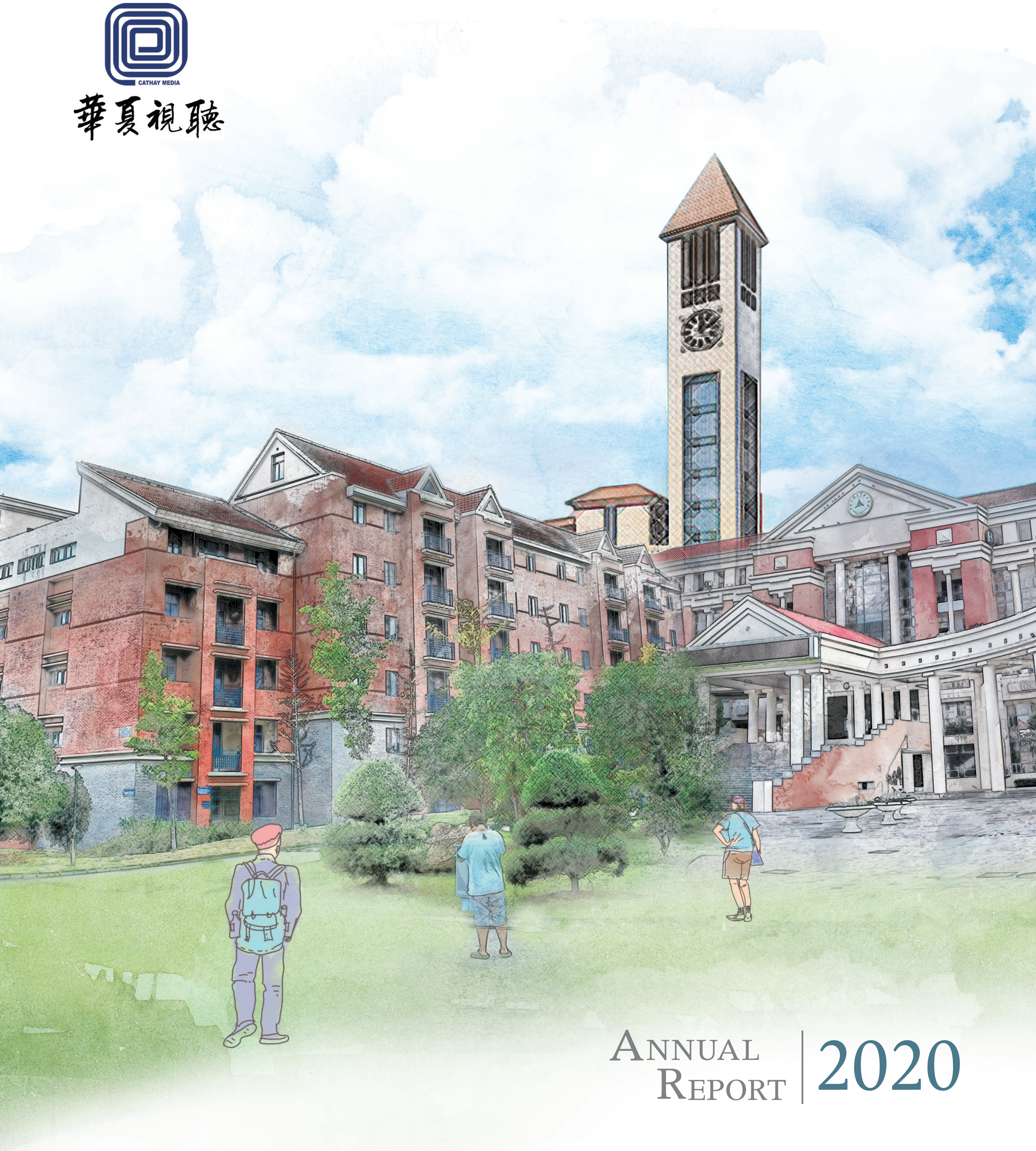
華夏視聽



ANNUAL REPORT 2020

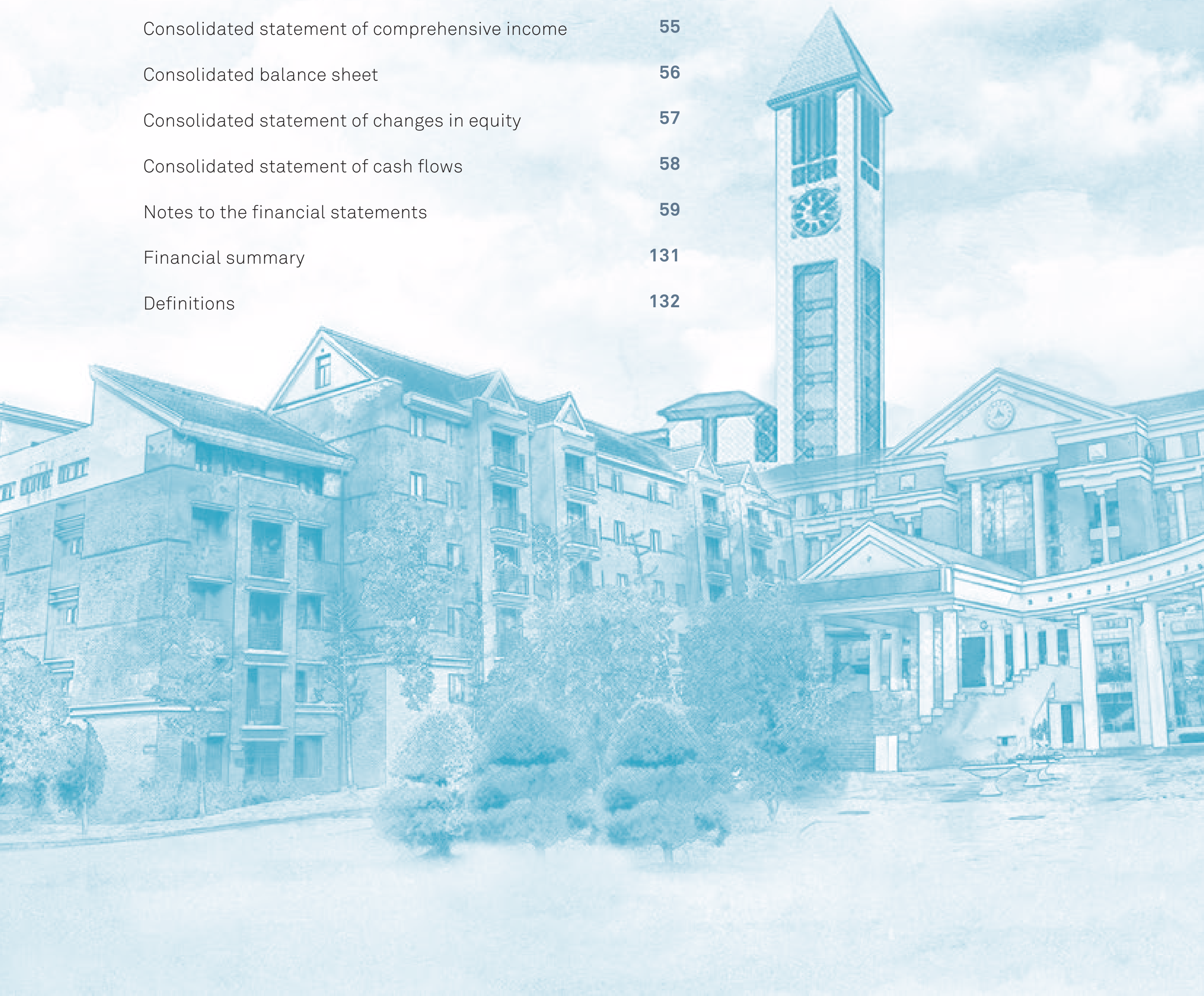
CATHAY MEDIA AND EDUCATION GROUP INC.

華夏視聽教育集團

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1981

CONTENTS



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Pu Shulin *(Chairperson and Chief Executive Officer)*
Mr. Sun Haitao
Mr. Wu Ye
Mr. Yan Xiang

Independent non-executive Directors

Mr. Zhang Jizhong
Mr. Lee Cheuk Yin Dannis
Mr. Huang Yu

AUDIT COMMITTEE

Mr. Lee Cheuk Yin Dannis *(Chairperson)*
Mr. Zhang Jizhong
Mr. Huang Yu

REMUNERATION COMMITTEE

Mr. Huang Yu *(Chairperson)*
Mr. Pu Shulin
Mr. Lee Cheuk Yin Dannis

NOMINATION COMMITTEE

Mr. Pu Shulin *(Chairperson)*
Mr. Zhang Jizhong
Mr. Lee Cheuk Yin Dannis

JOINT COMPANY SECRETARIES

Mr. Sun Haitao
Ms. Chow Yuk Yin Ivy

AUTHORISED REPRESENTATIVES

Mr. Pu Shulin
Mr. Sun Haitao

HEADQUARTERS

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Chaoyang District
Beijing, China

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REGISTERED OFFICE

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Grand Cayman KY1-9008, Cayman Islands

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

LEGAL ADVISERS

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HONG KONG SHARE REGISTRAR

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Walkers Corporate Limited
190 Elgin Avenue, George Town
Grand Cayman KY1-9008, Cayman Islands

PRINCIPAL BANKS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (HK) Ltd.

STOCK CODE

1981

COMPANY WEBSITE

www.cathaymedia.com

Dear shareholders and friends:

Thank you for your continued trust, support and assistance to our Group. I would like to take this opportunity to sincerely wish good health for you and your loved ones.

2020 passed under the dark shadows of the COVID-19 pandemic. 2020 was also the first year of our Group's listing. For our Group, 2020 brought both challenges and opportunities. The online roadshows and remote listing ceremony are still vivid in my mind. We are pleased to deliver the first satisfactory results in such a volatile external environment.

In 2020, the Group realized revenue of approximately RMB790 million, representing year-on-year increase of 5.7%, and adjusted net profit of RMB365 million, representing year-on-year increase of 18.3%.

However, rather than focusing only on the figures, I prefer to share our vision, our courage and our dedication in the face of the challenging global economic conditions.

ART CHANGES THE FUTURE, AND MEDIA INFLUENCES THE PRESENT

Our Group is dedicated to establish a closed ecosystem for art training, media and art higher education and TV/film production and investment. The acquisition of "Shuimuyuan" is a start of our plan. We will continue to leverage our brand and resources in the fields of media and art education and training as well as TV/film production and investment to expand our presence into the art training sector and hope to consolidate the art training industry in the future.

"Art changes the future, and media influences the present"-our corporate mission inspires and drives us. To ensure the continuity of this mission, we will continue to build an effective talent pool for our University and explore more art training opportunities. In parallel, we will also undertake acquisitions in a steady manner and seek more TV/film investment opportunities. Despite the impact of the COVID-19 pandemic, we have strong confidence in our future.

Firstly, China's GDP has exceeded RMB101 trillion, making it the second largest economy in the world. While we have achieved impressive progress in hard power, we clearly recognize that our soft power, ranging from art pieces such as TV/film, music and painting, to art industries including design and fashion, are not yet able to make an impact at a global level. It is our opportunity and mission to establish a presence for China's soft power in the cultural sector across the globe through art pieces, art-related works and industries.

Secondly, we are in an era of rapid technological advancements, where artificial intelligence acts as the fundamental technology to support iterative operation in various applied aspects. While intelligence makes life easier, we should not overlook the substitution of conventional functions of human labor by such technology. The future extent of robot substitution for human labor is uncertain. However, I believe art creation can never be substituted by machines. Based on this, art-related industries are expected to be a major demand for human labor and talents in the coming decades, just like the industrial and service industries twenty or ten years ago.

Thirdly, as China is moving to the stage where everyone enjoys a good standard of living, the demand of citizens will gradually shift from materialistic demands to spiritual needs, forming a market in which art is purely an interest or hobby.

All of the above reflects the great potential of the art training market and art education market in the future, which enhances our dedication to this industry. The viability and validity of our strategic direction and the necessity of strategic investment were well-proven after a whole year of practices in 2020. In the beginning of this year, we decided to continue to increase strategic investment, with a view to establishing a leading position in the art education sector in the future. We believe this initiative will create greater value for investors and put our mission into action.

THE VISION OF OUR ECOSYSTEM

In the future, our Group will capitalize on our human and capital resources to establish a closed ecosystem comprised of three interlinked sectors, namely, art training, media and art higher education and TV/film production. We are committed to becoming a global leading comprehensive education and media group, built on a media and arts higher education business and a tutoring services business.

Art training: We realized our strategy by expanding our art training business. Our purpose is to become the best art training institution, which is also the top priority in our immediate future. Looking forward, the Group will continue to support the organic growth and external expansion of Shuimuyuan to build a well-known brand in fine arts exam tutoring sector. In parallel, we will increase our media and arts tutoring services offering, and provide more arts subjects tutoring programs, striving to build a first-class and trustworthy flagship brand for media and arts tutoring.

Media and art higher education: Our University is planning to build a new campus which can accommodate more than ten thousand additional students. We look to achieve new highs in both the number of freshmen enrolled and the total number of students enrolled in our University. We are also proactively recruiting talents in the industry with newly opened high-level positions such as “Distinguished Professors” and “Artist in Residence”, aiming to deliver national first-class and provincial first-class rankings and grow the CUCN brand into a leader. Meanwhile, we will step up our efforts in developing the quality of art and media higher education and vocational education, providing outstanding talents with high academic qualifications of the art sector.

Commercial export of media content: We will actively get involved in the production of quality TV series, films and variety shows, and continue to look for TV/film projects and opportunities for investment, so as to diversify the types of works for our TV/film production with the continued pursuit of quality works.

One of the quotes by Irish poet William Butler Yeats is: “Education is not the filling of a pail, but the lighting of a fire.” We always believe that education allows more people to ignite their own passion and realize their own values. Lastly, I would like to express my gratitude to everyone for your trust and investment in Cathay Media and Education Group Inc. We are confident of becoming you most powerful ally by offering you the enduring investment – education!

Pu Shulin
Chairperson of the Board

29 March 2021

HIGHLIGHTS

	Year ended 31 December		
	2020	2019	Change (%)
	(RMB'000, except percentages)		
Revenue	**789,743**	747,186	6%
– TV/film production and investment	**427,110**	435,529	-2%
– Education and training	**362,633**	311,657	16%
Gross profit	**353,238**	372,825	-5%
Operating profit	**368,291**	234,247	57%
Profit for the year	**337,140**	194,517	73%
Non-HKFRS: Adjusted Net Profit[(1)]	**365,365**	308,240	19%

(1) Adjusted Net Profit, which is unaudited, represents profit for the year adding back listing expenses, termination fee payment and amortisation of licensing rights payment to Communication University of China.

Overview

The Group is currently entering a new chapter of development. Our business includes media and arts higher education, media and arts education and tutoring, and TV/film production and investment. We are committed to becoming China's leading comprehensive education and media group, built on a media and arts higher education business and a tutoring services business.

The Company was successfully listed on the Main Board of the Stock Exchange on 15 July 2020, enabling the Company to enter into the international capital markets and also providing funds for the long-term development of the Company and for grasping development opportunities in the industry. On 31 July 2020, the Over-allotment Option (as defined and described in the Prospectus) was fully exercised by the joint global coordinators (for themselves and on behalf of the international underwriters) pursuant to which the Company raised additional capital.

On 30 November 2020, the Group was officially included in the MSCI China Small Cap Index. The MSCI China Small Cap Index, which is compiled by MSCI Inc., a world-renowned index compilation company, aims to measure the performance of the small cap segment in the China market. The index covers companies with good business performance and growth potential. As an important tool for optimizing and improving investment portfolios, it has been widely referenced and adopted by global institutional investors.

Media and arts higher education

南京傳媒學院 ("CUCN" or "our University", formerly known as 中國傳媒大學南廣學院) officially converted from an independent college to a private higher education institution under the new school name 南京傳媒學院 (English name: Communication University of China, Nanjing) in March 2020.

As of 31 December 2020, we have approximately 17,596 students enrolled in CUCN, including 15,311 undergraduates, 443 international preparatory students and 1,842 continuing education students, representing a total year-on-year increase of approximately 18.5%. The total number of freshman enrolled in the 2020/2021 school year reached 6,592, a sharp increase of 44.1% year-on-year. Meanwhile, the new student registration rate for undergraduates reached a record 98.3%.

Our University attaches importance to teaching quality and continuously enhances academic competitiveness. In 2020, our University was newly appraised as the first tier at the national level for 2 majors and the first tier at the provincial level for 5 majors. With respect to major offerings, CUCN kept abreast of the needs of the industry. In 2020, our University had applied to offer 7 new majors in line with the trend of the time, including cross-border e-commerce and digital publishing. In 2020, our University implemented thoroughly a strategy to strengthen human capital and opened some high-level positions, such as "Distinguished Professors", "Artist in Residence" and others, and introduced a number of leaders with influence in the academics and media industry, heads of faculties, and distinguished professors. In terms of international exchanges, our school has further expanded our network of colleges and universities for international cooperation. In 2020, our University established international cooperation with 13 more well-known overseas universities and colleges, with the total number of partner institutions exceeding 70.

In order to meet the growing schooling needs of students, our University is also intensively building additional dormitories to increase school capacity and accommodate more students. The phase II dormitory building construction plan began in 2019, and was expected to accommodate 4,000 students. This dormitory building was completed ahead of schedule in 2020, and has been put into use in the 2020/2021 school year. A new phase of dormitory construction has been started, which can additionally accommodate approximately 5,000 students.

The Group's revenue from the education and training segment increased from approximately RMB311.7 million for the year ended 31 December 2019 to RMB362.6 million for the year ended 31 December 2020. The operating profit from the education and training segment increased from approximately RMB67.2 million for the year ended 31 December 2019 to approximately RMB248.2 million for the year ended 31 December 2020, representing an increase of 269.2%.

TV/Film production and investment

With respect to the film and television segment, we produced and delivered the TV series Shichahai (什刹海), which has been a stellar success. Broadcasted in July 2020, Shichahai outperformed other competing TV series on CCTV and was ranked No. 1 in viewer ratings nationwide. The series has been broadcasted in many countries and regions including the United States, Canada, Vietnam and Indonesia, and has won wide acclaim from audiences.

In April 2020, the Group's first web film Don't Call Me Jiushen (别叫我酒神) obtained a record-filing number from the NRTA, and has been broadcasted online since June 2020. As of the end of 2020, this web film had accumulated more than 100 million views on Tencent Video.

In 2020, the Group also delivered the co-produced TV series Zhaoge (朝歌) and Quiet (安靜). These two series are all expected to be released in 2021.

Media and arts education and tutoring

With respect to children's media and arts tutoring programs, the Group has launched media and arts tutoring programs for children and younger students, and started small scale recruitment activities in Beijing since August 2020.

On 19 December 2020, the Group agreed to acquire Affiliated Entities (as defined below) of Shuimuyuan, a leading fine arts tutoring institution in China. See "Material acquisitions and disposals" below for details.

Impact of COVID-19

The Group was also impacted by the coronavirus ("COVID-19"). Our University resumed teaching through online courses in early March 2020 (about one month later than the spring semester was originally scheduled to begin), and resumed in-classroom learning from the end of April 2020. Our TV series and online movies had been produced and delivered as planned, and students had started their studies for the 2020/2021 school year as scheduled.

Recent developments after the Reporting Period

The Group has been included in the list of eligible securities for Southbound Trading under Shenzhen-Hong Kong Stock Connect, effective from 15 March 2021. In addition, the Group has been included in the Hang Seng Composite Index and its small cap index, as well as the Hang Seng Consumer Goods & Services Index since 15 March 2021. On 6 April 2021, the Group has completed the acquisition of the Shuimuyuan business. See the announcement of the Group dated 7 April 2021 for more details.

Business outlook

We see huge market potential in the field of education and content related to media and arts. Therefore, the Group plans to continue to maintain and strengthen the Group's leading position in the TV series production and investment industry and private media and arts university field, while actively expanding our business in the field of media and arts tutoring.

With respect to higher education, the Group continues to implement expansion plans to expand the capacity of CUCN to accommodate more students. At the same time, we are also actively looking for new campuses to further expand the capacity of our University so as to meet the strong organic growth brought about by the number of students enrolled in higher education, international preparatory courses and continuing education courses.

At the same time, the Group will identify suitable targets among media and arts universities around the world. The Group's mergers and acquisitions strategy for higher education aims to create a synergistic consortium of universities while maintaining the academic excellence, brand reputation and presence of our University.

With respect to media and arts education and tutoring, we see huge market opportunities (in view of the recent strong growth momentum and the absence of existing dominant players in the industry). We will speed up media and arts tutoring services offering, and provide more arts subjects tutoring programs, and leverage our edge in resources and brand reputation to provide students with presenting opportunities, striving to build a first-class and trustworthy flagship brand for media and arts tutoring.

At the same time, we will continue to support the expansion of Shuimuyuan to build a well-known brand in fine arts tutoring sector, and continue to improve the synergy between Shuimuyuan and the Group. In addition, we will continue to seek opportunities to develop the arts high school business and other arts tutoring fields to further expand the media and arts education business.

With respect to TV/film production and investment, we have contracted to invest in the TV series Kunlun Silk Road Treasure (崑崙絲路寶藏) (50% invested by the Group), Incomparable Beauty (無與倫比的美麗) (30% invested by the Group), Don't Call Me Jiuchen II (別叫我酒神II) (50% invested by the Group), which are expected to be delivered and broadcast in 2021. We will also look for other high-quality TV/film projects and opportunities for investment.

We pursue quality works and have been actively involved in the production and investment of TV series, variety shows and movies, whether we are the sole producer or we co-produce with others. The Group will continue this practice and produce high quality content.

Looking ahead, we will continue to produce and investment high-quality content, expand the scale of our University, and optimize tuition pricing to improve profitability. We will accelerate the development of the media and arts tutoring business. While expanding through organic growth, we will actively carry out external mergers and acquisitions in the higher education and arts tutoring sectors to create the greatest return for shareholders.

Revenue

Revenue increased by 5.7% to RMB789.7 million for the year ended 31 December 2020, compared to RMB747.2 million for the year ended 31 December 2019. The following table sets forth our revenue by line of business for the years ended 31 December 2019 and 2020.

	Year ended 31 December			
	2020		2019	
	(RMB'000, except percentages)			
Segment Revenue				
TV/film production and investment	**427,110**	**54.1%**	435,529	58.3%
Education and training	**362,633**	**45.9%**	311,657	41.7%
Total	**789,743**	**100.0%**	747,186	100.0%

The Group's revenue from the TV/film production and investment business decreased from RMB435.5 million for the year ended 31 December 2019 to RMB427.1 million for the year ended 31 December 2020. The revenue for the year ended 31 December 2020 was mainly attributable to the first-round distribution of Shichahai (什刹海) and Zhaoge (朝歌), and the delivery of Don't Call Me Jiushen (別叫我酒神) and Quiet (安靜). By the comparison, the revenue for the year ended 31 December 2019 was mainly comprised of the first-round broadcasting and overseas distribution of The Heaven Sword and Dragon Saber (倚天屠龍記) as well as the online broadcasting of The Gods (封神). The Group was the sole producer of The Heaven Sword and Dragon Saber (倚天屠龍記) and the investment in the TV series was 100%. The Group co-produced Zhaoge (朝歌) and the investment was only 30%. Shichahai (什刹海) is modern series, which has a lower price than costume dramas such as The Heaven Sword and Dragon Saber (倚天屠龍記). The difference in investment portion and the TV series type, resulted in the decrease in revenue recorded during the Reporting Period compared to the corresponding period in 2019.

