ZHANG Qiuchen (張秋晨), an executive Director, the chief marketing officer of our Company and one of the Registered Shareholders of Jiangsu Strawbear
"Ms. Zhao"	Ms. ZHAO Liying (趙麗穎), one of our Shareholders and one of the Registered Shareholders of Jiangsu Strawbear

"Nanjing Huawen"	Nanjing Huawen Strawbear Culture Partnership (Limited Partnership) (南京華文稻草熊文化合夥企業(有限合夥)), a limited partnership established in the PRC on November 29, 2019, 18.31% limited partnership interest in which are held by Jiangsu Strawbear
"Nanjing Strawbear"	Nanjing Strawbear Business Consulting Co., Ltd. (南京稻草熊商務諮詢有限公司), a limited liability company established in the PRC on September 17, 2018 and an indirectly wholly-owned subsidiary of our Company
"Nomination Committee"	the nomination committee of the Board
"Nova Film"	Nova Film Technology (Jiangsu) Co., Ltd. (諾華視創電影科技(江蘇)有限公司), a limited liability company established in the PRC on May 29, 2015 and indirectly controlled by our Company through the Contractual Arrangements
"NRTA"	National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局), the successor of SAPPRFT
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by our Company on May 11, 2020, the principal terms of which are summarized in "Appendix IV – Statutory and General Information – D. Other Information – (1) Pre-IPO Share Option Scheme" in the Prospectus
"Pre-IPO Share Options"	the share options granted under the Pre-IPO Share Option Scheme
"Prospectus"	the prospectus of the Company published on December 31, 2020
"re-run broadcast" or "re-run"	the rebroadcast of a drama series that has previously been broadcast on the TV channel or online video platform, including second-run broadcast and all subsequent broadcasts on any channel
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the twelve-month period from January 1, 2020 to December 31, 2020
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Shanghai Shaoyin"	Shanghai Shaoyin Music Entertainment Co., Ltd. (上海韶愔音樂娛樂有限公司), a limited liability company established in the PRC on July 26, 2019 held by Mr. Liu and Beijing iQIYI as to 40% and 60%, respectively, and a connected person of our Company

"Shanghai Strawbear"	Shanghai Strawbear Business Consulting Co., Ltd. (上海稻草熊商務諮詢有限公司), a limited liability company established in the PRC on September 3, 2018 and an indirectly wholly-owned subsidiary of our Company
"Share(s)"	ordinary share(s) in the share capital of the Company with nominal value of US$0.000025 each
"Shareholder(s)"	holder(s) of the Shares
"Smart Century"	SMART CENTURY VENTURES LIMITED, a BVI business company incorporated under the laws of the BVI on June 24, 2020 and wholly owned by Family Trust Singapore, the trustee of the Gold Fish Trust
"Strawbear Film"	Strawbear Film Limited, a limited liability company incorporated under the laws of Hong Kong on January 31, 2018 and an indirectly wholly-owned subsidiary of our Company
"Strawbear Pictures"	Strawbear Pictures Limited, a BVI business company incorporated under the laws of BVI on January 9, 2018 and a directly wholly-owned subsidiary of our Company
"Success Tale"	SUCCESS TALE ENTERPRISES LIMITED, a BVI business company incorporated under the laws of the BVI on August 28, 2020 and wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust
"top three online video platforms"	iQIYI (愛奇藝), Tencent Video (騰訊視頻) and Youku (優酷), three leading online video platforms with market share collectively accounting for approximately 83.6% of the drama series market in the PRC in terms of the revenue in 2019
"TV"	television
"TV series"	a series of scripted episodes that needs to obtain a distribution license from the 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
"viewership rating(s)"	an index which indicates the coverage rate of a TV series during a specific period, measured by the number of audience of a particular TV series as a percentage of the total audience
"Voting Arrangement Agreements"	the agreement and supplemental agreement thereof dated November 1, 2018 entered into by, among others, Mr. Liu, Ms. Liu, Ms. Zhai, Ms. Zhao, Ms. Zhang and their respective wholly-owned holding companies (where applicable) regarding certain arrangements for the voting rights in the members of our Group, details of which are set out in "History, Reorganization and Corporate Development – Voting Arrangement and Lock-up Arrangements" in the Prospectus

"web film"	a film which has a length of more than 60 minutes and can only be broadcast on new media channels such as online video platforms
"web series"	a series of scripted episodes which can only be broadcast on new media channels such as online video platforms
"Wuxi Strawbear"	Wuxi Strawbear Culture Media Co., Ltd. (無錫稻草熊文化傳媒有限公司), a limited liability company established in the PRC on June 4, 2020 and an indirectly non-wholly-owned subsidiary of our Company
"Wuxi Youkong"	Wuxi Youkong Yinghua Culture Media Co., Ltd. (無錫有空映畫文化傳媒有限公司), a limited liability company established in the PRC on November 1, 2017 and a substantial shareholder of Wuxi Strawbear
"Xingyu Yinyue"	Xiangshan XingyuYinyue Culture Media Co., Ltd. (象山星宇愔樂文化傳媒有限公司), a limited liability company established in the PRC on November 19, 2020 and an indirectly non-wholly-owned subsidiary of our Company

In this annual report, unless otherwise indicated, the terms "affiliate", "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.