You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included in the Accountants' Report set out in Appendix I to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

We generate revenue primarily from (i) licensing the broadcasting rights of our self-produced drama series to TV channels, online video platforms or third party distributors; (ii) licensing the broadcasting rights of outright-purchased drama series from online video platforms or drama series producers to TV channels, third party distributors or online video platforms; and (iii) made-to-order drama series production services per online video platforms' orders. We experienced stable growth during the Track Record Period. Our revenue increased from approximately RMB542.9 million in 2017 to approximately RMB679.1 million in 2018 and further increased to approximately RMB765.1 million in 2019; while our revenue slightly decreased to approximately RMB579.8 million in the six months ended June 30, 2020 from approximately RMB647.7 million for the same period in 2019. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our gross profit was approximately RMB152.1 million, RMB209.9 million, RMB107.6 million, RMB72.8 million and RMB135.6 million, respectively, and our gross profit margin was approximately 28.0%, 30.9%, 14.1%, 11.2% and 23.4% for the same periods, respectively. The decrease of our gross profit and profit margin from 2018 to 2019 primarily reflected the decline of the purchase prices of drama series broadcast in 2019 offered by online video platforms while the production of such series had been taken place in 2017 or 2018 with a relatively high production costs before the actors' remunerations had been substantially reduced pursuant to relevant government policies.

BASIS OF PRESENTATION

Pursuant to the reorganization of our Company as more fully explained in the section headed "History, Reorganization and Corporate Development — Reorganization" in this prospectus, our Company became the holding company of the companies now comprising our Group on November 20, 2018. As the reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in any change of economic substances, the historical financial information has been presented as a continuation of the existing company using the pooling of interests method as if the group structure had been in place at the beginning of Track Record Period.

Due to regulatory prohibitions on foreign ownership in the production, distribution and licensing of broadcasting rights of drama series business in the PRC, the principal business carried out by Jiangsu Strawbear, Horgos Strawbear and Beijing Strawbear (the "**Consolidated Affiliated Entities**") was prohibited or restricted from foreign ownership. The wholly owned subsidiary of our Company, Nanjing Strawbear, has entered into a series of contractual arrangements (the "**Contractual Arrangements**") with the Consolidated Affiliated Entities and their respective equity holders (hereafter the equity holders of the Consolidated Affiliated Entities referred to the "**Registered Shareholders**"). The Contractual Arrangements enable Nanjing Strawbear to exercise effective control over the Consolidated Affiliated Entities and obtain substantially all economic benefits of the Consolidated Affiliated Entities. Accordingly, our Company regards the Consolidated Affiliated Entities as indirect subsidiaries for the purpose of the financial statement and the Consolidated Affiliated Entities are consolidated in our financial statements for the Track Record Period. Details of the Contractual Arrangements are disclosed in the section headed "Contractual Arrangements" in this prospectus. Our Group does not have any equity interests in the Consolidated Affiliated Entities.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses were established or acquired, where this is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2017, 2018 and 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the subsidiaries now comprising our Group using the existing book values. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

The historical financial information has been prepared in accordance with HKFRS (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRS effective for the accounting period commencing from January 1, 2020 together with the relevant transitional provisions, have been early adopted on a consistent basis by our Group in the preparation of the historical financial information throughout the Track Record Period and for the six months ended June 30, 2019.

The historical financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the following are key factors that affect our results of operations:

Quality and popularity of the drama series and the number of projects we pitch would affect our operations and financial results.

The industry we operate in is highly competitive and rapidly changing. During the Track Record Period, our revenue was mainly derived from licensing of broadcasting rights of our self-produced drama series to TV channels, online video platforms or other third-party distributors and licensing of broadcasting rights of our outright-purchased drama series from online video platforms and drama series producers to TV channels, online video platforms or third-party distributors. Our revenue depends highly on the quality and popularity of our self-produced drama series and outright-purchased drama series. However, the acceptance of our drama series by the distribution channels and audience cannot be controlled or accurately predicted based on objective standards. As such, there is no assurance that we will be able to maintain business relationships with the existing customers and further attract new customers to purchase the broadcasting rights of drama series from us in the future. In the event we are unable to satisfy and retain the existing customers in existing projects or unable to pitch new projects continuously, our results of operation and financial condition will be adversely affected.

Our business nature is generally project based and our financial performance for a particular period highly depends on a particular drama series project or a limited number of drama series projects during the same period.

Our results of operations are largely affected by the financial performance of a particular of a limited number of drama series. The investment on and revenue recognized for each of our drama series, either a self-produced, outright-purchased or made-to-order drama series, may vary dramatically. For example, during the Track Record Period, the investment amount for our drama series generally varied from several million RMB to several hundred million RMB, with revenue recognized between several million RMB and several hundred million RMB. As a result, the range of gross profits for such drama series projects was extremely large. In addition, profit margin for our drama series projects may vary depends on its investment size and the general industry environment when we broadcast such drama series. Generally, considering the high contribution of revenue by a drama series with high investment, we may accept a relatively lower profit margin when we license the broadcasting rights of such drama series to a TV channel or an online video platform. Consequently, the contribution of certain drama series to our total revenue and their profit margin in the relevant periods will significantly affect our results of operations during the same periods.

Our ability to procure sufficient funding in a timely manner would affect the implementation of our production and investment plans and our financial condition.

Drama series production and distribution business is capital intensive in nature. Although we noticed the decrease in cast personnel costs during the Track Record Period, the costs of producing quality drama series, in general, have increased in recent years and may continue to increase in the future, which make it more important for us to procure sufficient funding. Our cost of sales for licensing of broadcasting rights of drama series mainly includes cast personnel costs, production costs, costs of scripts, post-production costs, costs of purchased copyrights (or broadcasting rights) and other miscellaneous materials and services required in the process of shooting and post-production. Many of these costs need to be paid upfront before we receive payment from our customers. Therefore, sufficient funding in a timely manner is crucial for our implementation of our production and investment plans. During the Track Record Period, we mainly satisfy our working capital needs from cash inflows from our operations, bank loans and other borrowings and equity financing from our shareholders. If we fail to procure sufficient funding in the future, our daily operation will be interrupted and our production and investment plans will be affected, which will in turn negatively affect our financial condition.

Relevant government policies and the market trends would affect our financial condition and results of operations.

The distribution of drama series and the production of made-to-order drama series are generally subject to the government regulations and policies that affect the drama series market in the PRC and the evolving market trends, which can be uncertain during the drama series production and distribution stages. In the event that the market trends and government policies change so that we are not able to distribute the drama series according to our business plan, we may be required to defer distribution, distribute drama series at a lower price than we anticipated, or distribute alternative drama series that may be more costly than the original drama series under our plan. This may adversely affect our results of operations and financial condition.

Our ability to collect our trade and notes receivables on a timely basis would affect our financial results.

Our revenue directly comes from or is settled by various parties, including TV channels, online video platforms or third party distributors. Our cash flow and profitability are affected by the timely settlement of payments by our customers for the services we have rendered to them. Although generally it is contractually agreed to pay on a one-off basis or in installments in accordance with the milestone payment schedules set out in the relevant agreements, the actual settlement periods for our customers may be significantly longer in practice. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our trade and notes receivables were approximately RMB294.5 million, RMB185.3 million, RMB491.9 million and RMB789.0 million, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade and notes receivables turnover days were 139, 129, 162 and 201 days, respectively. We believe the large outstanding balance of trade and notes receivables and this long trade and notes receivables turnover is a common issue in the industry. We expect that our ability to collect trade and notes receivables on a timely basis will be continuously critical to maintain our liquidity and the pace of our expansion.

Our ability to continue to enjoy preferential tax treatment and receive governmental grants to our Consolidated Affiliated Entities will affect our financial results.

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%, except Horgos Strawbear, which enjoys an exemption from EIT during the period from 2019 to 2023. There is no assurance that we are able to continue to enjoy tax exemption and tax refund in the future due to changes in the tax policies to be adopted by the PRC government authorities. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, local governments have also granted us various financial subsidies and we recorded government grants of RMB2.5 million, RMB0.9 million, RMB20.4 million and RMB2.4 million, respectively, in our consolidated statements of profit or loss. To the extent that there is any loss of, or significant reduction in, any preferential tax treatment or government grant applicable to us, or increase in the effective tax rate, our tax expenses would increase accordingly. Any occurrence of these changes will adversely affect our business, results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

Revenue from Contracts with Customers

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

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

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

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

Licensing of broadcasting rights of drama series

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

Production of made-to-order drama series

Revenue from the production of made-to-order drama series is recognized over time, using an input method to measure progress towards the completion of the made-to-order drama series production, because our Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

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

Revenue from other Sources

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

Net licensing fees received from investments in drama series as a non-executive producer with share of copyrights are recognized when the investors' right to receive payment has been established. It is probable that the economic benefits associated with the investment income will flow to our Group and the amount can be measured reliably. Revenue from other sources is measured at the amount of net licensing fees paid to our Group and the relevant inventories are recognized in cost of sales when the revenue is recognized.