The Group's revenue from the education and training segment increased by 16.4% from RMB311.7 million for the year ended 31 December 2019 to RMB362.6 million for the year ended 31 December 2020, mainly attributable to the growth in total student enrolment in our University.

Cost of revenue

	Year ended 31 December			
	2020		2019	
	(RMB'000, except percentages)			
Segment Cost				
TV/film production and investment	**290,055**	**66.4%**	232,210	62.0%
Education and training	**146,450**	**33.6%**	142,151	38.0%
Total	**436,505**	**100.0%**	374,361	100.0%

The cost of revenue of the Group's TV/film production and investment segment increased from RMB232.2 million for the year ended 31 December 2019 to RMB290.1 million for the year ended 31 December 2020. The increase was primarily due to an increase in costs of purchasing the television series and film rights, partially offset by a decrease in the amortised costs relating to licensing our self-produced and co-invested television series and films.

The cost of revenue of the Group's education and training segment increased by 3.0% from RMB142.2 million for the year ended 31 December 2019 to RMB146.5 million for the year ended 31 December 2020, mainly because of the increase in employee benefit expense in connection with the additional recruitment of teachers for the purpose of improving the teaching quality as well as the teacher-to-student ratio, partially offset by the decrease in the student activities cost due to the influence of COVID-19.

Gross profit and gross profit margin

	Year ended 31 December			
	2020		2019	
	Gross profit	**Gross margin**	Gross profit	Gross margin
	(RMB'000, except percentages)			
TV/film production and investment	**137,055**	**32.1%**	203,319	46.7%
Education and training	**216,183**	**59.6%**	169,506	54.4%
Total	**353,238**	**44.7%**	372,825	49.9%

As a result of the foregoing, the Group's gross profit decreased by 5.5% from RMB372.8 million for the year ended 31 December 2019 to RMB353.2 million for the year ended 31 December 2020. The Group's gross margin decreased from 49.9% for the year ended 31 December 2019 to 44.7% for the year ended 31 December 2020.

The gross margin for the Group's TV/film production and investment business decreased from 46.7% for the year ended 31 December 2019 to 32.1% for the year ended 31 December 2020, mainly attributable to the relatively lower selling price of first-round broadcasting of Shichahai (什刹海), a modern series.

The gross margin for the Group's education and training business increased from 54.4% for the year ended 31 December 2019 to 59.6% for the year ended 31 December 2020, mainly due to economies of scale.

Gain on sales of television series and film rights

The Group's gain on sales of television series and film rights amounted to RMB45.8 million for the year ended 31 December 2020 (2019: nil), mainly due to the Group's outright-sales of certain television series and film rights to shorten the payback cycle and recover our investment quickly, enabling the Group to invest and produce more high quality content.

Selling expenses

The Group's selling expenses increased by 201.1% from RMB9.0 million for the year ended 31 December 2019 to RMB27.1 million for the year ended 31 December 2020. The selling expenses for the Group's education and training segment increased from RMB0.6 million for the year ended 31 December 2019 to RMB4.6 million for the year ended 31 December 2020, primarily the result of an increase in marketing activities expense for student recruitment, while the selling expenses for the Group's TV/film production and investment business increased from RMB8.4 million for the year ended 31 December 2019 to RMB22.5 million for the year ended 31 December 2020, mainly due to the distribution fee incurred for the TV series Zhaoge (朝歌).

Administrative expenses

The Group's administrative expenses decreased by 1.3% from RMB74.1 million for the year ended 31 December 2019 to RMB73.2 million for the year ended 31 December 2020. Excluding the listing expenses of RMB11.2 million and RMB13.2 million for the years ended 31 December 2019 and 31 December 2020, respectively, the Group's administrative expenses decreased mainly because of the decrease in office expenses and utilities fee due to the COVID-19.

Other income

Other income increased from RMB17.5 million for the year ended 31 December 2019 to RMB44.4 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in donation income.

Other gains/losses (net)

The Group recorded net other losses of RMB72.9 million for the year ended 31 December 2019 as compared to net other gains of RMB25.2 million for the year ended 31 December 2020. This difference was primarily due to the payment of the termination fee of RMB95.0 million to the Communication University of China in the third quarter of 2019.

Operating profit

As a result of the foregoing, the operating profits of the Group amounted to RMB368.3 million for the year ended 31 December 2020, compared to RMB234.2 million for the year ended 31 December 2019. The operating profit from the education and training segment increased from approximately RMB67.2 million for the year ended 31 December 2019 to approximately RMB248.2 million for the year ended 31 December 2020, representing an increase of 269.2%. The operating profit from TV/film production and investment decreased from RMB186.0 million for the year ended 31 December 2019 to RMB139.0 million for the year ended 31 December 2020.

Finance income – net

The Group's net finance income were RMB3.2 million for the year ended 31 December 2020, which decreased by RMB2.9 million as compared to RMB6.1 million net finance income for the same period of 2019 primarily due to the decrease in term deposits with initial term of over three months.

Taxation

Income tax expense of the Group decreased from RMB45.8 million for the year ended 31 December 2019 to RMB34.3 million for the year ended 31 December 2020. The decrease was mainly due to the decrease in operating profit for the Group's TV/film production and investment business from RMB186.0 million for the year ended 31 December 2019 to RMB139.0 million for the year ended 31 December 2020. Meanwhile, the CUCN is eligible to the preferential tax treatment for the year ended 31 December 2020 and 2019.

Profit for the year

As a result of the foregoing, the Group's profit for the year increased from RMB194.5 million for the year ended 31 December 2019 to RMB337.1 million for the year ended 31 December 2020.

Non-HKFRS Measure – Adjusted Net Profit

In order to supplement the Group's consolidated financial statements, which are presented in accordance with HKFRS, the Group also uses Adjusted Net Profit (defined below) as an additional financial measure. The Group presents this financial measure because it is used by the Group's management to evaluate the Group's financial performance by eliminating the impact of certain items that the Group does not consider to be indicative of the Group's performance during the Reporting Period. The Group also believes that this non-HKFRS measure provides additional information to investors and others in their understanding and evaluating the Group's results of operations in the same manner as they help the Group's management and in comparing financial results across accounting periods and to those of the Group's peer companies. This non-HKFRS figure is non-recurring in nature and provides an unbiased presentation for investors to understand the Group's results of operations. However, this non-HKFRS measure does not have a standardised meaning prescribed by HKFRS and therefore it may not be comparable to similar measures presented by other companies listed on the Stock Exchange.

The adjusted net profit, which is unaudited, represents profit for the year adding back listing expenses, termination fee payment and amortisation of licensing rights payment to Communication University of China, (the "Adjusted Net Profit"). The Adjusted Net Profit of the Group for the year ended 31 December 2020 was RMB365.4 million, representing an increase of RMB57.2 million or a 18.5% increase from RMB308.2 million for the corresponding period in 2019.

The following table reconciles our Adjusted Net Profit to the most directly comparable financial measure calculated and presented in accordance with HKFRS (profit for the year).

	Year ended 31 December	
	2020	2019
	(RMB'000)	
Revenue	**789,743**	747,186
Profit before income tax	**371,468**	240,331
Income tax expense	**(34,328)**	(45,814)
Profit for the year	**337,140**	194,517
Add: Listing expenses	**13,225**	11,223
Add: One off payment to CUC	**–**	95,000
Add: Amortisation of licensing rights payment to CUC	**15,000**	7,500
Non-HKFRS: Adjusted Net Profit	**365,365**	308,240

The Adjusted Net Profit is not a measure of performance under HKFRS. The use of the Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant period.

Capital structure

The Group continued to maintain a healthy and sound financial position. The total assets of the Group increased from RMB1,768.8 million as of 31 December 2019 to RMB3,434.2 million as of 31 December 2020, while the total liabilities increased from RMB392.0 million as of 31 December 2019 to RMB559.0 million as of 31 December 2020. The liability-to-asset ratio decreased from 22.2% at the end of 2019 to 16.3% at the end of 2020.

As of 31 December 2020, the current ratio (the ratio of total current assets to total current liabilities) was 485.2% (2019: 303.7%).

Liquidity and financial resources

Other than the funds raised through the Global Offering in July 2020, the Group has historically funded the cash requirements principally from cash generated from the operations and bank and other borrowings. As of 31 December 2020, the Group's cash and cash equivalents increased by 986.2% from RMB120.5 million as of 31 December 2019 to RMB1,308.7 million.

Significant Investments

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5 per cent, or more of the Company's total assets as of 31 December 2020) during the year ended 31 December 2020.

Material acquisitions and disposals

On 19 December 2020, Bicheng Art Consulting (Nanjing) Co., Ltd, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Mr. Ma Xiaochuan, Beijing Shuimu Jinghua Education & Technology Co., Ltd, Monet (Hangzhou) Culture & Art Co. Ltd., Jinan Shuimuyuan Education & Technology Co., Ltd, Shenzhen Shuimuyuan Art Education Co., Ltd., Shenzhen Shuimuyuan Education & Technology Co., Ltd. and Shuimuyuan (Dalian) Education & Technology Co., Ltd. (collectively, the "Affiliated Entities"), pursuant to which the Company acquired control of the Affiliated Entities comprising Shuimuyuan for an aggregate consideration of RMB300 million. See the announcements of the Company dated 20 December 2020, 28 January 2021 and 7 April 2021 for more details.

Save for the above, the Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during the year ended 31 December 2020.

Pledge of assets

As of 31 December 2020, the Group has no pledge of assets.

Future plans for material investments or capital asset

As of 31 December 2020, the Group did not have detailed future plans for material investments or capital assets. The Company continues to explore appropriate opportunities to carry out external mergers and acquisitions in the higher education and arts tutoring sectors, using proceeds of the Global Offering and the Company's working capital, to create the greatest return for shareholders and will announce detailed plans as they arise.

Gearing ratio

As of 31 December 2020, the Group's gearing ratio, calculated as total liabilities divided by total assets, was 16.3%, as compared with 22.2% as of 31 December 2019.

Foreign exchange exposure

During the year ended 31 December 2020, the Group mainly operated in China and the majority of the transactions were settled in RMB, the Company's primary consolidated affiliated entities' functional currency. As of 31 December 2020, except for the bank deposits denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2020 (as of 31 December 2019: nil).

Capital commitment

As of 31 December 2020, capital commitment of the Group was RMB334.0 million (31 December 2019: RMB1.8 million).

Employees and remuneration

As of 31 December 2020, the Group had a total of 1,555 employees. We believe the number of our fulltime employees is in-line with the industry practice and can support our expansion. The following table sets forth the total number of employees by function as of 31 December 2020:

Function	Number of employees
TV/film production and investment	
Content creation	75
Administration	21
Education and training	
Teachers	1,314
Administration	145
Total	1,555

The total remuneration cost incurred by the Group for the year ended 31 December 2020 was RMB100.9 million, as compared to RMB92.7 million for the year ended 31 December 2019.

The Company also has adopted the Post-IPO Share Award Scheme and the Post-IPO Share Option scheme. Details of the above schemes are set out in section headed “Share Schemes” in the Directors’ report of this annual report.

The Board of the Company is pleased to present this Directors' report together with the consolidated financial statements of the Group for the year ended 31 December 2020.

GENERAL INFORMATION

The Company was incorporated under the laws of the Cayman Islands on 4 January 2017 as an exempted limited liability company. The Company's Shares were listed on the Main Board of the Stock Exchange on 15 July 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal business of the Company's subsidiaries is TV/film production and investment, media and arts higher education and media and arts training and tutoring. Analysis of the principal activities of the Group during the year ended 31 December 2020 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income on page 55 of this annual report.

BUSINESS REVIEW

A business review of the Group, as required by Schedule 5 to the Companies Ordinance, including a fair review of the Company's business, a description of the principal risks and uncertainties facing the Company, particulars of important events affecting the Company that have occurred since the end of the financial year, an indication of likely future developments in the Group's business, an analysis of the Group's financial performance and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the "Business review" and "Management discussion and analysis" on pages 5 to 14 of this annual report. These discussions form part of this Directors' report. Events affecting the Company that have occurred since the end of the financial year are set out in "Recent developments after the Reporting Period" in "Business review".

PRINCIPAL RISKS AND UNCERTAINTIES

Our business involves certain risks as set out in the section headed "Risk Factors" in the Prospectus. The following list is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond its control.

- Our TV/film production and investment business is primarily dependent upon, among other factors, audience acceptance, which is extremely difficult to predict and therefore inherently risky.

- The TV/film industry is regulated extensively in China.

- We are subject to significant uncertainties brought by recent regulation in the private higher education industry.

- Our TV/film production and investment business depends on the success of a limited number of releases each year. The commercial failure of any one of them could have a material adverse effect on us and this pattern subjects our revenues from our TV/film production and investment business to significant seasonal fluctuation.

- We operate our TV/film production and investment business in a highly competitive industry.

- We are exposed to the risk of high concentration of service providers in our TV/film production and investment business.

- The private higher education business is relatively new and may not gain wide acceptance in China.

- Our University recently terminated the cooperation agreement with Communication University of China ("CUC"). We will face significant uncertainties on student enrollment and employment in connection with the termination of the cooperation with CUC.

- Our higher education business depends on the level of tuition fees and boarding fees we are able to charge and the size of the student body we are allowed to enroll.

- We face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures.

- The PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected.

However, 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.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth. Details of such are set out in the Environmental, Social and Governance Report of even date.

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 year ended 31 December 2020, there was no material breach of, or non-compliance, with applicable laws and regulations by the Group.

CONNECTED TRANSACTIONS

During the year ended 31 December 2020, save as disclosed in this annual report, no related party transaction disclosed in note 38 to the consolidated financial statements falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules for which disclosure is required. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2020.

PROPERTY LEASING FRAMEWORK AGREEMENT

Background to the agreement

On 23 June 2020, we (for ourselves and our associates) entered into the leasing framework agreement with Mr. Pu (for himself and his associates) ("Leasing Framework Agreement") pursuant to which we have leased from Mr. Pu and his associates various office spaces. The term of the Leasing Framework Agreement is from the Listing Date to 31 December 2022.

In accordance with HKFRS, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased property is available for use by our Group. Moreover, pursuant to guidance issued by the Stock Exchange, a lease recognized as a right-of-use asset is regarded as an acquisition of assets and the annual cap should be set for the total value of right-of-use assets relating to the leases to be entered into by our Company in each year under the Leasing Framework Agreement.

Annual cap

The annual cap for the Reporting Period was RMB16 million. The actual transaction amount for the Reporting Period was nil.

Reason for the transactions

Our Company leased office space from Mr. Pu for office purposes during the Reporting Period and we expect that we will continue to lease these properties after the Reporting Period. We believe that it would save our Group administrative costs and time that would otherwise be spent on negotiating and entering into contracts with third party lessors.

Pricing policies

The rental rates under the Leasing Framework Agreement shall be determined based on arm's length discussions with reference to the prevailing market rates for the leasing of similar properties from Independent Third Parties (as defined in the Prospectus) in the same or adjacent area on normal commercial terms.

Cushman & Wakefield Limited, an independent property valuer, has confirmed that it is of the view that the terms and conditions (including the rental rates) of the leases contemplated under the Leasing Framework Agreement are fair, reasonable and consistent with the prevailing market rentals of similar properties.

Listing Rules implications

The transactions under the Leasing Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better that are fair and reasonable, and one or more of the applicable percentage ratios on an annual basis under Chapter 14A of the Listing Rules will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, these transactions will be exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules, but will still be subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Background to the Contractual Arrangements

We currently conduct our TV/film production and investment business and our education and training business (the "Relevant Businesses") through our Consolidated Affiliated Entities in the PRC as PRC laws and regulations, or their implementation by relevant government authorities, generally prohibit or restrict foreign ownership in the Relevant Businesses. Currently, PRC laws and regulations prohibit the operation of TV series or film production companies and restrict the operation of higher education institutions to Sino-foreign cooperation ownership (in addition to imposing a qualification requirement on the foreign owners). Government approvals of Sino-foreign cooperation ownership in the private education sector have, with very limited exceptions, been withheld in practice.

As a result of the restrictions imposed by PRC laws and regulations, our Company is unable to own or hold any direct sponsor interest or equity interest in our Consolidated Affiliated Entities. Accordingly, the term 'ownership' or the relevant concept, as applied to our Company in this document, refers to an economic interest in the assets or businesses through the Contractual Arrangements without holding any sponsor/equity interest in our Consolidated Affiliated Entities. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits enjoyed by Registered Shareholders from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

All of the Contractual Arrangements are subject to the foreign ownership restrictions described herein and as set out in the Prospectus.

Risks relating to the Contractual Arrangements and actions taken to mitigate the risks

We believe the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 47 to 53 of the Prospectus.

- The PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected.

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

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

- The beneficial owners of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

- The Contractual Arrangements may subject us to scrutiny by the PRC tax authorities and may result in a finding that we owe additional taxes or are ineligible for tax exemptions, or both, which could substantially increase our taxes owed and thereby reduce our profit attributable to equity shareholders of the Company.

- Our exercise of the option to acquire the equity interest held by the Registered Shareholders of our Consolidated Affiliated Entities may be subject to certain limitations and we may incur substantial costs.

- Any failure by our Consolidated Affiliated Entities or their respective shareholders to perform their obligations under our Contractual Arrangements would potentially lead to the incurrence of additional costs and the expending of substantial resources on our part to enforce such arrangements, temporary or permanent loss of control over our primary operations or loss of access to our primary sources of revenue.

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

- We rely on dividend and other payments from WFOEs to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of WFOEs to pay dividends to us would materially and adversely limit our ability to pay dividends to our Shareholders.

- If any of our Consolidated Affiliated Entities becomes subject to winding up or liquidation proceedings, we may lose the ability to enjoy certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

The structuring and implementation of the Contractual Arrangements, including the detailed terms of Contractual Agreements, as discussed herein is designed to mitigate these risks.

PRC laws and regulations

TV/film production and investment

Pursuant to the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020 version) (外商投資准入特別管理措施(負面清單)(2020年版)), foreign investors are prohibited from holding any equity interest in any PRC radio and TV production company and any PRC film production company. See "Regulations – Regulations on TV series and variety shows production in the PRC" in the Prospectus for more details.

We consulted the National Radio and Television Administration (國家廣播電視總局) ("NRTA"), being the competent authority as advised by our PRC Legal Adviser, to confirm the matters relating to foreign investment in a radio and TV production company. We were advised by an official of the Division of TV Series Content of the NRTA that:

(i) foreign investment in TV and film production and distribution business are explicitly prohibited, and the NRTA will not approve any foreign investors to directly or indirectly invest in such business; and

(ii) the execution of the Contractual Arrangements does not require approval from the NRTA.

Given the relevant regulations and policy followed by the NRTA as summarized above, our Directors consider that it is not practicable for us to hold any equity interest in Dongyang Huaxia and its subsidiaries directly or indirectly.

Higher education

Pursuant to the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020 version) (外商投資准入特別管理措施(負面清單) (2020年版)), the provision of higher education in the PRC falls within the 'restricted' category. As such, foreign investment in higher education institutions must be in the form of a Sino-foreign cooperation, which means that foreign investors may only operate higher education institutions through cooperating with PRC incorporated entities that are in compliance with the Regulations on Operating Sino-foreign Schools (中外合作辦學條例) (the "Sino-Foreign Regulation") and its implementing rules. In addition, such catalog provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that: (a) the principal or other chief executive officer of the schools or education institutions shall be a PRC national; and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign school (the "Foreign Control Restriction"). Currently, the principal, the chief executive officers and all members of the board of directors (except Jacqueline Luo) of CUCN are PRC nationals.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation and its implementing rules, the foreign investor in a Sino-foreign school (a "Sino-Foreign School") must be a foreign educational institution with relevant qualification and high quality of education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見), the foreign portion of the total investment in a Sino-Foreign School should be below 50% (the "Foreign Ownership Restriction") and the establishment of these schools is subject to approval of education authorities at the provincial or national level. Our PRC Legal Adviser has advised that the laws and regulations are currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience, and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant authority that it meets the Qualification Requirement.

We consulted the Education Department of Jiangsu Province (江蘇省教育廳), being the competent authority as advised by our PRC Legal Adviser, to confirm the matters relating to the Sino-Foreign Schools relevant to us. We were advised by an official of Development and Planning Office of the Education Department of Jiangsu Province that:

(i) the Foreign Control Restriction and the Foreign Ownership Restriction apply to Sino-Foreign Schools in Jiangsu Province;

(ii) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation and its implementing rules and the Qualification Requirement in Jiangsu Province;

(iii) although there is an understanding that the foreign investor will generally be an educational institution ranked globally among the top 200 universities or top 100 in the relevant fields, due to policy reason, the Education Department of Jiangsu Province will be unlikely to approve an application to convert CUCN or any schools to be newly established or invested by us into Sino-Foreign Schools; and

(iv) the execution of the Contractual Arrangements does not require approval from them.

Given the policy adopted by the Education Department of Jiangsu Province as summarized above, our Directors consider that it is not practicable for us to seek to apply to reorganize CUCN as a Sino-Foreign School.

Qualification requirements

Notwithstanding the above, we have adopted a specific plan and will continue to expend genuine efforts and financial resources towards meeting the Qualification Requirement. We will remain abreast of any regulatory developments and continuously assess whether we meet the Qualification Requirement, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC Laws.

We are implementing a business plan with a view to expanding our education operations overseas. We currently plan to establish and operate a university authorized to grant Bachelor of Arts degrees in Animation and Media in the state of California, the United States. We believe that such business plan represents our commitment and a meaningful endeavor to demonstrate compliance with the Qualification Requirement. In particular, we have taken the following concrete steps to comply with the Qualification Requirement:

- On 27 June 2017, we incorporated a holding company of a new school in California, United States, namely, Cathay Picture, Inc., which is wholly-owned by Cathay Media HK and will be responsible for the daily operation and management of the university to be established.

- On 6 July 2017, we entered into a consulting agreement with an independent education consultant with extensive experience and background in private post-secondary education in California, the United States, pursuant to which the consultant shall provide consultation and adviser services in relation to the licensing application submitted to the Bureau for Private Post-secondary Education ("BPPE") in California.

- On 30 May 2018, we submitted a formal application to, and have since been in correspondence with, the BPPE for the establishment of a university through the non-accredited process.

- In December 2018, we received a response letter from the BPPE to request for further information, which we responded to in January 2019.

- In February 2020, we received a request from BPPE for further information, which we responded to in March 2020.

Based on the further information requested by BPPE and our understanding from our agent, assuming there is no major issue, the approval process with the BPPE is expected to complete in or before 2022. We anticipate that the new university will formally commence operations in around half a year after licensing approval is received.

We had expended approximately US$20,650 in connection with our plan as of 31 December 2020. We also estimate additional costs of around US$40,000 in relation to the licensing and accreditation process, and that an initial investment of US$1 million will be required to establish this new university. We intend to fund the establishment, management and operations of the new university from internal resources.

We are in the process of searching for appropriate premises to be used as our initial school office. With the assistance of our consultant, we have prepared the program syllabus and designed the online learning management system. We intend to appoint a chief academic officer with at least 10 years' experience in academic affairs and university management, and approximately 12 additional staff and faculty.

Our PRC Legal Adviser is of the view that while Sino-foreign Schools are to be jointly established by both foreign and domestic educational institutions, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience, and form and extent of ownership in the foreign jurisdiction) in order to demonstrate that it meets the Qualification Requirement. Based on the interviews conducted with the Education Department of Jiangsu Province and the steps that we have undertaken as mentioned above, our PRC Legal Adviser is of the view that we have taken all reasonable steps towards fulfilling the Qualification Requirement subject to the discretion of competent authority.

Summary of the Contractual Arrangements

The Contractual Arrangements in place for the Reporting Period were:

- ***Exclusive Business Cooperation Agreements***. Pursuant to the exclusive business cooperation agreements entered into by and between the WFOEs, the Registered Shareholders, the Onshore Holdcos and CUCN dated 28 August 2019, the WFOEs have the exclusive right to provide to Dongyang Huaxia and its subsidiaries, Nanjing Lanchou and CUCN technical services, management support services, consulting services, intellectual property licenses and other additional services as the parties may mutually agree from time to time, and in return, the Onshore Holdcos, CUCN shall make payments accordingly.

- ***Exclusive Technical Services and Management Consultancy Agreements***. Pursuant to the exclusive technical services and management consultancy agreements entered into by and between the WFOEs, the Onshore Holdcos and CUCN dated 28 August 2019, the WFOEs have the exclusive right to provide, or designate any third party to provide, technical and management services to Dongyang Huaxia and its subsidiaries, Nanjing Lanchou and CUCN. In consideration of the technical and management consultancy services provided by the WFOEs, each of the Onshore Holdcos and CUCN agreed to pay the WFOEs a service fee equal to all (in the case of the Onshore Holdcos) or 91% (in the case of CUCN) of their respective amount of surplus from operations (after deducting operating costs and other sums required by relevant laws and regulations to be reserved or withheld).

- ***Exclusive Call Option Agreements***. Under the exclusive call option agreements entered into by and between the WFOEs, our Consolidated Affiliated Entities and the Registered Shareholders dated 28 August 2019, the Registered Shareholders have irrevocably granted the WFOEs or their designated purchaser the right to purchase all or part of the interests held by them in our Consolidated Affiliated Entities.

- ***Shareholders' Rights Entrustment Agreements***. Pursuant to the shareholders' rights entrustment agreements entered into by and between the WFOEs, the Onshore Holdcos, and the Registered Shareholders, the Registered Shareholders have irrevocably authorized and entrusted the WFOEs to exercise all their rights as shareholders of each of the Onshore Holdcos to the extent permitted by PRC laws.

- ***Equity Pledge Agreements***. Pursuant to the equity pledge agreements entered into by the WFOEs, the Registered Shareholders, the Onshore Holdcos, Huaxia Audio-Visual and Nanjing Meiya dated 28 August 2019, Mr. Pu, Mr. Liu Chang, Dongyang Huaxia, and Nanjing Lanchou unconditionally and irrevocably pledged and granted first priority security interests over all of their respectively equity interests in Dongyang Huaxia, Huaxia Audio-Visual, Nanjing Lanchou, and Nanjing Meiya, together with all related rights thereto to the WFOEs as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by the WFOEs as a result of any event of default on the part of the Registered Shareholders and the Consolidated Affiliated Entities and all expenses incurred by the WFOEs as a result of enforcement of the obligations of the Registered Shareholders and the Consolidated Affiliated Entities under the Contractual Arrangements.

- ***Directors' Rights Entrustment Agreements***. Pursuant to the directors' rights entrustment agreements entered into by and between WFOE-Education and each director of CUCN dated 28 August 2019, each of the directors of CUCN has irrevocably authorized and entrusted WFOE-Education to exercise all of their rights as directors of CUCN and to the extent permitted by PRC laws.

See pages 165 to 172 of the Prospectus for details of the material terms of the Contractual Arrangements.

Apart from the above, there were no other new Contractual Arrangements entered into, renewed or reproduced during the financial year ended 31 December 2020. Save as disclosed above, there was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2020.

For the year ended 31 December 2020, none of the Contractual Arrangements had been terminated as none of the restrictions that led to the adoption of the contracts under the Contractual Arrangements has been removed.

The total revenue and net assets of the Consolidated Affiliated Entities that are subject to the Contractual Arrangements amounted to approximately RMB789.7 million for the year ended 31 December 2020 and approximately RMB1,707.7 million as of 31 December 2020 respectively.

Listing Rules implications and waivers

Mr. Pu is a party to the Contractual Arrangements and is also our Controlling Shareholder and executive Director. Therefore the transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Company. The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

However, in respect of the Contractual Arrangements and related new intergroup agreements, we have applied for, and the Stock Exchange has granted us, waivers from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement to set annual caps under Rule 14A.53 of the Listing Rules, and (iii) the requirement to limit the term to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject to the following conditions.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company's independent non-executive Directors have reviewed the Leasing Framework Agreement and the Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended 31 December 2020 have been entered into in accordance with the relevant provisions of the Leasing Framework Agreement and the Contractual Arrangements;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended 31 December 2020;

(iii) no new contracts were entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the year ended 31 December 2020 other than the ones disclosed above;

(iv) the Leasing Framework Agreement and Contractual Arrangements have been entered into in the ordinary and usual course of business of the Group;

(v) the Leasing Framework Agreement and the Contractual Arrangements have been entered into on normal commercial terms or better; and

(vi) the Leasing Framework Agreement and the Contractual Arrangements have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONCLUSIONS FROM THE COMPANY'S INDEPENDENT AUDITOR

The auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended 31 December 2020:

(i) nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

(ii) 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;

(iii) with respect to the Leasing Framework Agreement and Contractual Arrangements, nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company; and

(iv) with respect to the Contractual Arrangements, nothing has come to their attention that causes the auditor to believe that there are any dividends or other distributions have been made by Huaxia Audio-Visual, Huaxia Online, Nanjing Meiya and CUCN to their registered equity holders which are not otherwise subsequently assigned or transferred to the Group.

MAJOR CUSTOMERS

The customers in our TV/film production and investment business include state-owned TV stations comprising China's sole national TV station, CCTV, provincial TV stations with nationwide coverage, as well as municipal TV stations that operate terrestrial channels and third party distributor. We have also licensed the broadcasting rights of our TV series to online video platforms and overseas markets. For our film production and investment business, we target the end retail audience directly. All of our five largest customers during the Reporting Period were from our TV/film production and investment business.

During the year ended 31 December 2020, we generated revenue of RMB238 million from our single largest customer, representing 30.1% of our total revenue during the Reporting Period. During the same period, we generated revenue of RMB403.1 million in aggregate from our five largest customers combined, representing 51.0% of our total revenue.

None of the Directors, their respective close associates, or any Shareholder (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in any of our five largest customers during the year ended 31 December 2020.

MAJOR SUPPLIERS

In addition to our full-time employees, we engage many third-party service providers in the production of our TV series and films, including directors, producers, actors, providers of film studios, production equipment, costumes and special effects. Our University also contracts with construction companies and information technology equipment providers for buildings and facilities in our campus.

During the year ended 31 December 2020, the purchases we made from the single largest supplier was RMB150.6 million, representing 32.4% of our total purchases during the Reporting Period. During the same period, the purchases we made from the five largest suppliers combined was RMB407.8 million, representing 87.7% of our total purchases.

None of the Directors, their respective close associates, or any Shareholder (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in any of our five largest suppliers during the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 18 to the consolidated financial statements.

None of the Company's properties are held for development and/or sale or for investment purposes.

The Group’s properties were valued at RMB533.3 million as of 30 April 2020. Had the Group’s properties been included in these financial statements at such valuation amount throughout the year ended 31 December 2020, an additional depreciation charge of RMB1.4 million would have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2020.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the year ended 31 December 2020 are set out in note 29 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as of the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

DONATION

During the year ended 31 December 2020, the Group made charitable donations of approximately RMB2.0 million.

DEBENTURE ISSUED

The Group has not issued any debentures during the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed “Share Schemes” in this Directors’ report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director 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 or any of them may incur or sustain in or about the execution of their duty in their offices.

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance) for the benefit of the Directors of the Company is currently and was in force for the period from the Listing Date to 31 December 2020. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DISTRIBUTABLE RESERVES

As of 31 December 2020, the Company had reserves available for distribution to Shareholders amounting to RMB2,276.0 million.

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 57 and in note 40 to the consolidated financial statements, respectively.

LOANS AND BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Group for the year ended 31 December 2020 are set out in note 33 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date (whichever is sooner).

Each of our independent non-executive Directors has entered into an appointment letter with our Company. The term of office of our independent non-executive Directors is three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner).

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

DIRECTORS INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Connected Transactions" of this Directors' report, none of the Directors or any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2020.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

In compliance with the Corporate Governance Code, the Company has established the remuneration committee of the Company (the "Remuneration Committee") to formulate remuneration policies.

The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee.

The Directors and the senior management personnel are eligible participants of the Post-IPO Share Award Scheme and the Post-IPO Share Option Scheme, details of which are set out in the Prospectus and pages 44 to 46 under 'Other information' in this annual report.

Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in note 11 and note 39, respectively to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as set out in "Connected Transactions" above and the Underwriting Agreements (as defined in the Prospectus), no contract of significance or contract of significance for the provision of services has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries during the year ended 31 December 2020.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2020.

AUDITOR

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

There has been no change in the Company's auditor in any of the preceding three years.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries, fellow subsidiaries or its holdings companies a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

By order of the Board
Pu Shulin
Chairperson

China
29 March 2021

DIRECTORS

The Directors who held office during the year ended 31 December 2020 and up to the date of this annual report are:

Executive Directors

Pu Shulin
Sun Haitao
Wu Ye
Yan Xiang

Independent non-executive Directors

Zhang Jizhong
Lee Cheuk Yin Dannis
Huang Yu

EXECUTIVE DIRECTORS

Mr. Pu Shulin (蒲樹林), aged 65, is our founder, and is an executive Director, Chairperson and chief executive officer of our Company, and chairperson of the nomination committee and member of remuneration committee of the Board. Mr. Pu founded our Group and serves as a director and chairman of Dongyang Huaxia, Huaxia Audio-Visual, Huaxia Online, Nanjing Lanchou, Nanjing Meiya, and CUCN. Mr. Pu graduated from Shenyang Conservatory of Music (瀋陽音樂學院) in Shenyang, Liaoning Province, China in 1983.

Mr. Pu founded Beijing Pushengda Advertising Co., Ltd. (北京普聖達廣告有限公司) in December 1998 and Huaxia Online in December 2001 to invest in TV series production, and founded Nanjing Meiya in January 2003 to invest in private higher education services and has continued to serve as its chairman since then, going on to co-found CUCN and now serves as its chairman. Mr. Pu served as the film and TV program center director of Heilongjiang TV Series Production Center (黑龍江電影電視劇製作中心) from 1989 to 1993, and the deputy director of the Heilongjiang International Culture Association (黑龍江省對外文化交流協會) from 1993 to the end of 1996.

Mr. Sun Haitao (孫海濤), aged 36, is an executive Director, joint company secretary and vice president of our Company. He has served as vice president of Huaxia Audio-Visual since joining our Group in October 2016. Mr. Sun received his bachelor's degree of business administration in accountancy from Yokohama National University (橫濱國立大學) in Yokohama, Japan, in March 2009.

Mr. Sun worked at BNP Paribas Securities (Japan) Limited from April 2009 to October 2011. He then went on to serve a vice president of ORIX Corporation from December 2011 to February 2016 and a senior vice-president of ORIX Asia Capital from October 2014 to February 2016. He has remained a consultant for ORIX Asia Capital since February 2016.

Mr. Wu Ye (吳曄), aged 42, is our executive Director and chief production officer, and a director of Huaxia Audio-Visual. He joined our Group in December 2003 and has served as technology director (2003-2007), chief technology officer (2007-2012) and chief production officer (2013-Present) of Huaxia Audio-Visual. Mr. Wu received his associate degree in economic management from Nanjing University (南京大學) in Nanjing, Jiangsu Province, China, in July 2000.

Mr. Wu worked in the production and technology department of China Television Media, Ltd (中視傳媒股份有限公司) (stock code: 600088.SH) from 1998 to 2001. He also served as the technology director of China Media North Television Productions Ltd (中視北方影視製作有限公司) from 2001 to 2003.

Mr. Yan Xiang (嚴翔), aged 61, is our executive Director, the Vice-chancellor (校長) and a director of our University, and joined our Group in October 2006. Mr. Yan has been a professor at CUCN since October 2006 and a vice-president of CUCN from 2013 to 2016. Mr. Yan was the dean of the broadcasting and art institute of CUCN from October 2007 to October 2016.

Mr. Yan received his bachelor's degree in arts, majoring in broadcasting, from the Beijing Broadcasting Institute (北京廣播學院), the predecessor of the CUC, in January 1982 and completed postgraduate studies in journalism at Hebei University (河北大學) in Hebei Province, China in 2004.

Mr. Yan served in various capacities at Hebei Radio and TV Station from January 1982 to June 2019, including as broadcaster, advertising manager and producer. He is a broadcasting instructor accredited by the title reform office of Hebei Province (河北省職改辦) since November 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Jizhong (張紀中), aged 69, is our independent non-executive Director and a member of audit and nomination committee of the Board. He completed his certificate in drama and literature, majoring in television drama directing, from The Central Academy Of Drama (中央戲劇學院) in Beijing, China in January 1990.

Mr. Zhang has extensive experience as a TV series producer, including producing:

- The People's Policeman (有這樣一個民警), which was awarded First-Class TV Special at the 10th Flying Apsaras Awards (飛天獎) in 1990;

- The Legend of the Condor Heroes (射雕英雄傳), which won the Gold Prize for Sina's 2003 Most Popular TV Series;

- Demi-Gods and Semi-Devils (天龍八部), which won the Feature TV Series Excellence Award (長篇連續劇(優秀獎)) at the 22nd China TV Golden Eagle Awards (中國電視金鷹獎), Best Period Drama (最佳古裝電視劇) at the 1st TV Fengyun Celebrations (首屆電視劇風雲盛典), each in 2004; and

- The Return of the Condor Heroes (神鵰俠侶), for which he was awarded Best Producer at the 3rd TV Drama Fengyun Festival (第三屆電視劇風雲盛典) in 2007.

Mr. Zhang's personal contributions and achievements have also been recognized with his receipt of an Outstanding Contributions Award (突出貢獻人物) at the China TV Drama Industry 20th Industry Heroes Celebrations (中國電視劇產業20年群英盛典) in 2011, the Special Contributions Award (特殊貢獻獎) at the 5th Shanghai University Student TV Festival Award Ceremony (五屆上海大學生電視節頒獎典禮) in 2012 and the National Deyi Shuangxin Lifetime Achievement Award (全國德藝雙馨終身成就獎) at the 11th Deyi Shaugnxin Award Ceremony (第11屆德藝雙馨頒獎盛典) in 2015.

Mr. Lee Cheuk Yin Dannis (李卓然), aged 50, is our independent non-executive Director, and chairperson of the audit committee and member of the remuneration and nomination committees of the Board. Mr. Lee received a bachelor of business administration from Texas A&M University, United States in August 1992, and has been a member of the American Institute of Certified Public Accountants since April 1995 and an associate member of the Hong Kong Institute of Certified Public Accountants since June 1996.

Mr. Lee has served as the managing director of DLK Advisory Limited, a company engaged in financial advisory and investment consulting services, since October 2009. He was an executive director of BeijingWest Industries International Limited (stock code: 2339.HK) from September 2003 to August 2005 (remaining as a non-executive director until January 2009), of AMVIG Holdings Limited (stock code: 2300.HK) from March 2004 to March 2010, and of AMCO United Holdings Limited (stock code: 630.HK) from October 2010 to October 2011.

Mr. Lee has been an independent non-executive director of Geely Automobile Holdings Limited (stock code 175.HK) since June 2002, of Tiangong International Company Limited (stock code 826.HK) since September 2010 and of CMBC Capital Holdings Limited (stock code 1141.HK) since June 2017. He was also an independent non-executive director of Southern Energy Holdings Group Limited (stock code 1573.HK) from June 2016 to October 2019.

Mr. Lee was a non-executive director of Norstar Founders Group Limited ("Norstar") (stock code: 2339.HK) from 19 August 2005 to 15 January 2009. Norstar was the subject of a winding up petition and a provisional liquidator was appointed on 6 February 2009. The winding up petition was dismissed and provisional liquidator was discharged in January 2014. A writ of summons (the "Writ") was issued on 24 June 2014 against several former directors of Norstar, including Mr. Lee as a defendant. Such Writ has expired without further application for extension. See the Prospectus for further details.

Mr. Huang Yu (黃煜), aged 64, is our independent non-executive Director, and the chairperson of the remuneration committee and member of the audit committee of the Board. Mr. Huang received his bachelor degree in journalism from the Renmin University of China in July 1986 and his PhD in communications from the University of Westminster in London, United Kingdom in June 1993.

Mr. Huang was appointed dean of the School of Communication of Hong Kong Baptist University in April 2013, where he has taught since 1994. During this time, he has taken up numerous leadership roles including head of the Department of Journalism (2006-2011), associate and acting dean of the School of Communication (2010-2013), and director of the Institute for Journalism and Society (2007-2014). Mr. Huang was awarded the HKBU President's Award for Outstanding Performance in Service in 2011.

SENIOR MANAGEMENT

Mr. Pu Shulin, Mr. Sun Haitao, Mr. Wu Ye and Mr. Yan Xiang are executive Directors. See "– Executive directors" for their biographies.

Mr. Cui Xiong (崔雄), aged 64, is pro-vice-chancellor and director of CUCN. He received his bachelor's degree in oil painting in 1980 and his masters' degree in fine arts in June 2009, both from the Nanjing University of the Arts (南京藝術學院).

Mr. Cui has served in numerous roles at the Nanjing University of the Arts since 1993, including as director of the finance department from 1993 to 1994, director of the office of college affairs (院務辦公室主任) from 1994 to 2004, vice-president from 2004-2016, member of the party committee from 2004-2014 and secretary of the party committee from 2014-2016. He also has been vice-president (副會長) of the Jiangsu Contemporary Art Research Association (江蘇省當代藝術研究會) since December 2018, and a director (理事) of the Jiangsu Oil Painting Association (江蘇省油畫學會) since August 2019.

Mr. Chen Simeng (陳思蒙), aged 38, is secretary of the party committee, pro-vice-chancellor and director of CUCN. Mr. Chen has served a number of other positions at CUCN, including as deputy-secretary of the party committee from October 2016 to April 2018, secretary of the party committee of the school of animation and digital art from September 2015 to October 2016, a director of the student recruitment office from October 2010 to September 2015, assistant to the director of the department of academic affairs and a director of the graduate employment and career counseling center from September 2008 to October 2010 and an officer of the department of academic affairs, responsible for student management from August 2005 to September 2008.

Mr. Chen received his bachelor's degree in management in June 2005 and his master's degree in radio and television arts in July 2010, both from CUC in Beijing, China. He was awarded his Teacher Qualification Certificate by the Department of Education of Jiangsu Province (江蘇省教育廳) in June 2006 and was recognized as a professional instructor by the Human Resources and Social Security Department of Hubei Province (湖北省人力資源和社會保障廳) in September 2010. He was named an assistant researcher by CUC in November 2010.

JOINT COMPANY SECRETARIES

Mr. Sun Haitao is one of our joint company secretaries and an executive Director of our Company. See "– Executive directors" for his biography.

Ms. Chow Yuk Yin Ivy (周玉燕), is one of our joint company secretaries. She has over 20 years of experience in the corporate secretarial field. Since January 2003, she has worked in the group companies of Tricor Services Limited (a global professional services provider specializing in integrated business, corporate and investor services), with her latest and present position as Director, Corporate Services Division (responsible for the provision of professional corporate secretarial services to companies listed on the Stock Exchange and other multinational, private and offshore companies). Ms. Chow previously worked at PricewaterhouseCoopers Limited in various positions within the company secretarial section of the tax services department.

Ms. Chow is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom. She has also been an ordinary member of the Hong Kong Securities and Investment Institute. Ms. Chow obtained her bachelor of arts degree in business studies from The Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic).

CHANGES TO DIRECTORS' INFORMATION

Save as disclosed in this annual report, during the year ended 31 December 2020 and as of the date of this annual report, there has been no change to the information of the Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Save and except for the interests of our Controlling Shareholders in our Company and its subsidiaries, during the year ended 31 December 2020, neither our Controlling Shareholders nor any of our Directors had any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

The Board of Directors is pleased to present the corporate governance report for the Company for the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance which are crucial to the Company's development and safeguard the interests of Shareholders. In order to accomplish this, the Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices after the Listing.

The Company has in place a corporate governance framework and has established a set of policies and procedures based on the Corporate Governance Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that for the year ended 31 December 2020, the Company has complied with all the applicable code provisions and certain recommended best practices in the Corporate Governance Code, save for the following deviations set out below, which are explained and disclosed in this corporate governance report.

Code provision A.1.1 of the Corporate Governance Code required that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. As the Shares of the Company were only listed on the Stock Exchange on 15 July 2020, the Company only held 1 Board meeting during the period from 15 July 2020 to 31 December 2020.

Code provision A.2.1 of the Corporate Governance Code recommends, but does not require, that the roles of chairperson and chief executive should be separate and should not be performed by the same person. Mr. Pu performs both the roles of the Chairperson of the Board and the chief executive officer of the Company. Mr. Pu is the founder of the Group and has extensive experience in the business operations and management of the Group. The Board believes that vesting the roles of both Chairperson and chief executive officer in Mr. Pu has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning. This structure will enable the Company to make and implement decisions promptly and effectively.

The Board considers that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of the Board, including the relevant Board committees, and three independent non-executive Directors. The Board will reassess the division of the roles of chairperson and the chief executive officer from time-to-time, and may recommend dividing the two roles between different people in the future, taking into account the circumstances of the Group as a whole.

Code provision A.2.7 of the Corporate Governance Code requires that the chairperson should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors. As the Shares of the Company were only listed on 15 July 2020, no meeting between the Chairperson and the independent non-executive Directors was held.

Code provision A.5.2 of the Corporate Governance Code stipulates that nomination committee meetings should be held at least annually. As the Shares of the Company were only listed on 15 July 2020, no nomination committee meeting was held during the period from 15 July 2020 to 31 December 2020.

Code provision C.3.3 of the Corporate Governance Code stipulates that audit committee meetings should be held at least twice a year. As the Shares of the Company were only listed on 15 July 2020, only one audit committee meeting was held during the period from 15 July 2020 to 31 December 2020.

Code provision N(b) of the Corporate Governance Code stipulates that in each financial year the Company's company secretary must take no less than 15 hours of relevant professional training. As the Shares of the Company were only the listed on the Stock Exchange on 15 July 2020, Mr. Sun Haitao did not receive a total of 15 hours of professional training during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Shares of the Company were only listed on the Stock Exchange on 15 July 2020, since which time the Model Code has been applicable to the Company.

The Company has adopted the Management Trading of Securities Policy (the "Code"), with terms no less exacting than the Model Code, as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Code.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Code since the Listing Date up to the date of this annual report.

There has been no non-compliance with the required standard set out in the Corporate Governance Code.

BOARD COMPOSITION

The Board currently comprises seven members consisting of four executive Directors and three independent non-executive Directors.

During the year ended 31 December 2020 and up to the date of this corporate governance report, the composition of the Board comprises the following Directors:

Executive Directors

Pu Shulin *(Chairperson, and chief executive officer, chairperson of nomination committee, member of remuneration committee)*
Sun Haitao
Wu Ye
Yan Xiang

Independent non-executive Directors

Zhang Jizhong *(member of audit and nomination committees)*
Lee Cheuk Yin Dannis *(Chairperson of audit committee and member of nomination and remuneration committees)*
Huang Yu *(Chairperson of remuneration committee and member of audit committee)*

The biographical information of the Directors is disclosed under "Directors and Senior Management" on pages 28 to 31 of this annual report.