Net licensing fees received from investments in drama series without share of copyrights or distribution rights are recognized in accordance with HKFRS 9. Revenue from other sources is measured at the amount of changes in fair value of these financial assets which accumulatively and eventually equals to the total of the net licensing fees paid to our Group less the sum paid by our Group under co-financing arrangements.

Accounting for Co-investment Arrangements and Co-financing Arrangements

Under co-investment arrangements where we act as an executive producer, the investment from our co-investors are considered as the selling of shares of interests and copyrights in drama series to such co-investors by us. If our co-investors bear full risk for the shares of interests and copyrights of drama series that they invested in, the amounts received from such co-investors are recognized as reductions of the costs of drama series upon the receipt of the license for distribution of drama series from the NRTA.

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

The amount paid under co-financing arrangements to third-party investors by our Group in order to obtain shares of copyrights and/or broadcasting rights of drama series that we invested in are recognized as prepayments under co-investment arrangements and reclassified as inventories upon the receipt of the license for distribution of drama series from the NRTA.

The amount paid under co-financing arrangements to third-party investors by our Group, where we are not entitled to any share of copyrights and/or broadcasting rights of drama series that we invested in, are recognized as financial assets.

Income Tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the year/period within the Track Record Period between (i) the tax bases of assets and liabilities and (ii) their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each of the year/period within the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each of the year/period within the Track Record Period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the year/period within the Track Record Period.

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

The recoverable amounts of Hangzhou Yide cash-generating unit and Nova Film cash-generating unit are determined based on a value in use calculation method using cash flow projections based on financial budgets covering a five-year period approved by the management. Such calculation is made based on the following key assumptions:

Key Assumptions for Different Cash-generating Units

Hangzhou Yide Cash-generating Unit

- The combination of gross profit margin and operating expenses: gross profit margin is based on the average gross profit margin achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect management's commitment to maintain them at an acceptable level. The gross profit margin was 14.0% and 14.0% for the estimate of Hangzhou Yide cash-generating unit's recoverable amount as of December 31, 2019 and June 30, 2020, respectively.

- Pre-tax discount rates: the pre-tax discount rates reflect management's estimate of the risks specific to the unit. The pre-tax discount rate applied to cash flow projections was 20.9% and 19.1% for the estimate of Hangzhou Yide cash-generating unit's recoverable amount as of December 31, 2019 and June 30, 2020, respectively; and

- Growth rates: the growth rates are based on published industry research and used to extrapolate the cash flows beyond the five-year period. The terminal growth rate was 3.0% and 3.0% for the estimate of Hangzhou Yide cash-generating unit's recoverable amount as of December 31, 2019 and June 30, 2020, respectively.

Nova Film Cash-generating Unit

- Annual revenue growth rate: the predicted revenue growth rate for the five years subsequent to the date of assessment is based on the historical data and management's expectation on the future market, which was 7.5% for the estimate of Nova Film cash-generating unit's recoverable amount as of June 30, 2020;

- Pre-tax discount rate: the pre-tax discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate applied to cash flow projections was 19.6% for the estimate of Nova Film cash-generating unit's recoverable amount as of June 30, 2020; and

- Growth rate: the growth rate is based on published industry research and used to extrapolate the cash flows beyond the five-year period. The terminal growth rate was 3.0% for the estimate of Nova Film cash-generating unit's recoverable amount as of June 30, 2020.

The values assigned to the key assumptions on the combination of gross profit margin and operating expenses, annual revenue growth rate, discount rates and growth rates are consistent with management's past experience and external information sources.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As of December 31 2019	As of June 30 2020
	(RMB in thousands)	
Hangzhou Yide cash-generating unit	108,341	108,341
Nova Film cash-generating unit	–	4,642
Total	**108,341**	**112,983**

As of December 31, 2019, the recoverable amount of Hangzhou Yide cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB39.3 million. As of June 30, 2020, the recoverable amounts of Hangzhou Yide cash-generating unit and Nova Film cash-generating unit to each of which goodwill is allocated exceeded their carrying amounts by RMB13.1 million and RMB0.1 million, respectively. Therefore, we did not identify an impairment for goodwill.

Sensitivity Analysis for Different Cash-generating Units

Hangzhou Yide Cash-generating Unit

Decreases in the combination of gross profit margin and operating expenses or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Hangzhou Yide cash-generating unit's recoverable amount to equal to its carrying amount.

	As of December 31, 2019	As of June 30, 2020
	%	%
The combination of gross profit margin and operating expenses	3.02	1.13
Pre-tax discount rate	6.54	1.50

Nova Film Cash-generating Unit

Decreases in the annual revenue growth rate or rises in the pre-tax discount rate as follows (with other assumptions remaining unchanged) would result in Nova Film cash-generating unit's recoverable amount to equal to its carrying amount.

	As of 30 June, 2020
	%
Annual revenue growth rate	0.04
Pre-tax discount rate	0.07

Except for the above, we believe no reasonably possible change in key assumptions on which the recoverable amounts are based would cause any of the cash-generating unit's carrying amounts to exceed their recoverable amounts as of December 31, 2019 and June 30, 2020. Our Directors did not identify any event that would have significantly changed the assets and liabilities making up Nova Film cash-generating unit and the forecast of future cash flow of Nova Film since the acquisition date considering that the short time interval between the acquisition date of June 23, 2020 and June 30, 2020. Therefore, the recoverable amount is very close to the carrying amount of Nova Film cash-generating unit and resulted in the percentage of headroom for Nova Film cash-generating unit appears to be less than 10% as of June 30, 2020.

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

Intangible Assets (Other than Goodwill)

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

Software

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

Trademarks

Trademarks are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years.

Backlog

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

Patents

Patents are stated at cost less any impairment loss and are amortised on the straight-line basis over their estimated useful lives of eight years.

Government Grants

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

Property, Plant and Equipment and Depreciation

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

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

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

Electronic equipment	19.0% - 31.7%
Vehicles	19.0%
Office equipment	19.0%
Leasehold improvements	20.0% - 33.3%

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

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

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

Financial Liabilities

Initial Recognition and Measurement

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

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

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

Subsequent Measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Our Group designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognized in profit or loss. The preferred shares are classified as non-current liabilities because the holders of the preferred shares cannot demand our Company to redeem the preferred shares until at least 12 months after the end of each of the year/period during the Track Record Period.

We measured our financial liabilities at fair value through profit or loss at the end of each year/period during the Track Record Period. Details of the fair value measurement of the level 3 financial liabilities, particularly the fair value hierarchy, the valuation techniques and significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Notes 2.4 and 39 to the Accountants' Report set out in Appendix I to this prospectus.

As of the end of each year/period during the Track Record Period, we only recognized fair value of financial liabilities categorized within level 3 of fair value measurement hierarchy. In relation to the valuation of our financial liabilities categorized within the level 3 of fair value hierarchy, we have adopted the following procedures: (i) engaged independent third-party professional valuers and provided them with all underlying documents used for valuation of such financial liabilities; (ii) reviewed the fair value measurement of the financial liabilities report presented by the third-party professional valuers, and carefully considered all information available and various applicable assumptions, methodology and valuation techniques applied in determining the valuation of the relevant investments; and (iii) reviewed the relevant notes set forth in the Accountant's Report included in the Appendix I to this prospectus. Based on the above procedures, our Directors are of the view that the valuation of our financial liabilities categorized within the level 3 of fair value hierarchy is fair and reasonable, and our financial statements have been properly prepared.

The Reporting Accountants have performed procedures on the investment valuation of level 3 financial liabilities as at each end of the Track Record Period in accordance with Hong Kong Standards on Auditing ("**HKSA**") 540 (Revised) and other related HKSAs issued by the Hong Kong Institute of Certified Public Accountant ("**HKICPA**").

The Joint Sponsors have conducted, among others, the following due diligence work in respect of the valuation analysis on level 3 financial liabilities performed by the valuer: (1) discussed with the Company to understand the nature and details of the financial liabilities; (2) obtained and reviewed the credentials of the valuer to ascertain its expertise and industry experience; (3) discussed with the Company about the key basis and assumptions for the valuation of the financial liabilities; (4) discussed with and understood from the Reporting Accountants that they had performed the audit procedures on the valuations of financial liabilities in accordance with HKSA 540 (Revised) and other related HKSAs issued by the HKICPA) and discussed with the Reporting Accountants about the accounting treatment of such financial liabilities; (5) discussed with the valuer about the assumptions and methodology used in the valuation report; and (6) reviewed the relevant notes in the Accountants' Report as contained in Appendix I to this Prospectus and relevant documents provided by valuer, including the valuation report.