There are no material/relevant relationships (including financial, business, family) between members of the Board.

BOARD MEETINGS AND COMMITTEE MEETINGS

Code provision A.1.1 of the Corporate Governance Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals, involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Notice of regular Board meetings is given to all Directors at least 14 days in advance, and reasonable notice is generally given for other Board meetings.

If a Director or any of his associates has a material interest in a transaction, that Director is required to abstain from voting and not to be counted in the quorum at the meeting for approving the transaction.

During the year ended 31 December 2020, the Board held 1 meeting.

A summary of the attendance record of the Directors at Board meetings and committee meetings is set out in the following table below:

	Number of meeting(s) attended/Number of meeting(s) held				
Director	**Annual general meeting**	**Board meeting**	**Audit committee**	**Remuneration committee(1)**	**Nomination committee(1)**
Pu Shulin	N/A	1/1	N/A	N/A	N/A
Sun Haitao	N/A	1/1	N/A	N/A	N/A
Wu Ye	N/A	1/1	N/A	N/A	N/A
Yan Xiang	N/A	1/1	N/A	N/A	N/A
Zhang Jizhong	N/A	1/1	1/1	N/A	N/A
Lee Cheuk Yin Dannis	N/A	1/1	1/1	N/A	N/A
Huang Yu	N/A	1/1	1/1	N/A	N/A

Note:

(1) During the year ended 31 December 2020, no meeting of the remuneration committee or nomination committee was held.

Code provision A.2.7 of the Corporate Governance Code requires that the chairperson should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors. As the Company was only listed on 15 July 2020, no meeting between the Chairperson and the independent non-executive Directors was held during the period from 15 July 2020 to 31 December 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

During the period from the Listing Date to 31 December 2020, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Article 108(a) of the Articles of Association of the Company stipulates that at each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. However, if the number of Directors is not three or a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. Article 108(b) of the Articles of Association of the Company also stipulates that any Director who has not been subject to retirement by rotation in the three years preceding the annual general meeting shall retire by rotation at such annual general meeting. Any further Directors to retire in each year shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Article 112 of the Articles of Association of the Company stipulates that any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after their appointment and be subject to re-election at such meeting. Article 112 also stipulates that any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed under Article 112 shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

Each of our independent non-executive Directors has entered into an appointment letter with our Company. The term of office of our independent non-executive Directors is three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner).

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is the primary decision-making body of the Company and is responsible for overseeing 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. The Board makes decisions objectively in the interests of the Company. 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. The Group's senior management is responsible for the day-to-day management of the Group's business and is responsible for overseeing the general operation, business development, finance, marketing, and operations.

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 co-ordinating the daily operation and management of the Company are delegated to the management, under the supervision of Mr. Pu for the Group's business development and strategic planning and under the supervision of Mr. Sun for the Group's business development, strategic planning and daily operation, with the advisory roles taken by Mr. Wu. and Mr. Yan on strategic development and financial planning of the Group respectively.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

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. Each of these committees is established with defined written terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit committee

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code.

The primary duties of the audit committee are to review and supervise the financial reporting process and risk management and internal control systems of the Group, review and approve connected transactions and provide advice and comments to the Board.

The audit committee comprises of three independent non-executive Directors, being Mr. Lee Cheuk Yin Dannis, Mr. Zhang Jizhong and Mr. Huang Yu, with Mr. Lee Cheuk Yin Dannis (being the Company's independent non-executive Director with the appropriate professional qualifications) as chairperson of the audit committee.

During the year ended 31 December 2020, 1 audit committee meeting was held to review the interim results of the Group for the six months ended 30 June 2020, review the annual cap of existing continuing connected transactions, internal audit; risk management and internal control issues and litigation updates; as well as to recommend the results and reports of the Company for the Board's approval.

Remuneration committee

The Company established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code.

The primary duties of the remuneration committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee is also responsible for establishing transparent procedures for developing remuneration policy and structure to ensure that no Director or any of their associates will participate in deciding their own remuneration.

The remuneration committee comprises of one executive Director and two independent non-executive Directors, being Mr. Huang Yu, Mr. Pu Shulin and Mr. Lee Cheuk Yin Dannis, with Mr. Huang Yu as chair of the remuneration committee.

The remuneration committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Directors and senior management members).

As the Shares of the Company were only listed on 15 July 2020, no remuneration committee meeting was held during the Reporting Period to review and make recommendation to the Board on the remuneration policy and the remuneration packages of individual executive Directors and senior management members.

After the Reporting Period, the remuneration committee has reviewed and made recommendation to the Board on remuneration policy and the remuneration packages of all directors and senior management members.

Details of the remuneration paid or payable to each Director of the Company for the year ended 31 December 2020 are set out in note 39 to the consolidated financial statements.

The remuneration of the members of senior management who are neither a Director nor chief executive of the Company by band for the year ended 31 December 2020 is set out below:

	Number of members of senior management
RMB0 to RMB1,000,000	3

Nomination committee

The Company has established a nomination committee with written terms of reference in compliance with the Corporate Governance Code.

The primary duties of the nomination committee are to review the structure, size and composition of the Board, to develop and formulate relevant procedures for the nomination and appointment of Directors, to assess independence of independent non-executive Directors, to make recommendations to our Board on the appointment of Directors and management of Board succession, and to assess the independence of independent non-executive Directors.

The nomination committee comprises one executive Director and two independent non-executive Directors, being Mr. Pu Shulin, Mr. Zhang Jizhong and Mr. Lee Cheuk Yin Dannis, with Mr. Pu Shulin as chair of the nomination committee.

As the Shares of the Company were only listed on 15 July 2020, no nomination committee meeting was held during the Reporting Period to review and make recommendation to the Board on the remuneration policy and the remuneration packages of individual executive Directors and senior management members.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy on 22 June 2020 which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent.

Pursuant to the board diversity policy, in reviewing and assessing suitable candidates to serve as a director of the Company, the nomination committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. Pursuant to the board diversity policy, the nomination committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

The nomination committee will use its best endeavours and on suitable basis to, within three years after Listing, identify and recommend at least one female candidate to our Board for its consideration on appointment of a Director. The Company also seeks to ensure that there is gender diversity when recruiting staff at mid to senior level so that it will have a pipeline of female senior management and potential successors to the Board in due time to ensure gender diversity of the Board.

The Nomination Committee will review the diversity policy periodically to ensure its effectiveness and will recommend revisions to the Board for consideration and approval as appropriate.

The nomination committee will report annually a summary of this policy and, where applicable, measurable objectives that the Board has adopted for implementation of this policy and the progress made towards achieving these objectives in the Company's corporate governance report.

As of the date of this annual report, the Company had a total of seven Directors. There is a diverse mix of educational background and professional experience. The Nomination Committee has reviewed the diversity policy and considers that, appropriate balance has been stricken among the Board members in terms of skills, experience and perspectives.

DIVIDEND POLICY

In accordance with code provision E.1.5 of the Corporate Governance Code, the Company adopted a dividend policy (the "Dividend Policy") on 22 June 2020, which outlines the principles and guidelines that the Company intends to apply in relation to the declaration, payment and distribution of dividends to the Shareholders.

According to the Dividend Policy, subject to the Cayman Island company law and the Articles of Association of the Company, the Board has absolute discretion on whether to declare and distribute dividends. Shareholders in general meeting may declare dividend but no dividend may be declared in excess of the amount recommended by the Board.

The Board will take into consideration, if it decides to pay dividends, the Company's future operations and earnings, capital requirements and surplus, cash flows, general financial condition, contractual restrictions and any other factors that the Board may consider relevant.

The Company does not have a fixed dividend payout ratio. The Company currently intends to recommend dividends commensurate with the industry average level, while maintaining adequate reserves for its operations, expansion and future growth.

NOMINATION POLICY

In accordance with code provision L(d)(ii) of the Corporate Governance Code, the Company adopted a nomination policy for nomination of directors (the "Director Nomination Policy") on 22 June 2020. Such policy ensures that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

According to the Director Nomination Policy:

(i) the ultimate responsibility for selection and appointment of Directors rests with the entire Board;

(ii) the nomination committee shall identify, consider and recommend suitable individuals to the Board to consider and to make recommendations to the Shareholders of the Company for election of Directors at a general meeting either to fill a casual vacancy or as an addition to the Board;

(iii) in assessing the suitability and the potential contribution to the Board of a proposed candidate, the nomination committee would reference, among others, the candidates' reputation for integrity, professional qualifications and skills, accomplishment and experience in the private education sector, commitment in respect of available time and relevant interest, independence of proposed independent non-executive Directors; and diversity in all aspects; and

(iv) the nomination committee shall make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new directors and re-election of Directors at general meetings. During the period from the Listing Date to 31 December 2020, there was no change in the composition of the Board.

The nomination committee will report annually a summary of this policy including the nomination procedures, criteria for selection, the diversity policy and, where applicable, the measurable objectives adopted and the progress made towards achieving these objectives, in the Company's corporate governance report.

The nomination committee will review the Director Nomination Policy from time to time, as appropriate, to ensure its effectiveness.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Directors should participate in continuous professional development to develop and refresh their knowledge and skills.

During the year ended 31 December 2020, the key methods of attaining continuous professional development by each of the Directors are recognised as follows:

Director	Attended training session	Reading materials
Pu Shulin	✓	✓
Sun Haitao	✓	✓
Wu Ye	✓	✓
Yan Xiang	✓	✓
Zhang Jizhong	✓	✓
Lee Cheuk Yin Dannis	✓	✓
Huang Yu	✓	✓

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 31 December 2020.The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement by the auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 48 to 54 of this annual report.

CORPORATE GOVERNANCE FUNCTION

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

The Board has reviewed and monitored the Company's policies and practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness at least once a year. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees risk management functions directly and also through the Audit Committee and the senior management.

The senior management is responsible for the overall implementation of risk management and internal control plans and policies determined by the Board and managing the risks in connection with all of the Company's business operations. The senior management identifies, assess and take measures against any significant risks that the Company is facing, and reviews the risk assessment report on a quarterly basis and reports to the Board on a semi-annual basis.

The Board did not identify any significant areas of concern.

The audit committee assists the Board in leading the management and monitoring and overseeing the risk management and internal control systems through the internal audit department, and reporting and making recommendations to the Board where appropriate.

The management has confirmed to the Board and the audit committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2020.

The Board, as supported by the audit committee as well as the management report and the internal audit findings by the internal audit department, has reviewed the effectiveness of the Company's and its subsidiaries' risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2020, and considered that such systems are effective and adequate.

The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Board is responsible for the handling and dissemination of inside information. In order to ensure the market and stakeholders are timely and fully informed about the material developments in the Company's business, the Board has adopted the inside information disclosure policy on 22 June 2020 regarding the procedures of proper information disclosure. As such, the inside information will not be passed on to any external party.

JOINT COMPANY SECRETARIES

Mr. Sun Haitao and Ms. Chow Yuk Yin Ivy are the Company's joint company secretaries. Ms. Chow is an external secretarial service provider and a director of Tricor Services Limited.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Mr. Sun Haitao, a joint company secretary has been designated as the primary contact person at the Company who would work and communicate with Ms. Chow, also a joint company secretary on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2020, Ms Chow had undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

As the Shares of the Company were only listed on 15 July 2020, Mr. Sun Haitao did not receive a total of 15 hours of professional training during the Reporting Period.

AUDITORS RESPONSIBILITY

The Company appointed PricewaterhouseCoopers, Certified Public Accountants, Hong Kong as the external auditor for the year ended 31 December 2020. A statement by the auditors about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 53 to 54.

AUDITOR'S REMUNERATION

A breakdown of the remuneration in respect of audit and non-audit services provided by the auditor to the Company for the year ended 31 December 2020 is set out below:

Service category	Fees paid/payable (RMB'000)
Audit services	4,487
Non-audit services	–

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate 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 poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (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.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

Shareholders may propose a person for election as Director, the procedures for which are available on the Company's website under "Investor relations—Corporate Governance".

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

The Board is not aware of any provisions allowing the Shareholders of the Company to put forward proposals at general meetings of the Company under the Articles of Association and the Companies Law of the Cayman Islands. Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	22/F, Block 12, Wanda Plaza, No. 93 Jianguo Road, Chaoyang District, Beijing, China (For the attention of the Board of Directors)
Telephone:	+86-10-58205558
Fax:	+86-10-58205777
Email:	ir@cathaymedia.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. The information of the Shareholder(s) may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At annual general meetings, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Board adopted a shareholders' communication policy on 22 June 2020 with reference to code provision E.1.4 of the Corporate Governance Code. This is to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

In order to promote effective communication, the Company maintains a website where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SIGNIFICANT CHANGES TO CONSTITUTIONAL DOCUMENTS

Save as set out in the Prospectus (regarding the adoption of the Memorandum and Articles as defined therein with effect from the Listing Date), during the year ended 31 December 2020, there was no significant change in the memorandum and articles of association of the Company.

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

As of 31 December 2020, the interests or short positions of the Directors and chief executives 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 have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the 'Model Code for Securities Transactions by Directors of Listed Issuers' contained in the Listing Rules, to be notified to our Company and the Stock Exchange are set out below:

Interest in our Company

Name	Nature of interest	Number of Shares	Approximate % of interest[1]
Mr. Pu	Beneficial owner	1,155,000,000	69.57%

Note:

(1) The calculation is based on the total number of 1,660,000,000 Shares in issue as of 31 December 2020.

Interest in associated corporations

Associated corporation	Name	Nature of interest	Number of Shares	Interest in associated corporation
Cathay Media Holding Inc.	Mr. Pu	Interest in a controlled corporation	1	100%

Save as disclosed above, as of 31 December 2020, so far as is known to any Director or the chief executives of the Company, none of the Directors nor the chief executives of the Company or their respective associate had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 December 2020, the following persons (other than the Directors and chief executives whose interests have been disclosed in this annual report) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate % of interest[1]
Cathay Media Holdings Inc.[2]	Beneficial owner	1,155,000,000	69.57%
Mr. Pu[2]	Interest in a controlled corporation	1,155,000,000	69.57%
Highland Pines Limited	Beneficial owner	100,000,000	6.02%
Areo Holdings Limited	Interest in a controlled corporation	100,000,000	6.02%
Lam Lai Ming	Interest in a controlled corporation	100,000,000	6.02%
Li Gabriel	Interest in a controlled corporation	100,000,000	6.02%
Oavii Holdings, L.P.	Interest in a controlled corporation	93,000,000	5.60%
Orchid Asia V Group Management, Limited	Interest in a controlled corporation	93,000,000	5.60%
Orchid Asia V Group, Limited	Interest in a controlled corporation	93,000,000	5.60%
Orchid Asia VII GP, Limited	Interest in a controlled corporation	93,000,000	5.60%
Orchid Asia VII, L.P.	Interest in a controlled corporation	93,000,000	5.60%
Snow Lake Capital (HK) Limited	Beneficial owner	85,460,000	5.14%
Ma Sean	Interest in a controlled corporation	85,460,000	5.14%

Notes:

(1) The calculation is based on the total number of 1,660,000,000 Shares in issue as of 31 December 2020.

(2) Cathay Media Holding Inc. is wholly-owned by Mr. Pu who is also a director of Cathay Media Holding Inc.. Subsequent to 31 December 2020, Cathay Media Holding Inc. became wholly-owned by Winning Global Ventures Limited. Mr. Pu, as settlor, controls Winning Global Ventures Limited through a discretionary trust.

Save as disclosed above, as of 31 December 2020, no other person (other than the Directors and the chief executives of the Company) had any interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SHARE SCHEMES

Post-IPO Share Award Scheme

The Post-IPO Share Award Scheme was conditionally adopted pursuant to the resolutions of the Shareholders on 22 June 2020. The Post-IPO Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

The purpose of the Post-IPO Share Award Scheme is to align the interests of eligible persons with those of our Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain eligible persons to make contributions to the long-term growth and profits of our Group.

Any individual, being an employee, director, officer, consultant, adviser, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of our Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to our Group is eligible to receive an award.

The maximum aggregate number of Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Shares which have been forfeited in accordance with the Share Award Scheme) will not exceed 32,000,000 Shares (representing approximately 2% of the total issued Shares as of the Listing Date) without further Shareholders' approval (the "Share Award Scheme Limit"), subject to an annual limit of 1% of the total number of issued Shares of the relevant times. Save as otherwise restricted by the Share Award Scheme Limit or the Listing Rules, there shall be no limit on the total number of non-vested Shares that may be granted to a selected participant under the Scheme.

The Post-IPO Share Award Scheme shall be valid and effective for ten years from the Listing Date (after which no awards will be granted), and thereafter for so long as there are any non-vested Shares granted prior to the expiration of the Post-IPO Share Award Scheme, in order to give effect to the vesting of such Shares or otherwise as may be required in accordance with the rules of the Post-IPO Share Award Scheme.

As of the date of this annual report, no Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme.

Further details of the Post-IPO Share Award Scheme are set out in the Prospectus.

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted pursuant to the written resolutions of the Shareholders passed on 22 June 2020. The Post-IPO Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date (after which, no further options shall be offered or granted).

The purpose of the Post-IPO Share Option Scheme is to provide eligible persons to the Post-IPO Share Option Scheme with the opportunity to acquire proprietary interests in our Company and to encourage the eligible person to work towards enhancing the value of our Company and our Shares for the benefit of our Company and Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to eligible persons.

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of our Group or any of our Group's affiliates who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group is entitled to be offered and granted options.

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company is 160,000,000, being no more than 10% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the "Option Scheme Mandate Limit"). Options which have lapsed in accordance with the terms of the rules of the Post-IPO Share Option Scheme (or any other share option schemes of our Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

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 Post-IPO Share Option Scheme and any other share option schemes of our Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the "Option Scheme Limit"). No options may be granted under any schemes of our Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

The Option Scheme Mandate Limit may be refreshed at any time subject to prior approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the Option Scheme Mandate Limit as refreshed cannot exceed 10% of the Shares in issue as of the date of such approval. Options previously granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, cancelled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit. Our Company may also seek separate approval of our Shareholders in general meeting for granting options beyond the Option Scheme Mandate Limit, provided such grant is to eligible person specifically identified by our Company before the aforesaid Shareholders' meeting where such approval is sought.

Unless approved by our Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of our Company to each eligible person (including both exercised and outstanding options) in any 12 month period shall not exceed 1% of the total number of Shares in issue.

A consideration of HK$1.00 is payable within 20 business days from the date of grant of an option.

An option may, subject to the rules of the Post-IPO Share Option Scheme and the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to our Company in such form as our Board may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

Pursuant to the Post-IPO Share Option Scheme, the participants may subscribe for the Shares on the exercise of an option at the price determined by the Board provided that it shall be at least the highest of (a) the closing price of a Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

As of the date of this annual report, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Option Scheme was 160,000,000 Shares.

Further details of the Post-IPO Share Option Scheme are set out in the Prospectus.

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

Save for the Global Offering, neither the Company nor any of its subsidiaries or Consolidated Affiliated Entities purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2020. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group since the Listing Date and up to the date of this annual report.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 15 July 2020, the Shares of the Company were listed on the Main Board of the Stock Exchange. The net proceeds from the Global Offering (following full exercise of the Over-allotment Option, as defined in the Prospectus) were approximately HK$1,383.0 million, which are intended to be applied in the manner set out in the Company's Prospectus. There was no change in the intended use of proceeds as previously disclosed.

Set out below is the status of use of proceeds from the Global Offering as of 31 December 2020.

Purpose	% of use of proceeds	Net proceeds (HK$ million)	Amount used for the year ended 31 December 2020 (HK$ million)	Unutilised amount as of 31 December 2020 (HK$ million)	Expected time of full utilisation
Invest in high quality content	30%	414.9	107.9	307.0	2022
Improve and expand our University	30%	414.9	47.2	367.7	2022
Mergers and acquisitions	30%	414.9	0.1	414.8	2022
General working capital	10%	138.3	138.3	–	N/A

DECLARATION OF FINAL DIVIDEND

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends.

The Board recommended a final dividend for the year ended 31 December 2020 of HK$0.08 per Share. The final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 27 May 2021 (the "AGM") and the final dividend is expected to be payable on or before Wednesday, 30 June 2021 to the Shareholders whose names appear on the register of members of the Company on Thursday, 10 June 2021.

GUARANTEED PROFITS OR NET ASSETS

As set out in the announcements dated 20 December 2020, 28 January 2021 and 7 April 2021, the Group acquired control of the affiliated entities comprising Shuimuyuan for an aggregate consideration of RMB300 million. Pursuant to the acquisition agreement, Mr. Ma Xiaochuan (馬小川), warranted and guaranteed that the net profit attributable to owners of the Target Company (as defined in the announcement), consolidating the financial information of the Affiliated Entities (as defined in the announcement), for the three years ending 31 December 2021, 2022 and 2023 as calculated in accordance with PRC GAAP shall not be less than RMB24 million, RMB27.6 million and RMB31.74 million, respectively.

As of the date of this annual report, there has been no subsequent change to the terms of the guarantee.

As of the date of this annual report, the actual performance has not failed to meet the guarantee.

To the Shareholders of Cathay Media and Education Group Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Cathay Media and Education Group Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 130, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of television series and film rights, and estimation of net realisable value ("NRV") of inventories
- Income tax assessment for the school in the People's Republic of China (the "PRC")

KEY AUDIT MATTERS (continued)

Key Audit Matter

Impairment assessment of television series and film rights, and estimation of NRV of inventories

Refer to Notes 2.8, 4(f) and 20 to the consolidated financial statements for impairment assessment of television series and film rights, and refer to Notes 2.12, 4(g) and 21 to the consolidated financial statements for estimation of NRV of inventories.

As at 31 December 2020, the carrying amounts of the Group's television series and film produced for licencing and sales classified as television series and film rights and inventories amounted to approximately RMB33,775,000 and RMB56,906,000, respectively.

The recoverable amounts of television series and film rights were determined by management based on "value-in-use" calculations using the discounted cash flow model. The NRV of inventories were determined by management based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Based on the results of the assessments, management has concluded that no impairment loss for television series and film rights or impairment provision for inventories have to be recognised for the year ended 31 December 2020.

We focused on these areas due to the fact that management applied significant judgements in assessing the impairment of television series and film rights and estimating NRV of the inventories. In making such assessments, management considered all possible factors that may affect the future production plans, distribution plans, estimated licensing price and discount rate, and exercised judgement in developing its expectation for the future cash flows for impairment assessment of television series and film rights, as well as the future production plans, sales plans and estimated selling price for estimation of NRV of inventories, which are subjective.

How our audit addressed the Key Audit Matter

We obtained an understanding of management's assessment process of impairment of television series and film rights and estimation of NRV of inventories, and assessed the inherent risks of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors.

We understood and evaluated the relevant internal controls over the preparation of future cash flow forecast of television series and film rights for impairment assessment, and the estimation of NRV of inventories.

We evaluated the outcome of the key assumptions used by management in the prior year assessments to assess the effectiveness of management's estimation process.

We tested, on a sample basis, management's assessment of recoverable amounts of the television series and film rights, and estimation of NRV of inventories, based on the significance of the balance of each item of television series and film right and inventories.

For impairment assessment of the television series and film rights

- For each selected sample of adaptation rights and scripts and television series under production, we (i) examined the related agreements of the purchased adaption rights and scripts to check their stipulated period of validity; (ii) discussed with management to understand their future production and distribution plans; and (iii) assessed the reasonableness of key assumptions used in the cash flow forecast for impairment assessment such as estimated licensing price and related costs by comparing to historical licensing fee of comparable television series and production and distribution costs of similar television series of the Group.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	• For each selected sample of television series completed with no associated license agreements entered into, we (i) discussed with management to understand their future distribution plans; and (ii) assessed the reasonableness of key assumptions used in the cash flow forecast for impairment assessment such as the estimated licensing price by comparing to the historical licensing fee of comparable television series of the Group. • We assessed the reasonableness of the discount rate used in the cash flow forecast by reference to external industry data and cost of equity of comparable companies, and tested the accuracy of mathematical calculation of the impairment assessment. ***For estimation of NRV of inventories*** • For each selected sample of television series and film rights, we (i) discussed with management to understand their future production and sales plans; and (ii) assessed the reasonableness of the estimation of selling price, costs of completion and the costs necessary to make the sale of the television series and film produced for sale by comparing the estimated selling price, costs of completion and the costs necessary to make the sale to historical licensing fee of comparable television series of the Group and production and distribution costs of similar television series. Based on the procedures performed, we found the assumptions adopted and judgements applied by management in the impairment assessments of television series and film rights and estimation of NRV of inventories were supported by the available evidence.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter

Income tax assessment for the school in the PRC
 	
Refer to Notes 4(c) and 13 to the consolidated financial statements.
 	
The Group operates a school, Nanjing Chuanmei Xueyuan, formerly known as Communication University of China, Nanjing ("CUCN"), in the PRC that provides tuition and boarding services, international preparatory program services and continuing education services, and is eligible to the preferential tax treatment based on the assessment made by the management. As such, no corporate income tax has been provided on the income generated by CUCN during the year. Significant judgments are required in determining the provision for income taxes as there are uncertainties in interpreting the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by CUCN.
 	
Sponsors of CUCN have elected CUCN to be a private school which does not require reasonable returns. Pursuant to the Implementation Rules for the Law for Promoting Private Education issued by Standing Committee of the National People's Congress, private schools whose sponsors do not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, which are exempted from corporate income tax based on industry experiences. However, there have been no rules specifying the preferential tax treatment enjoyed by public schools in Corporate Income Tax Law of the People's Republic of China or other relevant tax rules and regulations.
 	
We focus on this area due to the high level of management judgments involved in whether CUCN could adopt the applicable preferential tax treatment and are exempted from the corporate income tax.
	We assessed the reasonableness of management's judgments by performing the following audit procedures:
	
	- Confirmed CUCN's status as private school which do not require reasonable returns by:
	  • Interviewing the management of the Group as to their intention of operating the school that they do not require reasonable returns;
	  • Tracing to the legal documents of the school establishment such as the registration documents and articles of CUCN;
	  • Reviewing the board meeting minutes and financial statements that no dividend has been declared or paid by CUCN to the Group;
	
	- Discussed with the Group's PRC legal advisors and understood their views with respect to the interpretation of the existing applicable laws, and evaluate whether there is any impact on the tax position of CUCN based on management's judgement;
	
	- Interviewed the local tax bureau and confirmed that CUCN could be entitled to the preferential income tax treatment and is exempted from the corporate income tax, and that CUCN has not violated any of the PRC tax laws during the year and up to the report date;
	
	- Assessed management's judgements that CUCN is entitled to the preferential tax treatment with the assistance of the internal tax experts by reviewing the applicable tax laws and regulations, any new policies or rules that might impact CUCN during the year, and historical tax returns filed to the local tax bureau to assess if management's understanding and interpretation could be supported.
	
	Based on the procedures performed, we found management's judgments on the preferential tax treatment adopted by CUCN were supported by the audit evidences we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible 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. We report our opinion 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 judgment 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.

- 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.

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

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 Ng Ping Fai.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	6(a),7	**789,743**	747,186
Cost of revenue	10	**(436,505)**	(374,361)
Gross profit		**353,238**	372,825
Gain on sales of television series and film rights	6(b)	**45,804**	–
Selling expenses	10	**(27,095)**	(8,999)
Administrative expenses	10	**(73,236)**	(74,212)
Other income	8	**44,427**	17,504
Other gains/(losses) - net	9	**25,153**	(72,871)
Operating profit		**368,291**	234,247
Finance income	12	**3,227**	6,705
Finance costs	12	**–**	(621)
Finance income – net	12	**3,227**	6,084
Share of losses of investment accounted for using the equity method	16	**(50)**	–
Profit before income tax		**371,468**	240,331
Income tax expense	13	**(34,328)**	(45,814)
Profit for the year		**337,140**	194,517
Profit attributable to			
Owners of the Company		**316,444**	177,358
Non-controlling interests	14	**20,696**	17,159
		337,140	194,517
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	15	**0.22**	0.15
Diluted earnings per share	15	**0.22**	0.15
Other comprehensive income			
Items that cannot be reclassified to profit or loss			
Currency translation differences		**(83,136)**	–
Items that may be reclassified to profit or loss			
Currency translation differences		**(1,789)**	696
Total comprehensive income		**252,215**	195,213
Total comprehensive income attributable to:			
Owners of the Company		**231,519**	178,054
Non-controlling interests		**20,696**	17,159
		252,215	195,213

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2020** **RMB'000**	 2019 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	17	**106,228**	112,617
Property, plant and equipment	18	**603,202**	539,960
Investments accounted for using the equity method	16	**1,564**	–
Intangible assets	19	**1,099**	15,659
Deferred income tax assets	22	**16,183**	12,101
		728,276	680,337
Current assets			
Television series and film rights	20	**33,775**	71,650
Inventories	21	**56,906**	3,820
Trade receivables	26	**367,549**	70,336
Prepayments, deposits and other receivables	27	**120,448**	22,616
Financial assets at fair value through profit or loss	25	**818,540**	799,516
Cash and cash equivalents	28	**1,308,667**	120,481
		2,705,885	1,088,419
Total assets		**3,434,161**	1,768,756
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Combined capital	30(b)	**–**	–
Share capital	29	**118**	86
Other reserves	30	**1,763,791**	548,976
Retained earnings		**966,404**	703,516
		2,730,313	1,252,578
Non-controlling interests	14	**144,871**	124,175
Total equity		**2,875,184**	1,376,753
LIABILITIES			
Non-current liabilities			
Borrowings	33	**–**	32,000
Deferred income	34	**1,263**	1,561
		1,263	33,561
Current liabilities			
Trade payables	31	**201,480**	36,304
Other payables and accrual charges	32	**91,608**	104,253
Contract liabilities	7	**204,690**	191,707
Current income tax liabilities		**38,332**	4,574
Dividend payables	35	**21,604**	21,604
		557,714	358,442
Total liabilities		**558,977**	392,003
Total equity and liabilities		**3,434,161**	1,768,756

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Note	Combined capital (Note 30(b)) RMB'000	Share capital (Note 29) RMB'000	Other reserves (Note 30) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
		Attributable to owners of the Company						
At 1 January 2019		247,627	–	237,070	755,329	1,240,026	123,392	1,363,418
Comprehensive income								
Profit for the year		–	–	–	177,358	177,358	17,159	194,517
Currency translation differences		–	–	696	–	696	–	696
Total comprehensive income		–	–	696	177,358	178,054	17,159	195,213
Transactions with owners								
Capital injection from owners	29(c)	–	86	–	–	86	–	86
Profit appropriation to statutory reserves		–	–	63,583	(63,583)	–	–	–
Dividends declared	35	–	–	–	(165,588)	(165,588)	(16,376)	(181,964)
Effect of the Reorganisation	30(b)	(247,627)	–	247,627	–	–	–	–
At 31 December 2019		–	86	548,976	703,516	1,252,578	124,175	1,376,753
At 1 January 2020		–	86	548,976	703,516	1,252,578	124,175	1,376,753
Comprehensive income								
Profit for the year		–	–	–	316,444	316,444	20,696	337,140
Currency translation differences		–	–	(84,925)	–	(84,925)	–	(84,925)
Total comprehensive income		–	–	(84,925)	316,444	231,519	20,696	252,215
Transactions with owners								
Issuance of ordinary shares upon initial public offering ("IPO")	29(d)	–	32	1,286,565	–	1,286,597	–	1,286,597
Share issuance costs	29(d)	–	–	(40,381)	–	(40,381)	–	(40,381)
Profit appropriation to statutory reserves		–	–	53,556	(53,556)	–	–	–
At 31 December 2020		–	118	1,763,791	966,404	2,730,313	144,871	2,875,184

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	169,807	312,827
Income tax paid		(4,681)	(37,338)
Net cash inflow from operating activities		165,126	275,489
Cash flows from investing activities			
Purchases of property, plant and equipment		(92,978)	(84,939)
Purchases of intangible assets		(632)	(37,537)
Proceeds from sale of property, plant and equipment		–	66
Purchases of financial assets at fair value through profit or loss		(1,083,638)	(813,500)
Proceeds from disposal of financial assets at fair value through profit or loss		1,090,107	701,620
Repayment of loans by a related party		–	150,000
Placement of term deposits with initial terms of over three months		–	(66,000)
Withdrawal of term deposits with initial terms of over three months		–	81,000
Interest received		–	2,376
Purchases of short-term investments measured at amortised cost		–	(91,939)
Proceeds from disposal of short-term investments measured at amortised cost		–	99,003
Investment in joint venture	16	(1,750)	–
Net cash outflow from investing activities		(88,891)	(59,850)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares upon IPO	29(d)	1,286,597	–
Dividends paid to owner		–	(165,588)
Repayments of borrowings		(32,000)	–
Proceeds from borrowings		–	32,000
Payment of lease liabilities	17		
– Principal		–	(18,859)
– Interest		–	(621)
Payment of share issuance costs		(57,974)	(867)
Net cash inflow/(outflow) from financing activities		1,196,623	(153,935)
Net increase in cash and cash equivalents		1,272,858	61,704
Cash and cash equivalents at beginning of year	28	120,481	58,072
Exchange (losses)/gains on cash and cash equivalents		(84,672)	705
Cash and cash equivalents at end of year	28	1,308,667	120,481

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. GENERAL INFORMATION

Cathay Media and Education Group Inc. (the "Company") was incorporated in the Cayman Islands on 4 January 2017 as an exempted company with limited liability under the Companies Law (Cap 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in television series and film production and investment as well as the provision of media and arts higher education and training service in the People's Republic of China (the "PRC").

The ultimate holding company of the Company is Cathay Media Holding Inc. ("Cathay Media Holding"), a company incorporated in the British Virgin Islands, and which is wholly owned by Mr. Pu Shulin ("Mr. Pu"), who is also an executive director and Chairman of the Board of Directors of the Company.

Prior to the incorporation of the Company and the completion of the reorganisation in the preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"), the television series and film production and investment business and the education and training service business was principally carried out by the companies which are controlled by Mr. Pu. The Reorganisation was completed on 5 September 2019 and pursuant to which the companies engaged in the television series and film production and investment business and the education and training service business under common control of Mr. Pu were transferred to the Group.

On 15 July 2020, the Company completed a public offering of 400,000,000 shares at a price of HK3.10 per share (the "Offering Price"), and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited. On 5 August 2020, the Company issued additional 60,000,000 new shares upon the exercises of over-allotment of the public offering at the Offering Price.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622.

Prior to and following the Reorganisation, all companies comprising the Group were directly or indirectly controlled by Mr. Pu. The Reorganisation, as completed on 5 September 2019, has been accounted for as a reorganisation of business under common control in a manner similar to merger accounting, and accordingly the assets and liabilities of the television and films production business and higher education service business transferred to the Company have been stated at historical carrying amounts and the comparative financial information for the year ended 31 December 2019 has been prepared as if the television and films production business and higher education service business were transferred to the Company as of the beginning of the period presented.

The financial statements have been prepared on a historical cost basis, except for certain financial assets measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards adopted

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to HKAS 1 and HKAS 8
- Definition of a Business – amendments to HKFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 7, IFRS 9, and IAS 39
- COVID-19-related Rent Concessions – Amendments to IFRS 16
- Revised Conceptual Framework for Financial Reporting

The adoption of these amended standards and revised conceptual framework did not have any material impaction the Group's consolidated financial statement.

2.1.2 New and amended standards not yet adopted

		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements 2018-2020 cycle		1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023

The new and amended standards have not been early adopted by the Group, and are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(i) Subsidiaries controlled through contractual arrangements

Prior to the incorporation of the Company and the completion of the Reorganisation, the television series and film production and investment business was carried out by Huaxia Audio-Visual Global Media (Beijing) Holdings Co., Ltd. ("Huaxia Audio-Visual") and Beijing Huaxia Audio-Visual Online Cultural Development Co., Ltd. ("Huaxia Online"), while higher education service business was carried out by Nanjing Meiya Education Investment Co., Ltd. ("Nanjing Meiya") and Communication University of China, Nanjing ("CUCN") (collectively as the "Operating Entities"). The Operating Entities were controlled by Mr. Pu before and after Reorganisation. Pursuant to a series of contractual agreements signed on 28 August 2019 (the "Contractual Arrangements") among Bicheng Art Consulting (Nanjing) Co., Ltd. ("Bicheng Art") and Dongyang Huaxia Audio-Visual Culture Consulting Co., Ltd. ("Dongyang Culture") (collectively as the "WFOEs"), Dongyang Huaxia Audio-Visual Film Culture Co., Ltd. ("Dongyang Huaxia", which is parent company of Huaxia Audio Visual), Nanjing Lanchou Corporate Management Co., Ltd. ("Nanjing Lanchou", which is parent company of Nanjing Meiya) and the Operating Entities (collectively as the "Consolidated Affiliated Entities") and their respective shareholders including Mr. Pu and Mr. Liu Chang (collectively as the "Equity Holders"), the WFOEs and the Group are able to:

- exercise effective financial and operational control over of the Consolidated Affiliated Entities;
- exercise Equity Holders' voting rights of the Consolidated Affiliated Entities;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Principles of consolidation and equity accounting (continued)

2.2.1 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Subsidiaries controlled through contractual arrangements (continued)

- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities, in consideration for the technical and consulting services provided by the WFOEs;

- obtain the irrevocable and exclusive right, at any time when applicable PRC laws permits foreign invested companies to operate the television series and film production and investment and higher education business, to purchase all or part of the equity interests in the Consolidated Affiliated Entities from Equity Holders at a minimum purchase price permitted under the PRC laws and regulations. In addition, the Equity Holders are not allowed to sell, assign, transfer, or otherwise disposed of or create encumbrance over their interests in any of the Consolidated Affiliated Entities directly or indirectly without prior written consent of the WFOEs; and

- obtain a pledge over the entire equity interest in the Consolidated Affiliated Entities from their Equity Holders to secure the performance obligations of the Consolidated Affiliated Entities under the Contractual Arrangements.

The Group does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has rights to exercise power over the Consolidated Affiliated Entities, receive variable returns from its involvement with the Consolidated Affiliated Entities, and has ability to affect those returns through its power over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as the indirect subsidiaries under HKFRSs. The Group has included the financial positions and financial results of the Consolidated Affiliated Entities during the years ended 31 December 2020 and 2019.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities, due to the uncertainties presented by the PRC legal system to impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Principles of consolidation and equity accounting (continued)

2.2.1 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Business Combinations

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Principles of consolidation and equity accounting (continued)

2.2.1 Subsidiaries (continued)

(a) Consolidation (continued)

(iii) Merger accounting for common control business combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control business combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where there is a shorter period, regardless of the date of the common control combination.

(iv) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(v) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Principles of consolidation and equity accounting (continued)

2.2.1 Subsidiaries (continued)

(b) Joint arrangement

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint operations

When the Group undertakes television series and film production activities under joint arrangements with other television series and film production ventures in the PRC, they invest and share the ownership and earnings of the television series and film rights upon completion of the production proportionally in accordance with the joint production agreements, which gives all the parties joint control of the arrangement and the arrangement is not structured through a separate vehicle. Such television series and film production arrangements are classified as joint operations. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in Note 23.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (2.2.1 (c)) below), after initially being recognized at cost in the consolidated balance sheet.

(c) Equity Method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and executive directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is USD. The Group's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. Since the majority of the assets and operations of the Group are located in the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'Finance income or costs'. All other foreign exchange gains and losses are presented in consolidated statement of comprehensive income within 'Other gains/(losses) – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified and measured at fair value through other comprehensive income, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings and facilities	40-50 years
Furniture and fixtures	5-15 years
Motor vehicles	5 years
Education equipment	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) – net' in the consolidated statement of comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

(b) Licensing rights

Licensing rights are initially recorded as intangible assets at cost basis. They are subsequently carried at cost less accumulated amortisation and impairment losses. The costs are amortised over the contractual period.

(c) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Computer software 3-5 years
- Licensing rights 1.5-6 years

2.8 Television series and film rights

Television series and film rights mainly presents the television series and film rights produced for licensing.

(a) Adaption rights and scripts

Cost includes all direct costs associated with the purchase of adaption rights and payments on scripts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Television series and film rights (continued)

(b) Television series and film rights – under production

Television series and film rights under production are carried as cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of television series and film rights, primarily including production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of television series and films, as well as rental of camera, equipment and other facilities. For the co-produced television series and films under joint operation agreement, the related production costs are recognised in relation to its interests in a joint operation.

Television series and film rights under production are transferred to "Television series and film rights – completed production" upon completion of production.

(c) Television series and film rights – completed production

Television series and film rights – completed production are stated at cost, less accumulated amortisation and identified impairment losses, if any.

These television series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release or internet release, and other licensing arrangements, with the reference to the pattern of view counts and viewer ratings of similar television series and firms as broadcasted in reputable television series stations and on line video platform in the historical period.

The sales of television series and film rights are accounted as disposal of the assets, the gain of disposal of television series and film rights are determined by comparing the sales price with the carrying amount of the television series and film rights and are recognised as net gain/loss in consolidated statement of comprehensive income.

(d) Television series and film investments, at fair value

The Group has certain investments in television series and film production projects which entitles the Group to receive a fixed and/or variable income based on the Group's investment amount and expected rate of return as specified in the respective television series investment agreements. The investments are carried at amortized cost if their cash flows represent solely payments of principal and interest. All other investments that are not solely payments of principal and interest are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of non-financial assets

Television series and film rights under production, intangible assets that have an indefinite useful life, and intangible assets not available to use, are not subject to amortisation and are tested annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Investments and other financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investments and other financial assets (continued)

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investments and other financial assets (continued)

2.10.3 Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.4 Impairment of financial assets

The Group has following types of financial assets subject to new expected credit loss model under HKFRS 9:

- Trade receivables
- Deposits and other receivables
- Cash and cash equivalents
- Term deposits with initial term of over three months
- Other current assets

Cash and cash equivalents and term deposits with initial term of over three months are also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

For the deposits, other receivables and other current assets, the Group applies 3-stages model to assess the expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Inventories

Inventory includes the television series and film rights produced for sale. Inventories are stated at the lower of cost or net realisable value ("NRV"). NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods or services provided in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks and other financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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 eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(b) Pension obligations

The entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligations for the post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(c) Housing funds

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to those funds based on a certain percentage of the employee's salaries. The Group's liabilities in respect of these funds is limited to the contributions payable in each period and the Group has no further obligation beyond the contributions made. The non-PRC employees are not covered by the housing funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Revenue from contracts with customers

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contracts and the laws that apply to the contract, revenue may be recognised over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration to the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue from contracts with customers (continued)

(a) Revenue from licensing of television series and film rights

The Group generates revenue from licensing of television series and film rights to television series stations, online platforms and other third parties. Revenue from licensing of television series and film rights is recognised when or as the control of the asset is transferred to the customers, which are the television series stations, online platforms or other third parties, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts, and the customers can obtain substantially all of the remaining benefits from the asset. Revenue is recognised at a point in time when the customer obtains control of the asset.

In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At each balance sheet date, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at balance sheet date and the changes in circumstances during the reporting period.

(b) Revenue from sales of inventories

The Group generates revenue from sales of inventories to customers, while the inventories represent television series and film rights produced for sales. Revenue from sales of inventories is recognised at a point in time when control of the inventories has transferred, being when the inventories are delivered to the customer whose acceptance of the inventories could not be affected by unfulfilled obligation, and the right to receive payment pursuant to the contract signed with customer is established at the same time.

(c) Revenue from the provision of higher education and related

Revenue from the provision of higher education and related services mainly includes tuition fees income and boarding fees income, entrance examination fee income, international preparatory program, continuing education and canteen management service.

Tuition and boarding fees are generally received in advance prior to the commencement of each school year, and are initially recorded as contract liabilities. Tuition and boarding fees are recognised as revenue proportionately over the relevant period of the applicable program or the beneficial period for the students, where applicable. The portion of tuition and boarding payments received from students but not earned is recorded as contract liabilities. Amounts which will be earned within one year is reflected as a current liability, and those which will be earned beyond one year is reflected as a non-current liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue from contracts with customers (continued)

(c) Revenue from the provision of higher education and related (continued)

Entrance examination fees are generally received from the students who plan to apply for art related major. A separated examination is organised by Nanjing Chuanmei Xueyuan which is formerly known as Communication University of China, Nanjing ("CUCN") every year to test the professional ability of the students who apply for enrollment in addition to the National Higher Education Entrance Exam of the PRC following the regulation requirement. The consideration of the service fees is received from students before the services provided and is recorded as contract liabilities, which the revenue was recognised when the services provided.

CUCN provided international preparatory program in form of providing a wide range of high standard art training courses. The credits obtained from the completion of these training courses would later be recognised by overseas cooperative universities for assisting the students' admission applications in the respective universities. The service fees are received in advance prior to the commencement of the program, and are initially recorded as contract liabilities. The advanced payment of the service fees are recognised as revenue over the terms of the services provided or the beneficial period for the students.

Continuing education services are provided to adult students who are not registered as full-time students under full-time formal higher education program, government agencies, enterprises and individual customers. The continuing education service fees are generally received in advance prior to the commencement of the services, and are initially recorded as contract liabilities and recognised as revenue over the terms of the applicable program.

2.23 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purpose. Any other interest income is included in other income.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statements on a straight-line basis over the expected lives of the related assets.

2.26 Lease

Leases are recognised as a right-of use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Lease (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The estimated useful lives of the right-of-use assets are as follows:

Land use rights	50 years
Office lease	7 years

Payments associated with short-term leases are exempted from applying HKFRS 16. And recognised on a straight-line basis as an expense in consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. The Group adopted the exemption for all short-term leases.

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

2.27 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks. Risk management is carried out by the senior management of the Group and approved by the executive directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group does not hedge against any fluctuation in foreign currency during the year.

The Group's subsidiaries in PRC are exposed to foreign exchange risk arising from recognised financial assets and liabilities denominated in Hong Kong Dollars (HKD) and US Dollars (USD).

For the year ended 31 December 2020, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, pre-tax profit for the year would have been RMB239,000 (2019:RMB1,840,000) higher/lower respectively, mainly as a result of foreign exchange gains/(losses) on translation of USD-denominated cash and cash equivalents and trade receivables.

For the year ended 31 December 2020, if RMB had weakened/strengthened by 5% against HKD with all other variables held constant, pre-tax profit for the year would have been nil (2019:RMB10,000) higher/lower respectively, mainly as a result of foreign exchange gains/(losses) on translation of HKD-denominated cash and cash equivalents.

(ii) Interest rate risk

As the Group has no significant interest-bearing assets other than cash and cash equivalents and term deposits with the initial term of over three months, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. During the year, the Group's borrowing bore interest at fixed rates.