Having considered the work done by the Company and the Reporting Accountants as mentioned above, and the relevant due diligence work conducted as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis performed by the Company and the valuer on the level 3 financial liabilities, which the Reporting Accountants have also performed procedures on as mentioned above.

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the consolidated statements of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

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

Inventories

Inventories include raw materials, work-in-progress and finished goods, and are stated at the lower of cost and net realizable value. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. For the inventories that have been contracted with a customer, the estimated selling price is mainly based on the contract terms, while for those that have not been contracted with a customer, the estimated selling price is based on the current market conditions and our historical experience in distributing drama series of similar nature, particularly taking into account the factors of directors, editors and artists of the drama series. The estimated costs of completion are mainly based on the budget which is prepared by reference to the estimated selling price and our historical experience in producing drama series of similar nature.

For self-produced and made-to-order drama series, the amount of raw materials mainly represents the cost of screenplays, scripts and IP rights for the production of drama series, which will be transferred to work-in-progress once the production process commences. And the amount of work-in-progress is recorded at cost incurred in the production of drama series and will be transferred to finished goods once the Television Drama Distribution License is obtained. For outright-purchased drama series, the cost of purchasing the broadcasting rights of the drama series is recorded as inventories and will be fully recognized in cost of sales when the revenue is recognized.

For self-produced drama series, the amount of inventories recognized as cost of sales for a given period is determined using the drama series forecast computation method. Under this method, the amortization of inventories and the accrual of participations and residuals is based on the proportion of the drama series' revenues recognized for such period to the drama series' estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a drama series' life cycle).

We carry out an inventory review on a project-by-project basis at the end of each reporting period and make provision for obsolete projects accordingly. Impairment of inventories is made based on the comparison of the net realizable value and the carrying amount thereof. We made provision of RMB2.9 million, RMB16.0 million, RMB16.0 million and RMB13.8 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

Impairment for Non-Financial Assets

We assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each period during the Track Record Period. All non-financial assets of our Group are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for Expected Credit Losses on Trade Receivables

We use a provision matrix to calculate Expected Credit Losses (the "**ECLs**") for trade receivables. The provision rates are based on aging period and days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on our Group's historical expected default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as the debtors and the economic environment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. Our Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The provision for impairment of trade receivables as of December 31, 2017, 2018 and 2019 and June 30, 2020 amounted to approximately RMB4.6 million, RMB5.0 million, RMB6.5 million and RMB12.4 million, respectively.

Provision for Expected Credit Losses on Other Receivables

We have applied the general approach to provide for ECLs for other receivables and considered the default event, historical loss rate and adjusted for forward looking macroeconomic data in calculating the expected credit loss rate.

Application of HKFRS 9, HKFRS 15 and HKFRS 16

Effective from January 1, 2018, HKFRS 9 "Financial Instruments" (the "**HKFRS 9**") replaced the previous standard HKAS 39 "Financial Instruments: Recognition and Measurement"; and HKFRS 15 "Revenue from contracts with customers" and related amendments to HKFRS 15 "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (the "**HKFRS 15**") replaced the previous revenue standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations, and effective for annual periods beginning on or after January 1, 2019, HKFRS 16 "Leases" (the "**HKFRS 16**") replaced the previous standards HKAS 17 "Leases" and related interpretations. We have early adopted HKFRS 9, HKFRS 15 and HKFRS 16 and consistently applied them throughout the Track Record Period. Our Directors consider that the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have significant impact on our financial position and performance during the Track Record Period.

For other new and revised financial reporting standards that were not yet effective as of June 30, 2020, please refer to Note 2.3 to the Accountants' Report set forth in Appendix I to this prospectus.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The table below sets forth selected consolidated statements of profit or loss items for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	(RMB in thousands)				
				(Unaudited)	
REVENUE	**542,864**	**679,109**	**765,097**	**647,745**	**579,832**
Cost of sales	(390,812)	(469,246)	(657,457)	(574,962)	(444,190)
Gross profit	152,052	209,863	107,640	72,783	135,642
Other income and gains	4,008	4,411	34,343	22,279	10,448
Selling and distribution expenses	(24,375)	(75,758)	(33,498)	(29,443)	(32,364)
Administrative expenses	(15,430)	(64,047)	(17,655)	(9,810)	(29,831)
Other expenses	(829)	(386)	(128)	(128)	–
Finance costs	(22,792)	(34,871)	(9,734)	(5,018)	(5,513)
Changes in fair value of financial liabilities at fair value through profit or loss	–	936	(14,996)	(4,328)	(3,720)
PROFIT BEFORE TAX	**92,634**	**40,148**	**65,972**	**46,335**	**74,662**
Income tax expense	(28,604)	(29,635)	(15,572)	(8,537)	(20,534)
PROFIT FOR THE YEAR/PERIOD	**64,030**	**10,513**	**50,400**	**37,798**	**54,128**
Attributable to:					
Owners of the parent	60,566	12,434	50,032	37,800	54,128
Non-controlling interests	3,464	(1,921)	368	(2)	–
	64,030	**10,513**	**50,400**	**37,798**	**54,128**
***NON-HKFRS MEASURE*[1]:**					
Adjusted net profit[2]	64,030	51,528	65,396	42,126	72,081

Notes:

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

(2) We define adjusted net profit as profit for the period adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also non-cash items and unrelated to our principal business, and therefore are not indicative of our profit from operations post-completion of our Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which will be converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing. See "— Non-HKFRS Measure."

Revenue

During the Track Record Period, we generated our revenue primarily from (i) licensing of broadcasting rights of self-produced drama series; (ii) licensing of broadcasting rights of outright-purchased drama series; (iii) made-to-order drama series production and (iv) others. See "Business — Our Business Model."

Our business is generally on project basis. Revenue generated from each drama series largely depends on the licensing fees or production fees we may collect from our customers, which are primarily affected by a series of factors, including but not limited to:

(i) *Investment size*. Drama series with a larger investment size usually could be distributed with a relatively higher price. According to Frost & Sullivan, investment size of over RMB100.0 million is considered large scale investment, investment size between RMB60.0 million and RMB100.0 million is considered mid-scale investment, and investment size below RMB60.0 million is considered small scale investment. In addition, drama series with well-known core crew, including screenwriters, directors and actors, generally have higher investment size and could be distributed with higher price;

(ii) *Genre of drama series*. Drama series with genre that meet the preferences of the target customers generally have higher distribution prices. For example, online video platforms usually have stronger preference for drama series with genre of period fantasy and romance, which are in line with the popular trends of the market and catering to the preferences of the relatively young audiences of online video platforms; and TV channels generally prefer drama series with genre of metropolitan and war/spy, which are closer to the life of audiences of all age groups;

(iii) *Distribution channels*. Generally, online video platforms have stronger purchasing power than TV channels, and satellite TV channels have stronger purchasing power than terrestrial TV channels. In addition, licensing fees of drama series directly distributed to TV channels are usually higher than those of the drama series distributed through third party distributors as we generally undertake the responsibility of promoting the drama series distributed to TV channels and will take account into the higher selling and distribution expenses when determining the licensing fee for such drama series;

(iv) *Time slot (i.e. prime time or otherwise) for broadcasting*. Generally, licensing fees of drama series broadcast during the prime time are higher than those broadcast during other time slots;

(v) *Round of broadcasting*. Generally, the licensing fee per episode of first-run broadcasting of drama series is much higher than that for re-run broadcast;

(vi) *Market conditions*. Made-to-order drama series was a new business model and has lower market price in 2017, while it gradually matured and became a main source of content for online video platforms in 2019, from when the production fees began to increase accordingly; and

(vii) *Communication with our customers*. The continuous negotiations with relevant TV channels, online video platforms or third party distributors starting from an early stage of the production might bring a relatively higher purchase price.