For the year ended 31 December 2020, if the interest rates on cash and cash equivalents had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, the Group's pre-tax profit for the year would have been RMB2,000 (2019:RMB11,000) lower/higher, respectively.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Price risk

The Group is exposed to equity securities price risk arising from investments in trading securities held by the Group and classified on the consolidated balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in equity of other entities that are publicly traded are listed in Shanghai Stock Exchange and Shenzhen Stock Exchange.

If the market price of these trading securities increase/decrease by 10%, the pre-tax profit of the Group would have been approximately RMB931,000 (2019:RMB934,000) higher/lower for the year ended 2020, arising as a result of the fair value gain/loss of financial assets at fair value through profit or loss. The Group closely monitors the price movement and changes in market conditions that may have an impact on the value of these financial assets.

(b) Credit risk

The Group's is exposed to credit risk in relation to its cash and cash equivalents, term deposits with the initial term of over three months, trade receivables, deposits and other receivables and other current assets. The carrying amount of each class of the abovementioned financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

For cash and cash equivalents and term deposits with the initial term of over three months, the Group manages the credit risk by placing all the cash and deposits in state-owned financial institutions or reputable banks and financial institutions located in PRC and reputable international financial institutions overseas. There has been no recent history of default in relation to these financial institutions. The expected credit loss is minimal.

To manage the risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties.

For trade receivables due from television series stations, online platforms and other third parties, if the strategic relationship with television series stations, online platforms and other third parties, is terminated or scaled-back; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with television series stations, online platforms and other third parties to ensure effective credit control.

For trade receivables due from education and training services, the Group assessed the loss allowances on lifetime expected credit loss basis. In determining the expected credit loss for receivables from education and training services, the Directors of the Company has taken into account the historical default experience and forward-looking information.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group considers the probability of default upon initial recognition of other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, The Group compares the risk of a default occurring on other receivables as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;

- actual or expected significant changes in the operating results of the debtors; significant increases in credit risk on other financial instruments of the same debtors;

- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2020 and 1 January 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the business climate index in China, including GDP, PPI and CPI etc., and collection schedule of the trade receivable to be the most relevant factors of the forward-looking information and accordingly adjusts the historical loss rates based on expected changes in these factors.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

On that basis, the loss allowance as at 31 December 2020 was determined as follows for trade receivables:

	Current	0-1 year past due	1-2 years past due	2-3 years past due	More than 3 years past due	Total
As at 31 December 2020						
Expected loss rate	0.56%	1.23%	6.54%	50.53%	100.00%	
Gross carrying amount – trade receivables	341,866	19,772	7,071	2,958	–	371,667
Loss allowance	1,917	244	462	1,495	–	4,118

The Group was exposed to concentration of credit risk on its trade receivables. As at 31 December 2020, the top trade receivables balance due from a single external customer amounting to RMB250,348,000 and accounted for 68.11% of total trade receivables respectively. The single external customer of the Group is reputable organisation. Management considers that the credit risk is limited in this regard.

Trade receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a long period.

For the deposits, other receivables and other current assets, management applies 3-stages model to assess the expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

The loss allowance for other financial assets at amortised cost as at 31 December reconciles to the opening loss allowance as follows:

	Other receivables RMB'000
Opening loss allowance as at 1 January 2020	–
Increase in the allowance recognised in profit or loss during the year	405
Closing loss allowance as at 31 December 2020	405

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) *Liquidity Risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest elements computed using contractual rates.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amounts
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020						
Trade payables	**201,480**	**–**	**–**	**–**	**201,480**	**201,480**
Other payables and accrual charges (excluding non-financial liabilities)	**59,452**	**–**	**–**	**–**	**59,452**	**59,452**
	260,932	**–**	**–**	**–**	**260,932**	**260,932**
At 31 December 2019						
Borrowings (principal plus interests)	2,151	1,600	4,800	36,138	44,689	32,000
Trade payables	36,304	–	–	–	36,304	36,304
Other payables and accrual charges (excluding non-financial liabilities)	86,640	–	–	–	86,640	86,640
	125,095	1,600	4,800	36,138	167,633	154,944

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains constant throughout the year.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through raising new debts as well as redemption of the existing debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at 31 December 2020 and 2019 was as follows:

	As at 31 December	
	2020	2019
The liability-to-asset ratio	**16%**	22%

3.3 Fair value estimation

The fair value of the Group's financial instruments carried at fair value as at 31 December 2020 are determined based on valuation techniques with certain inputs which are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Valuation processes

The finance department of the Group includes a team that performs the valuations of financial instruments required for financial reporting purposes, including level 3 fair values. This team reports directly to the responsible person of the finance department. Discussions of valuation processes and results are held between the responsible person of the finance department and the valuation team at least once every year, in line with the Group's year end reporting periods.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes (continued)

The valuation of the level 3 instruments mainly included wealth management products purchased from banks ("WMPs"). As the WMPs are not traded in an active market, their fair values have been determined by using the expected return based on management judgment.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period based on valuation discussion between the responsible person for finance function and the valuation team. As part of this discussion, the team presents a report that explains the reason for the fair value movements.

The following table presents the Group's assets that are required to be measured at fair value at 31 December 2020 and 2019.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
As at 31 December 2020				
Financial assets at fair value through profit or loss				
– Trading listed equity securities	**9,308**	**–**	**–**	**9,308**
– WMPs	**–**	**–**	**809,232**	**809,232**
– Television series investments, at fair value	**–**	**–**	**1,038**	**1,038**
	9,308	**–**	**810,270**	**819,578**
As at 31 December 2019				
Financial assets at fair value through profit or loss				
– Trading listed equity securities	9,344	–	–	9,344
– WMPs	–	–	790,172	790,172
	9,344	–	790,172	799,516

There were no transfers between levels 1, 2 and 3 during the years ended 31 December 2020 and 2019.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes (continued)

Trading listed equity securities are the securities related to companies listed in A share China domestic market; and WMPs are the finance products issued by China domestic banks with variable returns and no guarantee on principals.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise trading securities classified as fair value through profit or loss.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

	Financial investments in level 3 RMB'000
As at 1 January 2019	622,566
Additions	813,500
Settlements	(671,058)
Gains and losses recognised in profit and loss	25,164
As at 31 December 2019	790,172
Changes in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	**19,732**
As at 1 January 2020	**790,172**
Additions	**768,638**
Settlements	**(774,531)**
Gains and losses recognised in profit and loss	**25,991**
As at 31 December 2020	**810,270**
Changes in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	**9,034**

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes (continued)

(c) **Financial instruments in level 3 (continued)**

The level 3 instruments mainly represent WMPs, measured at fair value through profit or loss (Note 24). These instruments are not traded in an active market and do not have observable market data. The main level 3 inputs used by the Group are the quoted price derived from the banks and the expected rate of return based on management estimation.

The WMPs of approximately RMB672,086,000 has been priced using third-party pricing information without adjustment, and the Group can only subscribe or redeem this kind of WMPs after the lock-in period. The other WMPs of approximately RMB137,146,000 has been priced using discounted cash flow method based on the expected rate of return.

The expected rates of return derived from management estimation are presented in the following table, which summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements of the WMPs as at 31 December 2020 and 2019.

Description	Fair Values As at 31 December		Valuation techniques	Significant unobservable inputs	Range of inputs As at 31 December		Relationship of unobservable inputs to fair value
	2020 **RMB'000**	2019 RMB'000			**2020**	2019	
WMPs	**137,146**	790,172	Discounted cash flow method	Expected rate of return	**2.25%-4.00%**	3.00%-4.10%	The higher the expected rate of return, the higher the fair value

If the expected rate of return of the WMPs measured at fair value through profit or loss held by the Group had been 10% higher/lower, the post-tax profit for the years ended 31 December 2020 and 2019 would have been approximately RMB2,070,000 higher/lower and RMB3,220,000 higher/lower, respectively.

As at 31 December 2020 and 2019, the carrying amounts of the Group's financial assets, including cash and cash equivalent, trade receivables, deposits and other receivables, and financial liabilities, including trade and other payables, borrowings and dividend payables approximate their fair values due to the short maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Contractual Arrangements

The Group conducts a substantial portion of the business through the Consolidated Affiliated Entities in the PRC as mentioned in Note 2.2.1(a)(i) due to the regulatory restrictions on the foreign ownership in television series and film production business and higher education service business in the PRC. The Group does not have any equity interest in the Consolidated Affiliated Entities. The Directors assessed whether or not the Group has power to control 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 to control over the Consolidated Affiliated Entities. After assessment, the Directors concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and accordingly the financial position and their operating results of the Consolidated Affiliated Entities are included in the Group's consolidated financial statements throughout the year or since the respective dates of incorporation/establishment, whichever is the shorter period.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its other legal counsel, consider that the Contractual Arrangements among the Consolidated Affiliated Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Accounting for amortisation of television series and film rights

The costs of television series and film rights are amortised based on the expected consumption pattern. Adjustment on amortisation is made when the expected changes in consumption pattern occurs. The Group's management determines the expected consumption pattern of each television series and film with reference to historical performance of similar television series and film.

Based on information available on the actual results of each television series and film, management reviews and revises, when necessary, the expected consumption pattern at regular intervals. Such changes may result in a change in the rate of amortisation and/or the write-down of the carrying values of the assets to recoverable amount. This could have an impact on the Group's results of operations. The carrying amounts of television series and film rights are disclosed in Note 20.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(c) Current and deferred income taxes

Significant judgement is required in interpreting the relevant tax rules and regulations so as to determine whether CUCN is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such determination is made.

The Group recognises deferred income tax assets for television series and film production business based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgements and estimations about the timing and the amount of taxable profits of the companies which had tax losses.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 December 2020 and 2019, the carrying amount of property, plant and equipment are RMB603,202,000 and RMB539,960,000, respectively. Any change in these estimates may have a material impact on the results of the Group.

(e) Useful lives and impairment of land use rights

As explained in Note 17, the Group's management has determined the useful lives of land use rights based on estimates. The estimates are based on the management's experience of the actual practice of similar nature and functions and normal terms in the PRC. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of land use rights may not be recoverable. Management will increase the amortisation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 December 2020 and 2019, the carrying amount of land use rights are RMB98,490,000 and RMB101,009,000 respectively. Any change in these estimates may have a material impact on the results of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(f) Estimated impairment of television series and film rights

At the end of the reporting period, management of the Group assesses the impairment on television series and film rights with reference to its recoverable amount. The assessment is made on a title-by-title basis. The recoverable amount of the television series and film rights is determined based on value-in-use. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount. The Group's estimation of impairment provision of television series and film rights reflects management's best estimate of future cash flows expected to be generated from television series and film rights considering the current market environment.

Based on management assessments on the recoverability of television series and film rights (Note 20), no impairment loss has to be recognised for the years ended 31 December 2020 and 2019.

(g) Estimation of NRV of inventories

At the end of the reporting period, management of the Group estimated the NRV of inventories. The estimation is made on a title-by-title basis. The NRV is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. If the NRV is lower than the cost, impairment provision will be recognised. Determination of estimated selling prices requires significant management judgement, taking into consideration of the current market environment.

Based on management's estimation of NRV of inventories (Note 21), no impairment provision has to be recognised for the years ended 31 December 2020 and 2019.

(h) Classification of joint arrangements

The Group has entered into joint arrangements to produce and distribute television series and films. The Group has participating interests ranging from 30% to 51% in these joint arrangements for the years ended 31 December 2020 and 2019. The Group has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant key business and operating activities. The Group's joint arrangements involve the joint control by the venturers of the assets contributed to the joint arrangement and dedicated to the purposes of the joint arrangement. The assets are used to obtain benefits for the venturers.

Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint arrangements do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Therefore, these arrangements are classified as joint operations of the Group. The determination of the relevant activities under joint operations requires management's significant judgement.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(i) Estimated amount of variable consideration

Revenue from license of television series and film rights is measured based on the fair value of consideration received or receivable specified in the contracts with customers. When the consideration is variable, in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group's management determines the estimated transaction price with reference to the selling price, current market condition and the historical experience of producing and distributing television series and film rights.

Based on information available on the current market condition, the Group's management update their assessment of whether an estimate of variable consideration is constrained when necessary to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. For the year ended 31 December 2020, the revenue reversal amounted to approximately RMB11,001,000 (2019: Nil) due to the possibility of collection the consideration related to one of own licensed television series is not highly probable, due to part of the television series had been delayed for broadcasting for a substantial period.

5. SEGMENT INFORMATION

The CODM has been identified as the chief executive officer and executive directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

The CODM had identified the television series and film production and investment as well as education and training as separate reportable segments, namely the television series and film productions and investment segment and the education and training segment. Revenue of the television series and film production and investment segment comprises of the licensing income from the sale of the television series and film rights and sales of television series and film rights produced for sale. Revenue of the education and training segment comprise of tuition fee income, boarding fee income, entrance examination fee income, international preparation program income, continuing education service income and others.

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit to include selling expenses, administrative expenses, other income and other gains/(losses) - net. The CODM also assesses the assets and liabilities of the operating segments.

5. SEGMENT INFORMATION (continued)

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2020 and 2019 are as follows:

	Television series and film production and investment RMB'000	Education and training RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Year ended 31 December 2020					
Revenue	427,110	362,633	–	–	789,743
Cost of revenue	(290,055)	(146,450)	–	–	(436,505)
Gross profit	137,055	216,183	–	–	353,238
Gain on sales of television series and film rights	45,804	–	–	–	45,804
Selling expenses	(22,493)	(4,602)	–	–	(27,095)
Administrative expenses	(16,061)	(38,235)	(18,940)	–	(73,236)
Other income	5,104	39,323	–	–	44,427
Other (losses)/gains – net	(10,410)	35,563	–	–	25,153
Operating profit/(loss)	138,999	248,232	(18,940)	–	368,291
Finance income – net					3,227
Share of losses of investment accounted for using the equity method					(50)
Profit before income tax					371,468
Other segment information					
Additions to non – current assets (Notes 17, 18 and 19)	263	94,843	–	–	95,106
Depreciation and amortisation (Note 10)	136,113	48,623	–	–	184,736
As at 31 December 2020					
Total assets	710,684	1,792,245	1,179,339	(248,107)	434,161
Total liabilities	511,062	268,623	27,362	(248,070)	558,977
Year ended 31 December 2019					
Revenue	435,529	311,657	–	–	747,186
Cost of revenue	(232,210)	(142,151)	–	–	(374,361)
Gross profit	203,319	169,506	–	–	372,825
Selling expenses	(8,407)	(592)	–	–	(8,999)
Administrative expenses	(17,079)	(38,106)	(19,027)	–	(74,212)
Other income	5,952	11,552	–	–	17,504
Other gains/(losses) - net	2,262	(75,133)	–	–	(72,871)
Operating profit/(loss)	186,047	67,227	(19,027)	–	234,247
Finance income – net					6,084
Profit before income tax					240,331
Other segment information					
Additions to non – current assets (Notes 17, 18 and 19)	35	108,976	–	–	109,011
Depreciation and amortisation (Note 10)	236,368	37,057	–	–	273,425
As at 31 December 2019					
Total assets	319,220	1,577,152	3,761	(131,377)	1,768,756
Total liabilities	217,298	281,613	24,469	(131,377)	392,003

5. SEGMENT INFORMATION (continued)

Notes:

(a) The unallocated expenses represent professional fees and directors' emoluments.

(b) The unallocated assets represent professional fees capitalised and cash received from insurance of ordinary shares. The unallocated liabilities represent payables for professional fees and directors' emoluments.

(c) The inter-segment elimination is related to the inter-segment loans.

Geographical information

The following tables present information on revenue, based on the location of the customers of the Group by geographical regions.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue		
Mainland China	**774,680**	740,961
Others	**15,063**	6,225
	789,743	747,186

Non-current assets are all located in the PRC.

The major customers which contributed more than 10% of the total revenue for the years ended 31 December 2020 and 2019 are listed as below:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Customer A	**–**	400,943
Customer B	**238,000**	–

6. REVENUE AND GAIN ON SALES OF TELEVISION SERIES AND FILM RIGHTS

(a) Revenue

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue recognised at a point in time		
Licensing income	**183,858**	435,529
Sale of inventories	**243,252**	–
Entrance examination fee income	**30,518**	28,202
	457,628	463,731
Revenue recognised over time		
Higher education related income		
– Tuition fees	**246,771**	225,994
– Boarding fees	**14,096**	20,494
International preparatory program	**39,307**	23,729
Continuing education services	**23,787**	5,298
Others	**8,154**	7,940
	332,115	283,455
	789,743	747,186

(b) Gain on sales of television series and film rights

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Gain on sales of television series and film rights	**45,804**	–

In October 2020, the Group has entered into a television series right transfer arrangement with a third party. Pursuant to which the Group has agreed to transfer and the third party has agreed to obtain all the share of legal rights held by the Group on one of the co-invested television series at a cash consideration of RMB102,000,000.

Details of sale of television series and film rights as described above:

	Year ended 31 December 2020 RMB'000
Sales income	**102,000**
Carrying amount of television series and film rights at the date of disposal	**(56,196)**
Net gain before income tax	**45,804**

7. CONTRACT LIABILITIES

Contract liability is recognised when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, preceding the Group's performance. The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligations as the respective balance sheet dates and are expected to be recognised within two years:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Licensing income	**11,108**	9,206
Higher education related income		
– Tuition fees	**132,640**	126,908
– Boarding fees	**11,275**	13,596
Entrance examination fee income	**–**	21,135
International preparatory program	**20,571**	16,483
Continuing education services	**23,499**	2,536
Others	**5,597**	1,843
	204,690	191,707

The Group receives licensing fee income from customers in advance based on payment terms of the respective licensing contracts. The advanced payment of licensing fee income are recognised when the control of the asset is transferred to the customers, which are the television series stations or online platforms.

The Group receives tuition fees, boarding fees, international preparatory program fees and others from customers in advance prior to the beginning of each school year or contract period, which are recognised over the relevant school year or period of the applicable programs.

The Group receives entrance examination fee income from customers in advance prior to the service provided, which are recognised at point in time upon the completion of the related exams.

7. CONTRACT LIABILITIES (continued)

(a) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised in the current reporting period related to brought-forward contract liabilities:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Licensing income	**9,206**	211,071
Higher education related income		
– Tuition fees	**126,908**	119,024
– Boarding fees	**3,865**	13,524
Entrance examination fee income	**21,135**	–
International preparatory program	**16,483**	7,865
Continuing education services	**2,536**	–
Others	**1,843**	1,384
	181,976	352,868

For revenue from licensing of television series and film rights, considering the production cycle normally last for around two years, the contract liability will be recognised as revenue in two years accordingly.

For revenue from higher education, the contract liability related revenue will be recognised within one year with the normal period of school year.

(b) Unsatisfied performance obligations

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Expected to be recognised within one year		
Licensing income	**669**	85,868
Higher education related income		
– Tuition fees	**132,640**	126,908
– Boarding fees	**11,275**	13,596
Entrance examination fee income	**–**	21,135
International preparatory program	**20,571**	16,483
Continuing education services	**23,499**	2,536
Others	**5,597**	1,843
Expected to be recognised over one year		
Licensing income	**10,439**	–
	204,690	268,369

8. OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Donation income	**37,208**	9,200
Government grants and subsidies (Note)	**5,398**	6,250
Interest income on short-term investments measured at amortised cost	**–**	64
Others	**1,821**	1,990
	44,427	17,504

Note:

There are no unfulfilled conditions or other contingencies attaching to government grants and subsidies recognised during the year ended 31 December 2020.

9. OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Changes in fair value of financial assets at fair value through profit or loss		
– Trading listed equity securities	**(36)**	6,351
– WMPs	**26,567**	25,164
Termination fee to Communication University of China ("CUC") (Note 10)	**–**	(95,000)
Net loss from the renegotiation for the early repayment of loans from Mr. Pu (Note 38(c)(i))	**–**	(9,667)
Gains on disposal of property, plant and equipment	**–**	66
Others	**(1,378)**	215
	25,153	(72,871)

10. EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Employee benefit expenses (Note 11)	**100,857**	92,714
Cost of inventories (Note 21)	**157,820**	–
Amortisation		
– Television series and film rights	**131,923**	232,187
– Licensing rights (Note)	**15,000**	7,500
– Software	**192**	242
Depreciation		
– Property, plant and equipment	**31,232**	27,107
– Right-of-use assets	**6,389**	6,389
Office expenses and utilities fee	**22,326**	32,290
Licensing fee (Note)	**–**	7,500
Property management and maintenance expenses	**7,091**	10,814
Student activities expenses	**4,547**	7,715
Training expenses	**20,250**	9,276
Professional fee	**10,238**	8,889
Auditors' remuneration		
– Audit services	**4,487**	2,334
Distribution expenses	**21,075**	2,730
Promotion expenses	**282**	3,815
Other expenses	**3,127**	6,070
Total cost of revenue, selling expenses and administrative expenses	**536,836**	457,572

Note:

In 2003, Nanjing Meiya entered into a cooperation agreement ("Cooperation Agreement") with CUC for a contractual cooperation period of 50 years. Based on the Cooperation Agreement, CUC provided certain education related services and licensing rights to CUCN for its higher education operations in return for annual fees. Subsequently in 2013, CUC, CUCN and Nanjing Meiya re-negotiated the annual fees and entered into two agreements (collectively the "2013 Agreements"). Pursuant to the 2013 Agreements, CUCN agreed to pay CUC annual fees of RMB15 million per annum and RMB5 million per annum in return for the licensing right and education related services respectively for a 6-years period from 2012 to 2017. The 2013 Agreements were expired on 31 December 2017 and have not been renewed upon expiry. CUC has no longer provided the education related services to CUCN since January 2018 while CUCN has continued to use the brand related to the licensing right for its higher education operations subsequent to the expiry of the 2013 Agreements.

For strategic and commercial reasons, CUC, CUCN and Nanjing Meiya entered into an agreement to terminate the Cooperation Agreement and agree the transition arrangements to facilitate the change in registration of CUCN from an independent college to a private higher education institution on 1 July 2019 (the "Termination Agreement"). Pursuant to the Termination Agreement, CUCN has to pay CUC a payment of RMB160 million (the "Agreed Payment") and management considered that the Agreed Payment included (1) a settlement payment for the payables in relation to licensing rights and accrued licensing fees as of 30 June 2019 of RMB42.5 million; (2) a payment of an one-off termination fee of RMB95 million; and (3) a payment for the licensing rights covering the period from 1 July 2019 to 31 December 2020 of RMB22.5 million which is recognised as intangible assets and subject to amortisation on a straight-line basis (Note 19).

11. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	**84,304**	73,736
Social security costs and housing fund	**13,341**	14,572
Welfare and other expenses	**3,212**	4,406
	100,857	92,714

The Group did not have any forfeited contribution for the years ended 31 December 2020 and 2019 in connection with the defined contribution plan operated by local governments. The Group did not have defined benefit plan for the years ended 31 December 2020 and 2019.

Employee benefit expenses were charged in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of revenue	**61,450**	57,851
Administrative expenses	**37,323**	33,710
Selling expenses	**2,084**	1,153
	100,857	92,714

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2020 and 2019 include 2 and 4 directors whose emoluments are reflected in the analysis shown in Note 39. Details of the emoluments of the remaining highest paid non-director individuals during the year are set out as below:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,207**	280
Social security costs and housing fund	**65**	100
	1,272	380

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December	
	2020	2019
Emolument bands (in HK dollar)		
Nil to HK$1,000,000	**3**	1

12. FINANCE INCOME – NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Finance income		
Interest income from a related party	**–**	4,527
Interest income from cash at bank and term deposits with initial term of over three months	**420**	2,157
Exchange gain – net	**2,807**	21
	3,227	6,705
Finance costs		
Interest on lease liabilities (Note 17)	**–**	(621)
	–	(621)
Finance income – net	**3,227**	6,084

13. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current income tax expense	**38,410**	39,893
Deferred income tax (credit)/expense	**(4,082)**	5,921
	34,328	45,814

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate of PRC, the principal place of the Group's operations, as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	**371,468**	240,331
Tax expense calculated at applicable PRC statutory tax rate of 25%	**92,867**	60,083
Tax effects of:		
The impact of education exempted net income (Note 13(d))	**(58,804)**	(14,048)
Difference in overseas tax rates	**(473)**	(389)
Expenses not deductible for tax purposes	**46**	75
Tax losses for which no deferred income tax asset was recognised	**692**	93
Tax charge	**34,328**	45,814

13. INCOME TAX EXPENSE (continued)

(a) Cayman Islands profits tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of local income tax.

(b) British Virgin Islands profits tax

The Company's direct subsidiary incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands is exempted from payment of local income tax.

(c) Hong Kong profits tax

Since 1 April 2018, Hong Kong profits tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million.

(d) PRC corporate income tax

Corporate income tax ("CIT") in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%.

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant government authorities under the State Council of the PRC. For year ended 31 December 2020, no regulations have been promulgated by such authorities in this regard. As a result, no income tax expense was recognised by CUCN for year ended 31 December 2020.

(e) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the year, the Group had distributed certain portion of its PRC subsidiaries' retained earnings to their respective owners. The Group does not have any plan to further distribute the retained earnings of these PRC subsidiaries and intends to retain them for the operation and expansion of the Group's business in the PRC. Accordingly, no deferred income tax liability in connection with the aforesaid undistributed retained earnings has been recognised as at the end of each reporting period. As at 31 December 2020 and 2019, the undistributed retained earnings of those PRC subsidiaries amounted to approximately RMB952,679,000 and RMB693,082,000 respectively.

14. SUBSIDIARIES

As at 31 December 2020, the Company has direct or indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and Paid-in/ registered capital	Equity interest held As at 31 December 2019	2020	Principal activities/ place of operation
Directly owned:					
Cathay Media Group (BVI) Inc.	BVI/ 12 January 2017	USD50,000	100%	100%	Investment holding /PRC
Indirectly owned:					
Cathay Media Group (Hong Kong) Limited	Hong Kong/ 27 January 2017	HK$1	100%	100%	Investment holding /PRC
Cathay Picture, Inc.	United states/ 27 June 2017	USD1	100%	100%	Investment holding /United States
Dongyang Huaxia Audio-Visual Culture Consulting Co., Ltd. (Note (ii)) (東陽華夏視聽文化諮詢有限公司)	PRC/ 15 August 2019	RMB10,000,000	100%	100%	Investment holding & consulting/PRC
Bicheng Art Consulting (Nanjing) Co., Ltd. (Note (ii)) (碧城藝術諮詢(南京)有限公司)	PRC/ 29 July 2019	RMB10,000,000	100%	100%	Investment holding & consulting/PRC
Huaxia Xiao Sha Weng (Beijing) Culture Co., Ltd. (Note (i) and (ii)) (華夏小莎翁(北京)文化有限公司)	PRC/ 18 June 2020	RMB10,000,000	N/A	100%	Investment holding /PRC
Huaxia Xiao Sha Weng (Beijing) Education Technology Co., Ltd. (Note (ii) and (v)) (華夏小莎翁(北京)教育科技有限公司)	PRC/ 19 January 2015	RMB1,000,000	N/A	100%	Youth Education/PRC
Beijing Huaxia Audio Visual Meiyu Culture Co., Ltd. (Note (i) and (ii)) (北京華夏視聽美育文化有限公司)	PRC/ 7 December 2020	RMB5,000,000	N/A	100%	Investment holding /PRC
Indirectly controlled by the Company pursuant to the Contractual Arrangements:					
Nanjing Lanchou Corporate Management Co., Ltd. (南京藍籌企業管理有限公司)	PRC/ 26 October 2017	RMB10,000,000	100%	100%	Investment holding /PRC
Dongyang Huaxia Audio-Visual Film Culture Co., Ltd. (東陽華夏視聽影視文化有限公司)	PRC/ 18 June 2019	RMB10,000,000	100%	100%	Investment holding & Television series and film production/PRC
Huaxia Audio-Visual Global Media (Beijing) Holdings Co., Ltd. (Note (iii)) (華夏視聽環球傳媒(北京)股份有限公司)	PRC/ 27 December 2005	RMB61,023,678	91%	91%	Television series and film production/PRC
Beijing Huaxia Audio-Visual Online Cultural Development Co., Ltd. (Note (iii)) (北京華夏視聽在線文化發展有限公司)	PRC/ 11 December 2001	RMB3,000,000	91%	91%	Television series program production /PRC
Nanjing Meiya Education Investment Co., Ltd. (Note (iv)) (南京美亞教育投資有限公司)	PRC/ 30 January 2003	RMB150,000,000	91%	91%	Investment holding /PRC
Communication University of China, Nanjing (Note (iv)) (南京傳媒學院)	PRC/ 16 June 2014	RMB150,000,000	91%	91%	Higher education /PRC
Communication University of China, Nanjing Education Development Foundation (Note (iv)) (中國傳媒大學南廣學院教育發展基金會)	PRC/ 26 July 2006	RMB4,000,000	91%	91%	Donations/PRC

14. SUBSIDIARIES (continued)

Notes:

(i) These subsidiaries were newly established by the Group in 2020.

(ii) These subsidiaries are registered as wholly foreign owned enterprises under PRC law.

(iii) These are subsidiaries of Dongyang Huaxia.

(iv) These are subsidiaries of Nanjing Lanchou.

(v) Huaxia Xiao Sha Weng (Beijing) Education Technology Co., Ltd. formerly known as Beijing Kaixin Xiangle Amusement Equipment Co., Ltd. ("the Target Company") was established on 19 January 2015 by independent third parties, namely Mr. Lei Yaqi and Mr. Xu Shangyou. On 9 September 2020, the Group has acquired 100% equity interests of the Target Company with nil consideration, and the Target Company has become a wholly-owned subsidiary of the Group upon the completion of the transfer of equity interest on 19 November 2020.

Set out below is summarised financial information for each subsidiary that has non-controlling interests ("NCI") that are material to the Group. The balances/amounts disclosed for each subsidiary are before inter-company balances/transactions eliminations.

Summarised balance sheet

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Huaxia Audio-Visual and its subsidiaries		
Current assets	**350,378**	285,891
Current liabilities	**(286,672)**	(207,990)
Net current assets	**63,706**	77,901
Non-current assets	**8,724**	12,651
Non-current liabilities	**–**	–
Net non-current assets	**8,724**	12,651
Net assets	**72,430**	90,552
Accumulated NCI	**6,519**	8,150

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Nanjing Meiya and its subsidiaries		
Current assets	**1,085,512**	925,328
Current liabilities	**(264,237)**	(273,936)
Net current assets	**821,275**	651,392
Non-current assets	**701,781**	655,586
Non-current liabilities	**–**	(32,000)
Net non-current assets	**701,781**	623,586
Net assets	**1,523,056**	1,274,978
Accumulated NCI	**138,352**	116,025

14. SUBSIDIARIES (continued)

Summarised statement of comprehensive income

	Year ended 31 December 2020 RMB'000	2019 RMB'000
Huaxia Audio-Visual and its subsidiaries		
Revenue	65,166	430,030
(Loss)/profit for the year	(18,122)	127,162
Other comprehensive income	–	–
Total comprehensive (loss)/income	(18,122)	127,162
(Loss)/profit allocated to NCI	(1,631)	11,445
Dividends appropriated to NCI	–	(16,376)

	Year ended 31 December 2020 RMB'000	2019 RMB'000
Nanjing Meiya and its subsidiaries		
Revenue	362,633	311,657
Profit for the year	248,078	63,490
Other comprehensive income	–	–
Total comprehensive income	248,078	63,490
Profit allocated to NCI	22,327	5,714

Summarised statements of cash flows

	Year ended 31 December 2020 RMB'000	2019 RMB'000
Huaxia Audio-Visual and its subsidiaries		
Cash flows (used in)/generated from operating activities	(7,544)	169,234
Cash flows (used in)/generated from investing activities	(112,087)	63,024
Cash flows generated/(used in) from financing activities	80,000	(185,068)
Net (decrease)/increase in cash and cash equivalents	(39,631)	47,190

	Year ended 31 December 2020 RMB'000	2019 RMB'000
Nanjing Meiya and its subsidiaries		
Cash flows generated from operating activities	260,204	106,256
Cash flows used in investing activities	(217,339)	(122,875)
Cash flows (used in)/generated from financing activities	(32,000)	31,133
Net increase in cash and cash equivalents	10,865	14,514

15. EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated on the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the years.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for both years has been adjusted for the effect of 460,000,000 ordinary shares issued, credited as fully paid immediately upon completing the IPO (Note 29(d)), and as if the subdivision of the Company's shares (Note 29(a)) were deemed to be effective since 1 January 2019.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit attributable to owners of the Company (RMB'000)	**316,444**	177,358
Weighted average number of ordinary shares in issue ('000)	**1,409,534**	1,200,000
Basic earnings per share (expressed in RMB)	**0.22**	0.15

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the years.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The Group has entered into an investment agreement with a third party to establish a joint venture, each party will contribute RMB1,750,000 to the joint venture as capital and will hold 50% share of joint venture. The joint venture was established on 15 November 2019. On 11 January 2021, the Group has entered into an equity transfer agreement with the third party aforementioned, pursuant to which the Group has agreed to acquire the 50% share of joint venture from this third party. The joint venture will become a wholly-owned subsidiary of the Group once the transaction has been completed. The transaction has not been completed as of the report date.

Set out below is the individually immaterial joint venture that is accounted for using the equity method.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial joint venture	**1,564**	–
Aggregate amounts of the Group's share of:	**–**	–
Profit from continuing operations	**(50)**	–
Total comprehensive income	**(50)**	–

17. RIGHT-OF-USE ASSETS

	Land use rights (Note (a)) RMB'000	Leased properties (Note (b)) RMB'000	Total RMB'000
Year ended 31 December 2020			
Opening net book amount	**101,009**	**11,608**	**112,617**
Depreciation charge	**(2,519)**	**(3,870)**	**(6,389)**
Closing net book amount	**98,490**	**7,738**	**106,228**
Year ended 31 December 2019			
Opening net book amount	103,528	15,478	119,006
Depreciation charge	(2,519)	(3,870)	(6,389)
Closing net book amount	101,009	11,608	112,617

(a) As at 31 December 2020, land use rights with carrying amounts of approximately RMB98,490,000 (31 December 2019: RMB101,009,000), which are allocated by the PRC government, have no definite life of use stated in the land use rights certification. The estimated useful lives are 50 years which is the best estimate by reference to the normal lease terms as stated in the land use right certificates in the PRC. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or mortgage such land use rights as allocated by the PRC government.

Land use rights are depreciated on a straight-line basis over estimated useful lives and the depreciation was charged to cost of revenue in the consolidated statement of comprehensive income.

(b) Liabilities arising from a lease are initially measured on a present value basis and are discounted at a rate of 4.9% per annum. The finance cost of leases is charged to profit or loss over the lease period.

Pursuant to the term as set out in the agreements governing the leases of the office premises, the Group has settled all of the lease liabilities in August 2019 (which include the prepayment for rental expenses of RMB14,610,000 for the period from 1 January 2020 to 31 December 2022).

The consolidated statement of comprehensive income/cash flows shows the following amounts relating to leases:

	Year ended 31 December **2020** **RMB'000**	2019 RMB'000
Interest expense (Note 12)	**–**	621
Depreciation of right-of-use assets (Note 17)	**3,870**	3,870
Total cash outflow for leases	**–**	19,480

The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Education equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2020							
Opening net book amount	446,450	14,108	1,690	24,822	933	51,957	539,960
Additions	299	3,780	–	11,235	643	78,517	94,474
Transfer upon construction completed	72,791	–	–	–	–	(72,791)	–
Depreciation charge	(16,553)	(4,749)	(682)	(8,873)	(375)	–	(31,232)
Closing net book amount	502,987	13,139	1,008	27,184	1,201	57,683	603,202
At 31 December 2020							
Cost	719,566	86,911	7,028	123,677	6,314	57,683	1,001,179
Accumulated depreciation	(216,579)	(73,772)	(6,020)	(96,493)	(5,113)	–	(397,977)
Net book amount	502,987	13,139	1,008	27,184	1,201	57,683	603,202
Year ended 31 December 2019							
Opening net book amount	432,997	17,578	2,403	15,393	513	11,709	480,593
Additions	–	1,106	4	15,813	663	68,888	86,474
Transfer upon construction completed	28,640	–	–	–	–	(28,640)	–
Depreciation charge	(15,187)	(4,576)	(717)	(6,384)	(243)	–	(27,107)
Closing net book amount	446,450	14,108	1,690	24,822	933	51,957	539,960
At 31 December 2019							
Cost	646,476	83,131	7,028	112,442	5,671	51,957	906,705
Accumulated depreciation	(200,026)	(69,023)	(5,338)	(87,620)	(4,738)	–	(366,745)
Net book amount	446,450	14,108	1,690	24,822	933	51,957	539,960

Depreciation charges of property, plant and equipment were charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of revenue	22,213	18,049
Administrative expenses	9,019	9,058
	31,232	27,107

As at 31 December 2020, the Group is still in the process of obtaining the ownership certificates for its buildings located in the PRC which are with carrying amounts of approximately of RMB101,424,000 (31 December 2019: RMB71,764,000).

19. INTANGIBLE ASSETS

	Computer software RMB'000	Licensing rights (Note) RMB'000	Total RMB'000
At 31 December 2020			
Opening net book amount	**659**	**15,000**	**15,659**
Additions	**632**	**–**	**632**
Amortisation charge	**(192)**	**(15,000)**	**(15,192)**
Closing net book amount	**1,099**	**–**	**1,099**
Year ended 31 December 2020			
Cost	**2,439**	**22,500**	**24,939**
Accumulated amortisation	**(1,340)**	**(22,500)**	**(23,840)**
Net book amount	**1,099**	**–**	**1,099**
At 31 December 2019			
Opening net book amount	864	–	864
Additions	37	22,500	22,537
Amortisation charge	(242)	(7,500)	(7,742)
Closing net book amount	659	15,000	15,659
Year ended 31 December 2019			
Cost	1,808	22,500	24,308
Accumulated amortisation	(1,149)	(7,500)	(8,649)
Net book amount	659	15,000	15,659

Note:

As detailed in Note 10, according to the Termination Agreement, the payment for the licensing rights covering the period from 1 July 2019 to 31 December 2020 of RMB22.5 million has been capitalised as intangible assets and amortised on a straight-line basis over the contractual period of 1.5 years.

Amortisation of the Group's intangible assets were charged in the following categories in the consolidated statement of comprehensive income as follows:

	Year ended 31 December **2020** **RMB'000**	2019 RMB'000
Cost of revenue	**15,000**	7,500
Administrative expenses	**192**	242
	15,192	7,742

20. TELEVISION SERIES AND FILM RIGHTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Television series and film rights		
– Adaption rights and scripts	**21,033**	17,988
– Under production	**6,295**	4,915
– Completed production	**6,447**	48,747
	33,775	71,650

	Adaption rights and scripts	Under production	Completed production	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020	**17,988**	**4,915**	**48,747**	**71,650**
Additions	**3,388**	**146,856**	**–**	**150,244**
Transfer upon production completed	**–**	**(145,819)**	**145,819**	**–**
Transfer from adaption rights and scripts to under production	**(343)**	**343**	**–**	**–**
Recognised in cost of revenue	**–**	**–**	**(131,923)**	**(131,923)**
Sales (Note 6(b))	**–**	**–**	**(56,196)**	**(56,196)**
As at 31 December 2020	**21,033**	**6,295**	**6,447**	**33,775**
As at 1 January 2019	13,963	4,915	270,477	289,355
Additions	4,589	9,893	–	14,482
Transfer upon production completed	–	(10,457)	10,457	–
Transfer from adaption rights and scripts to under production	(564)	564	–	–
Recognised in cost of revenue	–	–	(232,187)	(232,187)
As at 31 December 2019	17,988	4,915	48,747	71,650

The Group has performed impairment tests on a title-by-title basis for these television series and film rights. The recoverable amounts of television series and film rights were determined by management based on "value-in-use" calculations using the discounted cash flow model. In making such assessments, management considered all possible factors that may affect the future production plans, distribution plans, estimated licensing price and discount rate, and exercised judgement in developing its expectation for the future cash flows. The pre-tax discount rate as adopted in the impairment tests ranged 22.9%-30.3%. After considering the reasonably possible changes in the key parameters for the impairment tests, the Group has concluded that no provision for impairment is required to be recognised as of the respective balance sheet dates.

21. INVENTORIES

	As at 31 December 2020 RMB'000	2019 RMB'000
– Work in progress	**56,906**	3,820
	56,906	3,820

Inventories recognised as cost of revenue during the year ended 31 December 2020 amounted to approximately RMB157,820,000 (2019: Nil).

No impairment provision for inventories were recognised for the years ended 31 December 2020 and 2019.

22. DEFERRED INCOME TAX ASSETS

	As at 31 December 2020 RMB'000	2019 RMB'000
Deferred income tax assets:		
– Deferred income tax asset to be recovered within 12 months	**18,119**	15,004
	18,119	15,004
Deferred income tax liabilities:		
– Deferred income tax liability to be recovered within 12 months	**1,936**	2,903
	1,936	2,903

The deferred income tax assets and deferred income tax liabilities have been offset in the consolidated financial statements as following:

	As at 31 December 2020 RMB'000	2019 RMB'000
Deferred income tax assets	**16,183**	12,101

The gross movement of deferred income tax assets and deferred income tax liabilities is as follows:

	Accrued expenses RMB'000	Lease liabilities RMB'000	Tax losses carry forward RMB'000	Financial assets of fair value through profit or loss RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2020	**8,923**	**–**	**–**	**2,318**	**3,763**	**15,004**
Credited/(charged) to profit or loss	**910**	**–**	**5,745**	**223**	**(3,763)**	**3,115**
At 31 December 2020	**9,833**	**–**	**5,745**	**2,541**	**–**	**18,119**
At 1 January 2019	9,325	4,715	–	2,512	5,340	21,892
Charged to profit or loss	(402)	(4,715)	–	(194)	(1,577)	(6,888)
At 31 December 2019	8,923	–	–	2,318	3,763	15,004

22. DEFERRED INCOME TAX ASSETS (continued)

Deferred income tax liabilities

	Right-of-use assets
	RMB'000
At 1 January 2020	**2,903**
Credited to profit or loss	**(967)**
At 31 December 2020	**1,936**
At 1 January 2019	3,870
Credited to profit or loss	(967)
At 31 December 2019	2,903

23. INTERESTS IN JOINT OPERATIONS

The Group has entered into certain joint operation arrangements to produce and distribute three television series during the year. The Group has participating interests ranging from 30% to 51% in these joint operations for the years ended 31 December 2020 and 2019. The aggregate amounts of assets/liabilities as at 31 December 2020 and 2019, and revenue/expenses for the years relating to the Group's interests in these joint operation arrangements are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Television series and film rights – for licensing	**–**	48,747
Inventory	**45,255**	3,820
Trade receivables	**98,107**	67,638
	143,362	120,205
Trade payables	**(32,889)**	(25,673)
Other payables	**(7,815)**	(12,985)
Contract liabilities	**(7,310)**	(5,701)
	(48,014)	(44,359)
	95,348	75,846

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue	**74,950**	29,413
Cost of revenue	**(42,300)**	(16,550)
Selling expenses	**(14,882)**	(4,441)
Profit before income tax	**17,768**	8,422

24. FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	**367,549**	70,336
Deposits and other receivables (excluding non-financial assets)	**115,527**	8,584
Cash and cash equivalents	**1,308,667**	120,481
	1,791,743	199,401
Financial assets at fair value		
Financial assets at fair value through profit or loss	**819,578**	799,516
Total	**2,611,321**	998,917
Financial liabilities		
Financial liabilities at amortised cost		
Borrowings	**–**	32,000
Trade payables	**201,480**	36,304
Dividend payables	**21,604**	21,604
Other payables (excluding non-financial liabilities)	**59,452**	86,640
Total	**282,536**	176,548

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets at fair value through profit or loss		
– Trading listed equity securities	**9,308**	9,344
– WMPs	**809,232**	790,172
Total	**818,540**	799,516

The WMPs are denominated in RMB, the principals and returns on all of these WMPs are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss.

26. TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables		
– Television series and film productions	**364,048**	68,715
– Higher education and related resources services	**7,619**	1,621
	371,667	70,336
Less: allowance for doubtful debts	**(4,118)**	–
	367,549	70,336

(a) The Group's trade receivables were mainly denominated in RMB and the carrying amounts approximated their fair value.

(b) The table below sets forth an ageing analysis of trade receivables based on the recognition dates:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Less than 6 months	**258,008**	1,694
6 months to 1 year	**82,957**	7,222
1 to 2 years	**6,608**	61,420
2 to 3 years	**19,976**	–
	367,549	70,336

Subsequently in February 2021, the Group has collected trade receivables of RMB18,655,000, which was aged 2 to 3 years as at 31 December 2020.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2020 RMB'000	2019 RMB'000
Deposits and other receivables		
Loan to/amounts due from related parties (Note 38(c))	**1,865**	1,688
Payments of utilities on behalf of canteen operators and other third parties	**3,276**	4,661
Receivable on sales of television series and film rights	**108,120**	–
Others	**2,671**	2,235
	115,932	8,584
Less: allowance for doubtful debts	**(405)**	–
	115,527	8,584
Prepayments		
Prepayment for television series and film rights	**611**	832
Prepayment for professional fees	**–**	3,761
Prepayment for teaching materials	**–**	3,109
Deductible value-added-tax	**1,010**	4,718
Others	**3,300**	1,612
	4,921	14,032
Total prepayments, deposits and other receivables	**120,448**	22,616

For deposits and other receivables, their carrying amount is considered to be similar to their fair value.

28. CASH AND BANK BALANCES

	As at 31 December 2020 RMB'000	2019 RMB'000
Cash at bank and on hand	**1,308,667**	99,546
Cash held by other financial institutions	**–**	20,935
	1,308,667	120,481

Cash and cash equivalents which are denominated in the following currencies are as follow:

	As at 31 December 2020 RMB'000	2019 RMB'000
RMB	**124,566**	83,486
HKD	**1,164,524**	205
USD	**19,577**	36,790
	1,308,667	120,481

29. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares US$
Authorised shares at 1 January 2019 – US$1 each	50,000	50,000
Subdivision of shares (Note (a))	4,999,950,000	–
At 31 December 2020 and 2019 – US$0.00001 each	**5,000,000,000**	**50,000**

	Number of ordinary shares	Equivalent nominal value of ordinary shares RMB'000
As at 1 January 2019 (Note (a))	1	–
Issued and fully paid:		
Subdivision of shares (Note (b))	99,999	–
	100,000	–
Issued but not fully paid		
Increase in issued shares (Note (c))	1,199,900,000	86
As at 31 December 2019	1,200,000,000	86
As at 1 January 2020	**1,200,000,000**	**86**
Issued and fully paid:		
Issuance of ordinary shares upon IPO (Note (d))	**400,000,000**	**28**
Issuance of ordinary shares upon exercise of over-allotment Option of IPO (Note (d))	**60,000,000**	**4**
As at 31 December 2020	**1,660,000,000**	**118**

(a) The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 4 January 2017 with an authorised share capital of US$50,000 divided into 50,000 shares of a nominal or par value of US$1 each. On the same date, one subscriber share of the Company was transferred to Cathay Media Holding Inc. ("CMHI"), a company wholly owned by Mr. Pu which is incorporated in the British Virgin Islands at par value.