The table below sets forth a breakdown of our revenue by drama series for the periods indicated:

					Revenue[1]					
					Year ended December 31,			Six months ended June 30,		
No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	2017	2018	2019	2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					(RMB in millions)					
(1)	The Impossible Mission (不可能完成的任務)	Self-produced drama series	Action/war	46	4.5	2.1	0.2	–	February 18, 2016	November 8, 2016
(2)	Starry April (繁星四月)	Self-produced drama series	Romance	42	91.3	2.4	0.2	0.1	December 29, 2016	April 18, 2017
(3)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌)	Self-produced drama series	Period fantasy	48	–	255.4	–	–	December 15, 2017	January 30, 2018
(4)	Mr. Nanny (月嫂先生)	Self-produced drama series	Romance	45	–	185.3	4.4	–	August 15, 2018	August 23, 2018

No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue[1] Year ended December 31, 2017	2018	2019	Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					(RMB in millions)					
(5)	Treasure Adventure (國寶奇旅)	Self-produced drama series	War/spy	42	–	–	204.7	0.2	October 9, 2018	February 6, 2019
(6)	Love Journey (一場遇見愛情的旅行)	Self-produced drama series	Romance	52	–	–	250.2	4.0	March 12, 2019	April 20, 2019
(7)	Second Time Is A Charm (第二次也很美)	Self-produced drama series	Metropolitan	57	–	–	111.7	–	April 18, 2019	November 20, 2019
(8)	The Love Lasts Two Minds (兩世歡)	Self-produced drama series	Romance	36	–	–	–	233.0	December 4, 2019	February 11, 2020
(9)	Inside Man (局中人)	Self-produced drama series	Modern revolution	49	–	–	–	243.5	December 9, 2019	June 23, 2020
(10)	Lost Love In Times (醉玲瓏)	Outright-purchased drama series/ Co-financing arrangement where we act as a non-executive producer[2]	Romance	56	348.7	–	4.1[3]	–	July 5, 2017	July 13, 2017
(11)	Little Sweetheart (小情人)	Outright-purchased drama series	Romance	40	17.0	–	–	–	March 22, 2017	May 29, 2017
(12)	My! P.E. Teacher (我的!體育老師)	Outright-purchased drama series	Romance	38	57.4	6.6	–	–	December 23, 2016	November 13, 2017
(13)	Untouchable Lovers (鳳囚凰)	Outright-purchased drama series	Romance	54	–	120.3	–	–	November 20, 2017	January 14, 2018
(14)	Mask (面具)	Outright-purchased drama series	War	38	–	59.2	–	–	January 25, 2018	March 2, 2018
(15)	The Drug Hunter (獵毒人)	Outright-purchased drama series	Crime	50	–	28.7	–	–	June 25, 2018	July 6, 2018

No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue[1] Year ended December 31, 2017	2018	2019	Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					(RMB in millions)					
(16)	The Legends (招搖)	Outright-purchased drama series	Period	56	–	–	140.1	–	December 29, 2018	January 28, 2019
(17)	Detective Ke Chen (神探柯晨)	Outright-purchased drama series	Crime	44	–	–	43.2	–	August 20, 2018	June 24, 2019
(18)	A Sword Across The Sky (一劍橫空)	Outright-purchased drama series/Co-financing arrangement where we act as a non-executive producer[4]	Action/war	40	2.6[3]	1.6[3]	–	7.1[5]	November 28, 2016	February 2, 2017
(19)	A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記)	Made-to-order drama series production	Period fantasy	40	5.2	–	–	–	N/A[6]	January 18, 2018
(20)	Customer First (獵心者)	Made-to-order drama series production	Metropolitan	30	–	–	–	84.9	July 3, 2019	March 9, 2020
(21)	Princess Agents (楚喬傳)	Co-financing arrangement where we act as a non-executive producer	Period	67	9.4	–	–	–	December 27, 2016	June 5, 2017
(22)	Adoptive Mother's Mood For Love (養母的花樣年華)	Co-financing arrangement where we act as a non-executive producer	Metropolitan	55	1.0	2.5	0.8	–	June 27, 2017	March 14, 2018

No.	Name of the Drama Series	Business Nature	Genre	Number of Episode	Revenue[1] Year ended December 31, 2017	2018	2019	Six months ended June 30, 2020	Date of Television Drama Distribution License	Date of the First-run Broadcasting
					(RMB in millions)					
(23)	The Elder Brother And Sister's Good Age (哥哥姐姐的花樣年華)	Co-financing arrangement where we act as a non-executive producer	Romance	50	–	4.2	–	–	August 20, 2018	October 15, 2018
	Others[3]				5.8	10.8	5.6	7.0		
	Total				**542.9**	**679.1**	**765.1**	**579.8**		

Notes:

(1) For purpose of discussion in this section, unless otherwise stated, the revenue set forth in this table includes the revenue we generated from (i) licensing of broadcasting rights of self-produced drama series; (ii) licensing of broadcasting rights of outright-purchased drama series; (iii) made-to-order drama series production; and (iv) net licensing fees received from investment in drama series where we act as a non-executive producer. For more information on these drama series, see "Business — Our Drama Series — Our Broadcast Drama Series Projects."

(2) Lost Love In Times (醉玲瓏) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 20%. We subsequently purchased its broadcasting right and distributed it to iQIYI, Tencent Video and Youku.

(3) Represent the revenue we generated from the drama series where we act as a non-executive producer.

(4) A Sword Across The Sky (一劍橫空) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 25%. We subsequently purchased its broadcasting right and distributed it to iQIYI.

(5) Include revenue we generated from (i) licensing of broadcasting rights to iQIYI; and (ii) net licensing fees received from investment in this drama series where we act as a non-executive producer.

(6) This drama series is a web series which does not need to apply for or obtain any distribution license.

(7) Represent the revenue that cannot be directly attributed to the licensing of broadcasting rights or production of our drama series.

Revenue by Business Line

The table below sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages of revenue)						*(Unaudited)*			
Licensing of broadcasting rights of self-produced drama series	95,804	17.6%	445,295	65.6%	571,412	74.7%	459,388	70.9%	480,848	83.0%
Licensing of broadcasting rights of outright-purchased drama series	423,061	77.9%	224,174	33.0%	183,272	24.0%	183,272	28.3%	2,288	0.4%
Made-to-order drama series production	5,178[(2)]	1.0%	–	–	–	–	–	–	84,906	14.6%
Others[(1)]	18,821	3.5%	9,640	1.4%	10,413	1.3%	5,085	0.8%	11,790	2.0%
Total	**542,864**	**100.0%**	**679,109**	**100.0%**	**765,097**	**100.0%**	**647,745**	**100.0%**	**579,832**	**100.0%**

Notes:

(1) Others primarily comprise revenues from (i) the net licensing fees received from investments in drama series as a non-executive producer; and (ii) IP derivatives, such as online games, and product placements for advertisers.

(2) Represented production service fees we charged for made-to-order drama series A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記), the revenue of which was recognized over time until completion of the production in 2017. See "— Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin — Made-to-order Drama series."

Our revenue increased from RMB542.9 million for the year ended December 31, 2017 to RMB679.1 million for the year ended December 31, 2018 and further increased to RMB765.1 million for the year ended December 31, 2019, primarily attributable to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series for the same years in line with our business development in such business line, which was partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series. The slight decrease of our revenue from RMB647.7 million for the six months ended June 30, 2019 to RMB579.8 million for the same period in 2020 was primarily due to the significant decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series, which was partially offset by the increase in revenue generated from licensing of broadcasting rights of made-to-order drama series and self-produced drama series in the first half of 2020.

Licensing of Broadcasting Rights of Self-produced Drama Series

During the Track Record Period, we commenced producing our own drama series and licensing the broadcasting rights of these self-produced drama series to major TV channels, top online video platforms and sometimes third party distributors. We developed our self-produced drama series either solely by ourselves or jointly with third party co-investors under co-investment arrangements where we act as an executive producer. Under such co-investment arrangements, we share with our co-investors in proportion to their investment amount the net licensing fees after deduction of the relevant expenses and/or distribution commission, and are generally entitled to the distribution commission as a percentage of the total licensing fees. When we jointly own the copyright of our drama series with the co-investors, we record the licensing fees in proportion to our investment amount as revenue and pay the rest of the net licensing fees to our co-investors, which is recognized as trade payables before payment. When we solely own the copyright of the drama series, we recognize all the licensing fees generated from licensing the broadcasting rights of such drama series as our revenue and pay our co-investors the net licensing fees in proportion to their investment amount. The revenue from licensing of broadcasting rights of drama series is measured based on the fair value of consideration received or receivable specified in the licensing agreements, and recognized at the point generally on delivery of the drama series after the approval from the NRTA or receipt of the Television Drama Distribution License from the provincial counterpart of the NRTA. For more details of this business model, see "Business — Our Business Model — Licensing of Broadcasting Rights of Self-produced Drama Series."

Our revenue generated from licensing of broadcasting rights of self-produced drama series significantly increased from RMB95.8 million for the year ended December 31, 2017 to RMB445.3 million for the year ended December 31, 2018, primarily attributable to (i) the licensing fees of RMB255.4 million for Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and licensing fees of RMB185.3 million for Mr. Nanny (月嫂先生), both of which were drama series with large scale investment and first-run broadcast and recognized revenue in 2018, and (ii) the revenue continuously generated from the re-run broadcast of Starry April (繁星四月) and The Impossible Mission (不可能完成的任務) in 2018.

Our revenue generated from licensing of broadcasting rights of self-produced drama series increased from RMB445.3 million for the year ended December 31, 2018 to RMB571.4 million for the year ended December 31, 2019, primarily due to (i) the licensing fees of three drama series, Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行), all of which were drama series with large scale investment and first-run broadcast in 2019, amounting to RMB204.7 million, RMB111.7 million and RMB250.2 million, respectively, and (ii) the revenue generated from the re-run broadcast of drama series, such as Mr. Nanny (月嫂先生).

Our revenue generated from licensing of broadcasting rights of self-produced drama series remained relatively stable at RMB459.4 million for the six months ended June 30, 2019 and RMB480.8 million for the same period in 2020.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Under this business model, we purchase the broadcasting rights of drama series from copyrights owners which are mainly online video platforms or sometimes drama series producers and license broadcasting rights of these drama series to TV channels, third party distributors or sometimes online video platforms. We charge TV channels, third party distributors or online video platforms a fixed amount licensing fee of each episode for their broadcasting of the outright-purchased drama series, and the revenue is generally recognized at the point of delivery of the drama series. For more details of this business model, see "Business — Our Business Model — Licensing of Broadcasting Rights of Outright-purchased Drama Series."

Our revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB423.1 million for the year ended December 31, 2017 to RMB224.2 million for the year ended December 31, 2018 despite the number of outright-purchased drama series generating revenue in the same years increased from three to five, primarily because the revenue of RMB348.7 million generated from Lost Love In Times (醉玲瓏) broadcast in 2017 was much higher than the revenue generated from the drama series broadcast in 2018, such as Untouchable Lovers (鳳囚凰) and Mask (面具). The significantly higher revenue of Lost Love In Times (醉玲瓏) was primarily because it was distributed to all of the top three online video platforms, which were willing to pay high licensing fees for such large investment scale drama series with genre of period fantasy and then most popular starring actors to satisfy the preferences of their young audience base; whereas our outright-purchased drama series broadcast in 2018 were mostly distributed to only one TV channel, which generally offer relatively lower licensing fees compared to online video platforms.

Our revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB224.2 million for the year ended December 31, 2018 to RMB183.3 million for the year ended December 31, 2019, primarily because we only distributed and broadcast two drama series, The Legends (招搖) and Detective Ke Chen (神探柯晨) in 2019, with recognized revenue of RMB140.1 million and RMB43.2 million, respectively. The decrease of the number of our outright-purchased drama series from 2018 to 2019 was due to the nature of this business model, which highly relies on the market opportunities because sometimes there may be no suitable drama series identified by us to perfectly match the demands of the copyright owners and distribution channels.

Our revenue generated from licensing of broadcasting rights of outright-purchased drama series significantly decreased from RMB183.3 million for The Legends (招搖) and Detective Ke Chen (神探柯晨) for the six months ended June 30, 2019 to RMB2.3 million for A Sword Across The Sky (一劍橫空) for the same period in 2020, primarily because A Sword Across The Sky (一劍橫空) was a drama series with small scale investment and had been broadcast on several terrestrial TV channels for several years prior to the distribution by us to online video platform in the first half of 2020.

Made-to-order Drama Series

Under such business model, we provide production services for online video platforms per their orders. The online video platforms are responsible for investing in, developing and distributing such drama series, and we charge them production fees for provision of the overall production services, including cast talents and filming and production crew assembling, production management and quality control as well as post-production editing. Revenue from the production of made-to-order drama series is recognized over time, using an input method to measure progress towards complete production of the made-to-order drama series. For more details of this business model, see "Business — Our Business Model — Made-to-order Drama Series Production."

Our revenue generated from made-to-order drama series was RMB5.2 million, nil, nil and RMB84.9 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. The significant difference between the revenue generated by A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記) in 2017 and the revenue generated from Customer First (獵心者) in 2020 was primarily due to the changes in the market conditions. In 2017, market players just started to attempt this new business model and the price of made-to-order drama series was therefore relatively lower, while this business model gradually became matured and became a main source of content for online video platforms in 2020, and the price of made-to-order drama series increased accordingly. In addition, we recorded our revenue from A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記) on a net basis and revenue from Customer First (獵心者) on a gross basis, primarily due to the different arrangements regarding production fees and third-party costs. Please refer to "— Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin — Made-to-order Drama Series." We also started to produce one and four made-to-order drama series in 2018 and 2019, respectively, including Customer First (獵心者) broadcast in March 2020 and Marry Me (三嫁惹君心) and Dating In The Kitchen (我，喜歡你) broadcast in September 2020, and the rest two are expected to be broadcast in the first quarter of 2021. See "Business — Our Drama Series — Our Drama Series to be Broadcast."

Revenue by Customer Type

The table below sets forth a breakdown of our revenue by customer type for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages of total)						*(Unaudited)*			
TV channels	128,712	23.7%	414,209	61.0%	173,385	22.7%	173,245	26.7%	69,488	12.0%
Online video platform	353,857	65.2%	244,703	36.0%	310,701	40.6%	195,681	30.2%	461,984	79.7%
Others(1)	60,295	11.1%	20,197	3.0%	281,011	36.7%	278,819	43.1%	48,360	8.3%
Total	**542,864**	**100.0%**	**679,109**	**100.0%**	**765,097**	**100.0%**	**647,745**	**100.0%**	**579,832**	**100.0%**

Note:

(1) Others refer to third party distributors who generally will distribute our drama series to TV channels eventually.

Our revenue generated from TV channels significantly increased from RMB128.7 million for the year ended December 31, 2017 to RMB414.2 million for the year ended December 31, 2018, primarily because the number of and revenue generated from our self-produced drama series significantly increased from 2017 to 2018 and most of those drama series were distributed to TV channels. Our revenue generated from TV channels decreased from RMB414.2 million for the year ended December 31, 2018 to RMB173.4 million for the year ended December 31, 2019, primarily due to the increase in the revenue generated from third party distributors of RMB260.8 million, who generally will distribute our drama series to TV channels eventually. Our revenue generated from TV channels decreased from RMB173.2 million for the six months ended June 30, 2019 to RMB69.5 million for the same period in 2020, primarily due to the decrease in the number of drama series distributed to TV channels.

Our revenue generated from online video platforms decreased from RMB353.9 million for the year ended December 31, 2017 to RMB244.7 million for the year ended December 31, 2018, primarily because the successful distribution of Lost Love In Times (醉玲瓏) to all of the top three online video platforms in 2017, which had large recognized revenue of RMB348.7 million; while our drama series broadcast online in 2018, including Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生), were distributed to iQIYI only. Our revenue generated from online video platforms increased slightly from RMB244.7 million for the year ended December 31, 2018 to RMB310.7 million for the year ended December 31, 2019, primarily because the increase in the number of drama series distributed to online video platform in 2019, which mainly include Love Journey (一場遇見愛情的旅行), Second Time Is A Charm (第二次也很美) and Treasure Adventure (國寶奇旅), amounting to RMB117.8 million, RMB111.7 million and RMB77.5 million attributable to online video platforms, respectively. Our revenue generated from online video platforms increased from RMB195.7 million for the six months ended June 30, 2019 to RMB462.0 million for the same period in 2020, primarily attributable to the increase in the number of drama series distributed to online video platforms and the high revenue attributable to The Love Lasts Two Minds (兩世歡) broadcast in the first half of 2020. The high revenue attributable to The Love Lasts Two Minds (兩世歡) was mainly because the innovative and scarce genre and theme of such drama series is highly attractive to online video platforms who are able to offer higher purchasing prices.

The fluctuations of our revenue generated from third party distributors during the Track Record Period generally made up for the fluctuations in our revenue generated from TV channels as we either distributed our drama series directly to TV channels or through third party distributors to TV channels.

Cost of Sales

Our cost of sales primarily consists of production cost, cost of outright-purchased drama series, cost of co-investment and distribution cost. Our cost of sales amounted to approximately RMB390.8 million, RMB469.2 million, RMB657.5 million, RMB575.0 million and RMB444.2 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. During the Track Record Period, our cost of sales was primarily affected by a series of factors, including but not limited to:

(i) *Actors' remuneration*. The actors' remuneration is largely affected by policies and the reputation and popularity of the actors, which will affect the production cost of the drama series;

(ii) *Genre of drama series.* Generally, drama series of period fantasy will incur larger cost for make-ups, costumes, production sets and post-production, especially the special effects; and

(iii) *Rounds of distribution and broadcasting*. For licensing of broadcasting rights of outright-purchased drama series, the procurement cost of drama series which have been distributed and broadcast for several rounds is generally lower than that of first-run broadcasting drama series, which results in lower cost of outright-purchased drama series.