On 5 September 2019, the shareholder of the Company resolved that the authorised share capital of the Company is divided into 5,000,000,000 shares with a nominal or par value of US$0.00001 each.

(b) On 5 September 2019, one issued share of a nominal or par value of US$1 each in the capital of the Company held by CMHI is sub-divided into 100,000 shares of a nominal or par value of US$0.00001 each.

(c) On 5 September 2019, CMHI and Media Fortune Limited ("MFL"), another company wholly owned by Mr. Pu Yu which is incorporated in the British Virgin Islands, subscribed 1,154,900,000 ordinary shares and 45,000,000 ordinary shares of the Company, respectively.

29. SHARE CAPITAL (continued)

(d) On 15 July 2020, upon its listing on The Stock Exchange of Hong Kong Limited (the "HKSE"), 400,000,000 ordinary shares were issued at a price of HK$3.1 per share for a total cash consideration, before related issuance expenses, of approximately HK$1,240,000,000 (equivalent to approximately RMB1,119,379,000). Accordingly, 400,000,000 ordinary shares with par value of US$0.00001 each are issued and US$4,000 (equivalent to approximately RMB28,000) are credited to share capital, and remaining amounts, are credited to share premium.

On 5 August 2020, the Company issued additional 60,000,000 ordinary shares with nominal value of US$0.00001 each for the exercises of over-allotment of the IPO at a price of HK$3.1 per share for a total cash consideration before related insurance costs of approximately HK$186,000,000 (equivalent to approximately RMB167,218,000) and 60,000,000 ordinary shares with par value of US$0.00001 each are issued and US$600 (equivalent to approximately RMB4,000) are credited to share capital, and remaining amounts, are credited to share premium.

Share issuance costs related to the IPO mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other costs. Incremental costs that are directly attributable to the issue of the new shares amounting to approximately RMB40,381,000 was treated as a deduction against the share premium arising from the issuance.

30. OTHER RESERVES

Other reserve movement of the Group

	Share Premium RMB'000	Statutory reserves (Note (a)) RMB'000	Foreign translation reserves RMB'000	Capital reserves (Note (b)) RMB'000	Total RMB'000
At 1 January 2020	–	300,394	955	247,627	548,976
Profit appropriation to statutory reserves	–	53,556	–	–	53,556
Currency translation differences	–	–	(84,925)	–	(84,925)
Issuance of ordinary shares (Note 29(d))	1,286,565	–	–	–	1,286,565
Share issuance costs (Note 29(d))	(40,381)	–	–	–	(40,381)
At 31 December 2020	1,246,184	353,950	(83,970)	247,627	1,763,791
At 1 January 2019	–	236,811	259	–	237,070
Profit appropriation to statutory reserves	–	63,583	–	–	63,583
Currency translation differences	–	–	696	–	696
Effect of the Reorganisation	–	–	–	247,627	247,627
At 31 December 2019	–	300,394	955	247,627	548,976

30. OTHER RESERVES (continued)

(a) Statutory reserves

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the respective regulations or boards of the directors of the relevant PRC subsidiaries where applicable. These reserves include:

- statutory reserve fund of the limited liability companies;

  In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC generally accepted accounting principles (the "PRC GAAP"), to the statutory reserves fund before distributing the net profit. When the balance of the statutory reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders of the PRC Subsidiaries. The statutory reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory reserves fund after such issue is not less than 25% of registered capital.

- general reserve fund of foreign invested enterprise; and

  Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiaries which are foreign investment enterprises in China have to make appropriations from their after-tax profit as determined under the PRC GAAP to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after tax profits calculated in accordance with the PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the respective company. Appropriations to the other two reserve funds are at the respective companies' discretion.

- the development fund of schools.

  According to the relevant PRC Laws and regulations, for a private school not requiring reasonable return, it is required to appropriate to development fund of not less than 25% of the net profit or the annual increase of net assets of the relevant school as determined in accordance with the PRC GAAP. The development fund is for the construction or maintenance of the school or procurement or upgrading of educational equipment.

(b) Capital reserves

Upon completion of the Reorganisation on 5 September 2019, the combined capital was reclassified to capital reserves.

31. TRADE PAYABLES

The ageing analysis of the trade payables based on their respective invoice dates are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Less than 1 year	**174,128**	36,304
1 to 2 years	**27,352**	–
	201,480	36,304

32. OTHER PAYABLES AND ACCRUAL CHARGES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Other payables and accrual charges		
Miscellaneous expenses received from students (Note)	**12,455**	15,354
Amount due to a related party (Note 38(c))	**595**	3,600
Payables for purchases of television series and film rights	**2,805**	–
Payables for teaching materials and other operating expenditure	**6,655**	7,134
Payables for purchases of property, plant and equipment	**1,028**	2,094
Payables to joint operators	**9,504**	12,985
Payables for deposits	**6,191**	6,961
Payables for interest	**–**	547
Payables for professional services	**12,228**	24,451
Government subsidies payable to students	**3,712**	5,126
Others	**4,279**	8,388
Total financial liabilities	**59,452**	86,640
Salary and welfare payables	**18,851**	16,793
Other tax payable	**13,305**	820
Total non-financial liabilities	**32,156**	17,613
Other payables and accrual charges	**91,608**	104,253

Note:

The amounts represent the miscellaneous expenses collected from students which are to be paid out by the Group on behalf the students.

33. BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current		
– Unsecured borrowing from a third party non-financial institution (Note)	**–**	32,000
	–	32,000

Note:

In July 2019, a subsidiary of the Group has drawn down an unsecured loan of RMB32 million from a third party non-financial institution which bears fixed interest rate at 5% per annum and is repayable on 2 August 2027.

On 4 June 2020, the subsidiary has entered into a supplementary contract with the third party non-financial institution and early repaid the principal and interest of the unsecured loan on 5 June 2020.

34. DEFERRED INCOME

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred government grants	**1,263**	1,561

The government grants were received for subsidies in connection with the Group's construction/ purchases of certain property, plant and equipment and are recognised over the estimated useful lives of the relevant assets.

35. DIVIDEND PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Dividend payables	**21,604**	21,604

On 5 December 2017, Huaxia Audio-Visual has declared dividend of RMB58,092,000 and part of the declared dividends of RMB52,864,000 have been paid on 24 January 2018. The remaining dividend payables to the NCI of RMB5,228,000 has not yet been settled as of 31 December 2020 and 2019.

On 9 August 2019, Huaxia Audio-Visual declared dividend of approximately RMB181,964,000. Declared dividends of RMB165,588,000 have been paid on 26 August 2019. The remaining dividend payables to the NCI of RMB16,376,000 has not yet been settled as of 31 December 2020 and 2019.

Pursuant to the Board resolution on 29 March 2021, the Board has resolved to recommend for declaration and payment of a final dividend of HK$0.08 per share for the year ended 31 December 2020, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on 27 May 2021. The final dividend will be paid on 2 July 2021 to the shareholders whose names appear on the register of members of the Company on 10 June 2021.

36. CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	**371,468**	240,331
Adjustments for:		
– Depreciation of property, plant and equipment (Note 18)	**31,232**	27,107
– Amortisation of intangible assets (Note 19)	**15,192**	7,742
– Depreciation of right-of-use assets (Note 17)	**6,389**	6,389
– Deferred income	**(298)**	(298)
– Other income (Note 8)	**–**	(66)
– Net loss from the renegotiation for the early repayment of loans receivable (Note 38 (c(i)))	**–**	9,667
– Gains on disposal of property, plant and equipment (Note 9)	**–**	(66)
– Finance income-net (Note 12)	**647**	(6,084)
– Change in fair value of financial assets at fair value through profit or loss (Note 9)	**(26,531)**	(31,515)
– Share of net profit of joint ventures accounted for using the equity method (Note 16)	**50**	–
– Share issuance cost	**9,131**	–
Changes in working capital:		
– Television series and film rights	**38,913**	217,705
– Inventory	**(53,086)**	(3,820)
– Trade receivables	**(297,213)**	12,477
– Prepayments, deposits and other receivables	**(104,699)**	(7,335)
– Contract liabilities	**12,983**	(161,161)
– Trade payable	**165,176**	(15,200)
– Other payable and accrual charges	**453**	16,954
Cash generated from operations	**169,807**	312,827

36. CASH FLOW INFORMATION (continued)

(b) Reconciliation of liabilities from financing activities

This section sets out the movements in net debt for each of the years presented.

	Borrowings from non-financial institution RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance as at 1 January 2020	**(32,547)**	**–**	**(32,547)**
Cash outflows-Principal	**32,000**	**–**	**32,000**
Cash outflows-Interest	**547**	**–**	**547**
Other non-cash movements-accrue interest	**–**	**–**	**–**
Balance as at 31 December 2020	**–**	**–**	**–**
Balance as at 1 January 2019	–	(18,859)	(18,859)
Cash (inflows)/outflows-Principal	(32,000)	18,859	(13,141)
Cash outflows-Interest	–	621	621
Other non-cash movements-accrue interest	(547)	(621)	(1,168)
Balance as at 31 December 2019	(32,547)	–	(32,547)

37. COMMITMENT

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As at 31 December **2020** **RMB'000**	 2019 RMB'000
Acquisition of subsidiaries (Note)	**300,000**	–
Property, plant and equipment	**34,021**	–
Investments accounted for using the equity method	**–**	1,750
Total	**334,021**	1,750

Note:

As set out in the announcement and supplemental announcement dated 20 December 2020 and 28 January 2021 respectively, the Group has entered into an equity transfer agreement with the target company, which is providing art training services to art entrance exam students under the brand of Shuimuyuan("Shuimuyuan"). Pursuant to the agreement, Shuimuyuan has conditionally agreed to sell, and the Group has conditionally agreed to acquire, the 100% equity interest in Shuimuyuan for an aggregate consideration of RMB300,000,000 as of the date of these financial statements, the acquisition yet completed.

38. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control or joint control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or joint control.

The shareholders, members of key management and their close family members of the Group are also considered as related parties. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Mr. Pu is the Controlling Shareholder of the Group for the years ended 31 December 2020 and 2019.

(a) Name and relationship with related parties

Name of related parties	Nature of relationship
Mr. Pu	Controlling Shareholder
Mr. Pu Yu	A shareholder of the Company
Cathay Media Holding Inc. ("CMHI")	Ultimate holding company of the Company
Lanchou Investment Holding Company Limited	An entity controlled by Mr. Pu
Media Fortune Limited ("MFL")	A company controlled by Mr. Pu Yu
Emperor Nanguang Performance (Nanjing) Co., Ltd. ("Emperor Nanguang")	A joint venture of the Group

(b) Significant transactions with related parties

During the years ended 31 December 2020 and 2019, the Group has the following significant transactions with related parties:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Loans to the controlling shareholder and related interest receivables		
Balance at 1 January	**–**	155,140
Loans repaid by Mr. Pu (Note 38(c))	**–**	(150,000)
Interest income	**–**	4,527
Net loss from the renegotiation for the early repayment of loans from Mr. Pu (Note 38(c))	**–**	(9,667)
Balance at 31 December	**–**	–
Dividend payables		
Balance at 1 January	**21,604**	5,228
Dividend declared		
– Mr. Pu	**–**	165,588
– Non-controlling shareholders	**–**	16,376
Dividend paid		
– Mr. Pu	**–**	(165,588)
Balance at 31 December	**21,604**	21,604
Other non-trade transactions with related parties		
Leasing of office building from Mr. Pu	**–**	19,480
Subscription of the Company's shares by CMHI	**–**	83
Subscription of the Company's shares by MFL	**–**	3
Payment on behalf of Emperor Nanguang	**1,865**	–

38. RELATED PARTY TRANSACTIONS (continued)

(c) Non-trade balances with related parties

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Amounts due from CMHI	**–**	236
Amounts due from MFL	**–**	3
Amounts due from Mr. Pu Yu	**–**	153
Amounts due from Mr. Pu		
– Disposal consideration receivables from Mr. Pu	**–**	1,296
Amounts due from Emperor Nanguang	**1,865**	–
	1,865	1,688
Amounts due to Mr. Pu	**595**	3,600
Dividend payables to non controlling shareholder	**21,604**	21,604
	22,199	25,204

Notes:

(i) The Group has entered into loan agreement with Controlling Shareholder (Mr. Pu) on 4 December 2015 and 25 May 2016, respectively ("Loan Agreements"). Pursuant to the Loan Agreements, the Group granted RMB denominated loans with principal amounts of RMB70 million and RMB80 million to the Controlling Shareholder which were unsecured, bore interests at a fixed rate of 5% per annum and 1 % per annum respectively and were originally repayable in 2020 and 2021, respectively.

The aforesaid loans receivable was recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Upon the initial recognition of the related loans receivable, the fair value adjustment resulting from the contracted non-market interest rates as applicable to the loans receivable amounted to approximately RMB14.2 million had reduced the initial carrying amount of the loans receivable as recognised by that amount, with a corresponding debit to the Group's retained earnings to reflect a deemed distribution to the Controlling Shareholder.

In July 2019, the Group has renegotiated with the Controlling Shareholder for the early repayment of the aforesaid loans receivable. Based on the mutual agreement reached in the renegotiation, the Group has entered into a supplement agreement with the Controlling Shareholder on 24 July 2019 (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, the Controlling Shareholder agreed to early repay all of the loan principals under the Loan Agreements and the Group agreed to waive all of the interest receivables as of the date of the Supplemental Agreement.

The Controlling Shareholder has repaid the entire loan principals of RMB150 million on 28 August 2019. The net loss arising from the renegotiation for the early repayment from the Controlling Shareholder of RMB9,667,000 (representing the aggregated carrying amounts of the loans and interest receivables derecognised in excess of the cash amount as repaid by the Controlling Shareholder) has been recognised in the consolidated statement of comprehensive income as "other gains/(losses) - net" during the year ended 2019 (Note 9).

(ii) The other amounts due from/to related parties were unsecured, interest-free, non-trading in nature, collectable/ repayable on demand and denominated in RMB. Their carrying amounts approximated their fair values at each of the reporting dates.

(iii) Till now, the non-trade balances with related parties have not been settled yet.

38. RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

Key management includes directors (executive and non-executive), chief executive officer and chief financial officer. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December 2020 RMB'000	2019 RMB'000
Salaries, allowances and other benefits	**2,785**	2,401

39. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director and chief executive is set out below:

Year ended 31 December 2020

	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's contributions to the retirement benefit scheme RMB'000	Social security costs excluding retirement cost RMB'000	Total RMB'000
Name						
Executive directors						
Mr. Pu	100	1,050	–	–	–	1,150
Mr. Sun Haitao	100	506	–	24	47	677
Mr. Yan Xiang	100	240	–	–	–	340
Mr. Wu Ye	100	170	–	17	31	318
Mr. Zhang Jizhong	100	–	–	–	–	100
Mr. Lee Cheuk Yin Danni	100	–	–	–	–	100
Mr. Huang Yu	100	–	–	–	–	100
Total	700	1,966	–	41	78	2,785

Year ended 31 December 2019

	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's contributions to the retirement benefit scheme RMB'000	Social security costs excluding retirement cost RMB'000	Total RMB'000
Name						
Executive directors						
Mr. Sun Haitao	–	577	–	50	74	701
Mr. Pu	–	600	–	–	–	600
Mr. Wu Ye	–	218	79	37	52	386
Mr. Yan Xiang	–	240	–	40	54	334
Total	–	1,635	79	127	180	2,021

39. BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) Directors' retirement benefits

No retirement benefits were paid or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking for the years ended 31 December 2020 and 2019, respectively.

(c) Directors' termination benefits

No payments were made to directors as compensation for early termination of the appointment for the years ended 31 December 2020 and 2019, respectively.

(d) Consideration provided to third parties for making available directors' service

No payments were made to the former employer of directors or third parties for making available the services as a director of the Company for the years ended 31 December 2020 and 2019, respectively.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in note 38(c)(i) above, no other loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors for the years ended 31 December 2020 and 2019, respectively.

(f) Directors' material interests in transactions, arrangements or contracts

No other significant transaction, arrangement and contract in relation to the Group's business to which the Group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during the years ended 31 December 2020 and 2019, respectively.

40. BALANCE SHEET AND OTHER RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,112,924**	1,208,202
Total non-current assets		**1,112,924**	1,208,202
Current assets			
Cash and cash equivalents		**1,164,199**	98
Prepayments, deposits and other receivables		**14,862**	86
Total current assets		**1,179,061**	184
Total assets		**2,291,985**	1,208,386
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	29	**118**	86
Other reserves		**2,275,960**	1,208,191
Accumulated losses		**(2,175)**	(248)
Total equity		**2,273,903**	1,208,029
LIABILITIES			
Current liabilities			
Other payables		**18,082**	357
Total liabilities		**18,082**	357
Total equity and total liabilities		**2,291,985**	1,208,386

The above balance sheet should be read in conjunction with the accompanying notes.

The balance sheet of the Company was approved by the Board of Directors on 29 March 2021, and was signed on its behalf

Pu Shulin
Director

Sun Haitao
Director

40. BALANCE SHEET AND OTHER RESERVE MOVEMENT OF THE COMPANY (continued)

Other reserve movement of the Company

	Share Premium RMB'000	Foreign translation reserves RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2020	–	(11)	1,208,202	1,208,191
Currency translation differences	–	(178,415)	–	(178,415)
Issuance of new ordinary shares (Note 29(d))	1,286,565	–	–	1,286,565
Share issuance cost (Note 29(d))	(40,381)	–	–	(40,381)
At 31 December 2020	1,246,184	(178,426)	1,208,202	2,275,960
At 1 January 2019	–	(7)	–	(7)
Currency translation differences	–	(4)	–	(4)
Shareholders' contribution in the Reorganisation	–	–	1,208,202	1,208,202
At 31 December 2019	–	(11)	1,208,202	1,208,191

41. SUBSEQUENT EVENTS

Other than the events as disclosed in Note 35 and Note 37, there is no other significant event occurred after the balance sheet date.

A summary of the audited results and of the assets and liabilities of the Group for the last four financial years is set out below:

	Year ended 31 December			
	2017	2018	2019	**2020**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	556,878	368,318	747,186	**789,743**
Cost of revenue	(275,733)	(163,387)	(374,361)	**(436,505)**
Gross profit	281,145	204,931	372,825	**353,238**
Profit before income tax	204,183	153,226	240,331	**371,468**
Profit for the year	180,562	148,825	194,517	**337,140**

	As at 31 December			
	2017	2018	2019	**2020**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	727,806	762,865	680,337	**728,276**
Current assets	966,542	1,130,567	1,088,419	**2,705,885**
Current liabilities	461,504	528,155	358,442	**557,714**
Net current assets	505,038	602,412	729,977	**2,148,171**
Total assets less current liabilities	1,232,844	1,365,277	1,410,314	**2,876,447**
Non-current liabilities	18,503	1,859	33,561	**1,263**
Net assets	1,214,341	1,364,418	1,376,753	**2,875,184**
Total equity	1,214,341	1,364,418	1,376,753	**2,875,184**

DEFINITIONS

"Board"	the board of Directors
"China" or "PRC"	the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", or "the Company"	Cathay Media and Education Group Inc. (華夏視聽教育集團) (formerly known as Cathay Media Group Inc. (華夏視聽傳媒集團)), an exempted company incorporated in the Cayman Islands with limited liability on 4 January 2017
"Consolidated Affiliated Entity(ies)"	Dongyang Huaxia, Nanjing Lanchou and their subsidiaries and affiliated entities, the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
"Contractual Arrangement(s)"	the series of contractual arrangements entered into between, among others, the WFOEs, the Onshore Holdcos and the Registered Shareholders, as detailed in the section headed "Contractual arrangements"
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and except where the context requires otherwise, refers to Mr. Pu, Cathay Media Holding Inc. and Winning Global Ventures Limited
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules, as amended, supplemented or otherwise modified from time to time
"CUCN" or "University"	南京傳媒學院(Pinyin: Nanjing Chuanmei Xueyuan), formally known as Communication University of China, Nanjing (中國傳媒大學南廣學院), which received the certificate of registration for a privately-run non-enterprise unit on 31 January 2005
"Director(s)"	the director(s) of our Company
"Dongyang Huaxia"	Dongyang Huaxia Audio-Visual Film Culture Co., Ltd. (東陽華夏視聽影視文化有限公司), a company established in the PRC on 18 June 2019 and a Consolidated Affiliated Entity of our Company
"Global Offering"	the public offering of the Company's Shares as defined and described in the Prospectus
"Group", "we" or "us"	the Company, its subsidiaries, and the Consolidated Affiliated Entities (the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements) from time to time, and in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"HKFRS"	Hong Kong Financial Reporting Standards
"Huaxia Audio-Visual"	Huaxia Audio-Visual Global Media (Beijing) Holdings Co., Ltd. (華夏視聽環球傳媒(北京)股份有限公司), a company established in the PRC on 27 December 2005 and a Consolidated Affiliated Entity of our Company
"Huaxia Online"	Beijing Huaxia Audio-Visual Online Cultural Development Co., Ltd. (北京華夏視聽在線文化發展有限公司), a company established in the PRC on 11 December 2001 and a Consolidated Affiliated Entity of our Company
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	15 July 2020, the date on which the Shares were listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Mr. Pu"	Mr. Pu Shulin (蒲樹林), our founder, executive Director, chief executive officer, Chairperson and our Controlling Shareholder
"Nanjing Lanchou"	Nanjing Lanchou Corporate Management Co., Ltd. (南京藍籌企業管理有限公司), a company established in the PRC on 26 October 2017 and a Consolidated Affiliated Entity of our Company
"Nanjing Meiya"	Nanjing Meiya Education Investment Co., Ltd. (南京美亞教育投資有限公司), a company established in the PRC on 30 January 2003 and a Consolidated Affiliated Entity of our Company
"Onshore Holdcos"	Dongyang Huaxia and Nanjing Lanchou
"Post-IPO Share Award Scheme"	the post-IPO share award scheme approved and adopted by our Company on 22 June 2020 with effect from Listing
"Post-IPO Share Option Scheme"	the post-IPO share option scheme approved and adopted by our Company on 22 June 2020 with effect from Listing
"PRC Legal Adviser"	Anli Partners
"Prospectus"	the prospectus of the Company dated 30 June 2020

“RMB”	Renminbi yuan, the lawful currency of China
“Registered Shareholders”	the registered shareholders of the Onshore Holdcos, namely Mr. Pu and Mr. Liu Chang (劉暢)
“Reporting Period”	the year ended 31 December 2020
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) in the share capital of our Company with a par value of US$0.00001 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US$”	United States dollars, the lawful currency of the United States
“WFOEs”	WFOE-Education and WFOE-Production collectively
“WFOE-Education”	Bicheng Art Consulting (Nanjing) Co., Ltd (碧城藝術諮詢（南京）有限公司), a company established in the PRC on 29 July 2019 and a wholly-owned subsidiary of our Company
“WFOE-Production”	Dongyang Huaxia Audio-Visual Culture Consulting Co., Ltd. (東陽華夏視聽文化諮詢有限公司), a company established in the PRC on 15 August 2019 and a wholly-owned subsidiary of our Company
“%”	per cent