Cost of Sales by Business Line

The table below sets forth a breakdown of our cost of sales by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages of total)						*(Unaudited)*			
Licensing of broadcasting rights of self-produced drama series	40,905	10.5%	337,505	71.9%	507,633	77.2%	425,250	74.0%	366,337	82.5%
Licensing of broadcasting rights of outright-purchased drama series	346,557	88.6%	125,064	26.7%	148,933	22.7%	148,933	25.9%	297	0.1%
Made-to-order drama series production	–	–	–	–	–	–	–	–	70,755	15.9%
Others	3,350	0.9%	6,677	1.4%	891	0.1%	779	0.1%	6,801	1.5%
Total	**390,812**	**100.0%**	**469,246**	**100.0%**	**657,457**	**100.0%**	**574,962**	**100.0%**	**444,190**	**100.0%**

The fluctuation of our cost of sales during the Track Record Period is generally in line with the fluctuation of our revenue during the same period.

The cost of sales increased from RMB390.8 million for the year ended December 31, 2017 to RMB469.2 million for the year ended December 31, 2018, primarily due to the significant increase in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB296.6 million, primarily reflecting the cost recognized for producing and distributing Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) broadcast in 2018, partially offset by the decrease in cost of sales for licensing of broadcasting rights of outright-purchased drama series of RMB221.5 million, primarily because the purchase cost of such drama series recognized in 2018 was significantly lower than the high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017.

The cost of sales increased from RMB469.2 million for the year ended December 31, 2018 to RMB657.5 million for the year ended December 31, 2019, primarily due to the increase in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB170.1 million as a result of the production cost and distribution cost recognized for our self-produced drama series, Love Story (一場遇見愛情的旅行) and Treasure Adventure (國寶奇旅), which were broadcast in 2019.

The cost of sales decreased from RMB575.0 million for the six months ended June 30, 2019 to RMB444.2 million for the same period in 2020, primarily attributable to (i) the decrease in cost of sales for licensing of broadcasting rights of outright-purchased drama series of RMB148.6 million as a result of the significantly lower procurement cost of A Sword Across The Sky (一劍橫空) as it had been broadcast on several terrestrial TV channels for several years before we purchased its broadcasting rights from the copyright owner and further distributed it to the online video platform in the first half of 2020; and (ii) the decrease in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB58.9 million as the cost of sales we incurred for Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) in the first half of 2019 was higher than that of The Love Lasts Two Minds (兩世歡) and Inside Man (局中人) broadcast in the first half of 2020, which was mainly because (i) the actors' remuneration had been reduced in the industry according to the governmental polices; and (ii) The Love Lasts Two Minds (兩世歡) has lower actors' remuneration since freshman actors were engaged in this drama series. The decrease was partially offset by the production cost for our made-to-order drama series in the first half of 2020 of RMB70.8 million as a result of the broadcast of Customer First (獵心者), while we did not incur any cost of sales for made-to-order drama series in the first half in 2019.

Cost of Sales by Nature

The table below sets forth a breakdown of our cost of sales by nature of cost for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages of total cost of sales)						*(unaudited)*			
Production cost[1]	27,959	7.2%	296,935	63.3%	443,777	67.5%	375,586	65.3%	417,459	93.9%
Cost of outright-purchased drama series[2]	346,557	88.6%	125,064	26.7%	148,933	22.7%	148,933	25.9%	297	0.1%
Distribution cost [3]	16,296	4.2%	47,247	10.0%	64,394	9.7%	50,098	8.7%	26,434	6.0%
Others[4]	–	–	–	–	353	0.1%	345	0.1%	–	–
Total	**390,812**	**100.0%**	**469,246**	**100.0%**	**657,457**	**100.0%**	**574,962**	**100.0%**	**444,190**	**100.0%**

Notes:

(1) Production cost represents the cost incurred for producing our drama series, primarily including cost for IP rights, actors' remuneration, cost for other production crew, cost for pre-production, filming and post-production.

(2) Cost of outright-purchased drama series represents the cost for procuring our outright-purchased drama series.

(3) Distribution cost represents the direct cost for promoting and distributing our drama series to certain TV channels, online video platforms and/or third party distributors.

(4) Others represent payments for sharing of revenue in relation to the broadcasting of a web film.

Our cost of sales increased by 20.1% to RMB469.2 million for the year ended December 31, 2018 from RMB390.8 million for the year ended December 31, 2017, primarily due to the increase in production cost of RMB269.0 million as a result of the relatively higher production cost of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) recognized in 2018, partially offset by the decrease in cost of outright-purchased drama series of RMB221.5 million primarily because the purchase cost of drama series recognized in 2018 was significantly lower than the high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017. The relatively higher production cost of Legend Of Zu Mountain

2 (蜀山戰紀2踏火行歌) recognized in 2018 was primarily due to the period fantasy genre which incurred significant cost for make-ups, costumes, production set and post-production, especially the special effects. The high production cost of Mr. Nanny (月嫂先生) recognized in 2018 was primarily due to the higher actors' remuneration for the popular starring. The high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017 was primarily due to (i) the higher actors' remuneration before the actors' remunerations had been substantially reduced pursuant to relevant government policies and at a stage when the starring for such drama series were the most popular; (ii) the higher production cost generally required for drama series with such genre; and (iii) the first-run online broadcasting right of such drama series we procured which generally incur higher cost than re-run broadcasting right.

Our cost of sales increased by 40.1% to RMB657.5 million for the year ended December 31, 2019 from RMB469.2 million for the year ended December 31, 2018, primarily due to the increase in production cost of RMB146.8 million as a result of the relatively higher production cost of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) recognized in 2019, and the increase in cost of outright-purchased drama series of RMB23.9 million as a result of the relatively high purchase cost of The Legends (招搖) recognized in 2019. The relatively higher production costs of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) were primarily due to the higher cost for actors' remuneration for the two drama series produced before the actors' remunerations had been substantially reduced pursuant to relevant government policies and when the actors' remuneration was at the peak in recent years in the industry. The relatively high purchase cost of The Legends (招搖) was also primarily due to the higher production cost for make-ups, costumes, production set and post-production, especially the special effects due to its genre of period fantasy.

Our cost of sales decreased by 22.7% to RMB444.2 million for the six months ended June 30, 2020 from RMB575.0 million for the same period in 2019, primarily attributable to the decrease in cost of outright-purchased drama series of RMB148.6 million resulted from the significantly lower procurement cost of A Sword Across The Sky (一劍橫空) as it had been broadcast on several terrestrial TV channels for several years before we purchased the broadcasting rights of such drama series from the copyright owner and further distributed it to online video platform in the first half of 2020. Such decrease was partially offset by an increase in production cost of RMB41.9 million, primarily due to the production of The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and Inside Man (局中人) broadcast in the first half of 2020.

Gross Profit and Gross Profit Margin

Our gross profit consists of our revenue less cost of sales. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our gross profit was approximately RMB152.1 million, RMB209.9 million, RMB107.6 million, RMB72.8 million and RMB135.6 million, respectively. Gross profit margin represents gross profit divided by total revenue, expressed as a percentage. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our gross profit margin was approximately 28.0%, 30.9%, 14.1%, 11.2% and 23.4%, respectively.

The table below sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB in thousands, except gross profit margin)						*(unaudited)*			
Licensing of broadcasting rights of self-produced drama series	54,899	57.3%	107,790	24.2%	63,779	11.2%	34,138	7.4%	114,511	23.8%
Licensing of broadcasting rights of outright-purchased drama series	76,504	18.1%	99,110	44.2%	34,339	18.7%	34,339	18.7%	1,991	87.0%
Made-to-order drama series production	5,178	100.0%	–	–	–	–	–	–	14,151	16.7%
Others	15,471	82.2%	2,963	30.7%	9,522	91.4%	4,306	84.7%	4,989	42.3%
Total	**152,052**	**28.0%**	**209,863**	**30.9%**	**107,640**	**14.1%**	**72,783**	**11.2%**	**135,642**	**23.4%**

Our overall gross profit margin decreased significantly from 30.9% for the year ended December 31, 2018 to 14.1% for the year ended December 31, 2019, primarily due to the decrease in gross profit margins for the business lines of licensing of broadcasting rights of self-produced and outright-purchased drama series for the same period. Our overall profit margin increased from 11.2% for the six months ended June 30, 2019 to 23.4% for the same period in 2020, primarily attributable to the increase in gross profit margins for our businesses of licensing of broadcasting rights of both self-produced and outright-purchased drama series.

During the Track Record Period, our overall gross profit margins seemed relatively lower compared with some of our comparable companies. We believe this phenomenon was mainly because we shared part of the gross profit with the filming and production studios that provide production services to us due to our platform business model. Specifically, the revenue generated from distribution of the broadcasting rights of self-produced drama series contributed most of our total revenue during the Track Record Period. Compared to some of our peer companies who mainly produce drama series through their in-house production teams, we have adopted a platform business model for the production of our self-produced drama series by engaging filming and production studios and other premium industry resources to constantly produce quality drama series that attract audiences with different preferences to meet the diversified procurement demands of TV channels and online video platforms, which enables us to break through the scalability-bottleneck in the drama series industry resulting from limited quality resources, and enhances our leading market position by enabling us to produce and/or distribute more drama series than our competitors. Moreover, we distributed more drama series through third-party distributors in 2019, which generally led to lower gross profit margins due to sharing part of the gross profit with those third-party distributors.

Licensing of Broadcasting Rights of Self-produced Drama Series

Our gross profit margin for licensing of broadcasting rights of self-produced drama series decreased from 57.3% for the year ended December 31, 2017 to 24.2% for the year ended December 31, 2018, primary due to the relatively low gross profit margin of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) broadcast in 2018, mainly because drama series with genre of period fantasy generally incur high production cost for make-ups, costumes, production set and post-production, especially the special effects. Our gross profit margin for licensing of broadcasting rights of self-produced drama series decreased from 24.2% for the year ended December 31, 2018 to 11.2% for the year ended December 31, 2019, primary due to lower gross profit margins of Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) broadcast in 2019, despite the considerable gross profit of Love Journey (一場遇見愛情的旅行), compared to the gross profit margin of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) broadcast in 2018, primarily as a result of (i) the relatively lower licensing fees for Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) as online video platforms generally reduced their purchase prices of TV series per episode in 2019, which was in line with the market trend; while (ii) the higher actors' remuneration for such drama series as they were produced before actors' remuneration had been substantially reduced pursuant to relevant government policies. Our gross profit margin for licensing of broadcasting rights of self-produced drama series increased significantly from 7.4% for the six months ended June 30, 2019 to 23.8% for the same period in 2020, primarily attributable to the higher gross profit margin of The Love Lasts Two Minds (兩世歡) broadcast in the first half of 2020 which was primarily attributable to its higher licensing fees partially determined by its innovative and scarce genre and theme, and its lower production cost which was mainly because it engaged freshman actors with relatively lower remuneration.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Our gross profit margin for licensing of broadcasting rights of outright-purchased drama series increased from 18.1% for the year ended December 31, 2017 to 44.2% for the year ended December 31, 2018, primary because the gross profit margins of our outright-purchased drama series distributed in 2018 were generally higher than the gross profit margin of Lost Love In Times (醉玲瓏) broadcast in 2017. The lower gross profit margin of Lost Love In Times (醉玲瓏) was primarily because its procurement cost was significantly higher than that of our other outright-purchased drama series, despite its considerable gross profit. Our gross profit margin for licensing of broadcasting rights of outright-purchased drama series decreased from 44.2% for the year ended December 31, 2018 to 18.7% for the year ended December 31, 2019, primary due to the lower gross profit margins of The Legends (招搖) and Detective Ke Chen (神探柯晨) broadcast in 2019 mainly because they were distributed to third party distributors, which generally resulted in lower gross profit margin, and the procurement cost of The Legends (招搖) was higher than that of the outright-purchased drama series broadcast in 2018. Our gross profit margin for licensing of broadcasting rights of outright-purchased drama series increased significantly from 18.7% for the six months ended June 30, 2019 to 87.0% for the same period in 2020, primary attributable to the significantly higher gross profit margin of A Sword Across The Sky (一劍橫空), mainly due to its lower procurement cost as it had been broadcast on several terrestrial TV channels for several years before we purchased its broadcasting rights.

Made-to-order Drama Series

Our gross profit margin for made-to-order drama series production was 100.0% for the year ended December 31, 2017, because we produced only one made-to-order drama series Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記) in 2017, pursuant to the made-to-order agreement of which, we are entitled to receive a fixed amount production fee while the online video platform who ordered such series share bear all the costs incurred for production services provided by third parties during the whole production process. However, for all of our other made-to-order drama series, we shall bear all third-party costs as our cost of sales pursuant to the made-to-order agreements. Our made-to-order drama series broadcast in the first half of 2020, namely, Customer First (獵心者), recorded a gross profit margin of 16.7% on a gross basis.

Other Income and Gains

Our other income and gains primarily consist of (i) government grants related to income, (ii) interest income from loans receivables, (iii) bank interest income, (iv) investment income from financial assets at fair value through profit or loss, (v) investment income from the co-investment arrangements in drama series, (vi) net foreign exchange gains, (vii) gains on disposal of items of property, plant and equipment, (viii) gains on disposal of an associate and (ix) others. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our other income and gains were approximately RMB4.0 million, RMB4.4 million, RMB34.3 million, RMB22.3 million and RMB10.4 million, respectively.

The table below sets forth a breakdown of other income and gains for the periods indicated:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	(RMB in thousand)				
				(Unaudited)	
Government grants related to income	2,540	900	20,396	14,000	2,415
Interest income from loans receivables	125	2,849	9,415	3,958	6,788
Bank interest income	706	613	407	200	314
Investment income from financial assets at fair value through profit or loss	637	49	–	–	–
Investment income from the co-investment arrangements in drama series(1)	–	–	4,125	4,121	5
Net foreign exchange gains	–	–	–	–	677
Gains on disposal of items of property, plant and equipment	–	–	–	–	152
Gains on disposal of an associate(2)	–	–	–	–	56
Others	–	–	–	–	41
Total	**4,008**	**4,411**	**34,343**	**22,279**	**10,448**

Notes:

(1) Under the co-investment arrangements for drama series where we act as an executive producer and our co-investors do not have any share of copyright of the drama series, our co-investors shall pay us their investment amount pre-determined based on the estimated total investment amount for such drama series multiplied by their investment percentage, which is recognized as our financial liabilities. And we shall pay our co-investors the net licensing fees after deduction of the relevant expenses and/or distribution commission by deducting from our financial liabilities. When the deducted net licensing fees paid to our co-investors is less than the originally recorded financial liabilities, the differences between such two figures shall be recognized as the "investment income from the co-investment arrangements in drama series." The investment income from the co-investment arrangements in drama series recognized in 2019 and the six months ended June 30, 2020 was because the income generated as the amount of investment that we received from our co-investors who had no share in the copyright of our self-produced drama series, Treasure Adventure (國寶奇旅), were higher than the amount of net licensing fee that we allocated to them subsequently.

(2) Represent the gains we recorded for disposal of the 20% equity interest in Wuxi Youkong to an Independent Third Party in May 2020. See "History, Reorganization and Corporate Development — Reorganization — Onshore Reorganization — Disposal of equity interest in Wuxi Youkong and establishment of Wuxi Strawbear" for details.

Our other income and gains increased significantly from RMB4.4 million for the year ended December 31, 2018 to RMB34.3 million for the year ended December 31, 2019, primarily attributable to the increases in government grants related to income received and the interest income from loans receivables recognized in 2019. Government grants primarily represent incentives awarded by the local governments to support our Group's operation. Our government grants related to income increased significantly from RMB0.9 million for the year ended December 31, 2018 to RMB20.4 million for the year ended December 31, 2019, primarily because (i) government grants of approximately RMB9.0 million that one of our subsidiaries, Jiangsu Strawbear, was entitled to receive in 2018 were actually granted in 2019 due to the new local government policy, the Notice on Further Standardizing Tax Order of Film and Television Industry (《關於進一步規範影視行業税收秩序有關工作的通知》) (the "**Notice**") issued by the SAT on October 2, 2018, pursuant to which government grants to film and television industry companies were suspended from October 2018 to July 2019 to standardize the tax order of such industry; and (ii) we applied and obtained an one-off government grant pursuant to a new local policy to support the development of the modern service industry (press, publication, radio and television) in 2019. There were no unfulfilled conditions or contingencies attached to these government grants. Our other income and gains decreased from RMB22.3 million for the six months ended June 30, 2019 to RMB10.4 million for the same period in 2020, primarily due to (i) the decrease in government grants of RMB11.6 million, mainly because of the impact of coronavirus disease 2019 ("**COVID-19**") in the first half of 2020, resulting in the delay in application for government grants, and (ii) the decrease in investment income from the co-investment arrangements in drama series of RMB4.1 million, which was in line with the decrease in revenue generated from Treasure Adventure (國寶奇旅) for the same period.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) advertising expenses, which relate to the market promotion and advertising activities of our drama series, (ii) travelling and entertainment expenses, and (iii) others. The selling and distribution expenses vary by different customer types. The selling and distribution expenses for drama series distributed to TV channels are generally higher than those distributed to online video platforms as online video platforms generally take more active role for the promotion of drama series broadcast on their platforms under which situation we may make less efforts to promote such drama series. The selling and distribution expenses for drama series distributed to TV channels are generally higher than those distributed to third party distributors mainly because we make efforts to promote the drama series to be broadcast on TV channels while third party distributors generally do not require us to promote the drama series. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages)						*(unaudited)*			
Advertising expenses	23,479	96.3%	72,886	96.2%	29,947	89.4%	27,927	94.9%	30,982	95.7%
Travelling and entertainment expenses	647	2.7%	1,561	2.1%	3,318	9.9%	1,344	4.6%	921	2.9%
Others	249	1.0%	1,311	1.7%	233	0.7%	172	0.5%	461	1.4%
Total	**24,375**	**100.0%**	**75,758**	**100.0%**	**33,498**	**100.0%**	**29,443**	**100.0%**	**32,364**	**100.0%**

Our selling and distribution expenses increased by 210.8% from RMB24.4 million for the year ended December 31, 2017 to RMB75.8 million for the year ended December 31, 2018, primarily due to the significant increase in advertising expenses because the number of drama series incurring advertising expenses of over RMB1.0 million increased from three in 2017 to nine in 2018, most of which were distributed to TV channels and we undertook the responsibility of promoting the drama series. Our selling and distribution expenses decreased by 55.8% from RMB75.8 million for the year ended December 31, 2018 to RMB33.5 million for the year ended December 31, 2019, primarily due to the decrease in advertising expenses of RMB42.9 million mainly because the number of drama series incurring advertising expenses of over RMB1.0 million decreased from nine to four from 2018 to 2019, most of which were distributed to TV channels and we undertook the responsibility of promoting the drama series. Our selling and distribution expenses increased from RMB29.4 million for the six months ended June 30, 2019 to RMB32.4 million for the same period in 2020, primarily due to the high advertising expenses for promoting The Love Lasts Two Minds (兩世歡) , which was partially offset by the decrease in advertising expenses for promoting our drama series distributed to TV channels. The high advertising expenses incurred for The Love Lasts Two Minds (兩世歡) were primarily because (i) we proactively enhanced the promotion of such drama series since it had an innovative and scarce genre and theme; and (ii) it was the first drama series produced after our acquisition of Hangzhou Yide and we strategically planned to further improve the market recognition of our content production ability.

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, (ii) office expenses, (iii) business tax and government surcharges and other tax, (iv) depreciation and amortization, (v) professional service fees, (vi) depreciation charge of right-of-use assets, (vii) expense relating to short-term leases, (viii) impairment loss, (ix) travelling and entertainment expenses, (x) equity-settled share award expense, (xi) listing expenses, (xii) screenwriting fees and (xiii) others. The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages)									
							(unaudited)			
Employee benefit expenses	1,982	12.8%	3,182	5.0%	4,331	24.5%	2,064	21.0%	2,356	7.9%
Office expenses	294	1.9%	384	0.6%	481	2.7%	324	3.4%	604	2.0%
Business tax and government surcharges and other tax	4,188	27.1%	3,849	6.0%	2,874	16.3%	1,529	15.6%	460	1.5%
Depreciation and amortization	353	2.3%	850	1.3%	1,183	6.7%	577	5.9%	634	2.1%
Professional service fees	2,493	16.2%	8,684	13.6%	4,168	23.6%	2,519	25.7%	1,784	6.0%
Depreciation charge of right-of-use assets	891	5.8%	1,583	2.5%	945	5.4%	457	4.7%	552	1.9%
Expense relating to short-term leases	317	2.1%	240	0.4%	1,088	6.2%	602	6.1%	425	1.4%
Impairment loss	3,826	24.8%	1,909	3.0%	1,528	8.7%	936	9.5%	5,887	19.7%
Travelling and entertainment expenses	648	4.2%	800	1.2%	782	4.4%	622	6.3%	226	0.8%
Equity-settled share award expense[(1)]	–	–	41,951	65.5%	–	–	–	–	2,146	7.2%
Listing expenses	–	–	–	–	–	–	–	–	12,087	40.5%
Screenwriting fees	–	–	–	–	–	–	180	1.8%	2,670	9.0%
Others	438	2.8%	615	0.9%	275	1.5%	–	–	–	–
Total	**15,430**	**100.0%**	**64,047**	**100.0%**	**17,655**	**100.0%**	**9,810**	**100.0%**	**29,831**	**100.0%**

Note:

(1) Equity-settled share award expense represents (i) the expense incurred for transferring certain of equity interests in our Group at no consideration to Gold Fish Management Holding Limited in 2018, which is controlled by a key employee of our Group, and (ii) share-based compensation expense incurred in relation to our Pre-IPO Share Option Scheme in 2020. See Note 34 to the Accountants' Report included in Appendix I to this prospectus for more information.

Our administrative expenses increased by 315.1% from RMB15.4 million for the year ended December 31, 2017 to RMB64.0 million for the year ended December 31, 2018 and then decreased by 72.4% to RMB17.7 million for the year ended December 31, 2019, primarily due to the occurrence of the equity-settled share award expense of RMB42.0 million in 2018. Our administrative expenses increased significantly by 204.1% from RMB9.8 million for the six months ended June 30, 2019 to RMB29.8 million for the same period in 2020, primarily due to (i) the occurrence of listing expenses of RMB12.1 million in the first half of 2020, (ii) the increase in impairment loss of RMB5.0 million primarily due to the increase in provision of trade receivables and (iii) the increase in screenwriting fees of RMB2.5 million due to replacing the screenwriter of On The Stream Of Silence And Loneliness (在寂與寞的川流上).

Other Expenses

Our other expenses primarily comprise of (i) donations and (ii) others. Our other expenses was approximately RMB0.8 million, RMB0.4 million, RMB0.1 million, RMB0.1 million and nil for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

Finance Costs

Our finance costs primarily comprise of (i) interest on bank loans, (ii) interest on borrowings from a related party, (iii) interest on other borrowings — from third parties, (iv) interest on lease liabilities, (v) interest on other borrowings — from an investor, (vi) interest expense under the co-investment arrangements in drama series and (vii) interest on discounted notes receivable. The table below sets forth a breakdown of our finance costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except percentages of total)						*(unaudited)*			
Interest on bank loans	1,100	4.8%	2,182	6.3%	2,597	26.7%	753	15.0%	3,145	57.0%
Interest on borrowings from a related party	–	–	6,108	17.5%	4,913	50.5%	2,395	47.7%	1,246	22.6%
Interest on other borrowings — from third parties	64	0.3%	332	1.0%	557	5.7%	245	4.9%	864	15.7%
Interest on lease liabilities	50	0.2%	79	0.2%	76	0.8%	43	0.9%	32	0.6%
Interest on other borrowings — from an investor	21,578	94.7%	23,422	67.2%	–	–	–	–	–	–
Interest expense under the co-investment arrangements in drama series(1)	–	–	2,282	6.5%	1,467	15.0%	1,463	29.1%	226	4.1%
Interest on discounted notes receivables	–	–	466	1.3%	124	1.3%	119	2.4%	–	–
Total	**22,792**	**100.0%**	**34,871**	**100.0%**	**9,734**	**100.0%**	**5,018**	**100.0%**	**5,513**	**100.0%**

Note:

(1) Under the co-investment arrangements for drama series where we act as an executive producer and our co-investors do not have any share of copyright of the drama series, our co-investors shall pay us their investment amount pre-determined based on the estimated total investment amount for such drama series multiplied by their investment percentage, which is recognized as our financial liabilities. And we shall pay our co-investors the net licensing fees after deduction of the relevant expenses and/or distribution commission by deducting from our financial liabilities. When the net licensing fees to be paid to our co-investors is more than our originally recognized financial liabilities, the difference between such two figures shall be recognized as "interest expense under the co-investment arrangements in drama series." The interest expense under the co-investment arrangements in drama series refers to the amount of net licensing fee (i.e. the investment return) that we allocated to our co-investors who had no share in the copyright of our drama series minus the amount of the investment that we received from such co-investors.

Our finance costs increased by 53.0% from RMB22.8 million for the year ended December 31, 2017 to RMB34.9 million for the year ended December 31, 2018, primarily due to the increase in interest on borrowings from a related party of RMB6.1 million due to the borrowings from Mr. Liu at the principal amount of RMB350.0 million in August 2018 to (i) repurchase the equity investment in our Group by a former investor and (ii) fund our working capital. See "— Material Related Party Transactions." Our finance costs decreased by 72.1% from RMB34.9 million for the year ended December 31, 2018 to RMB9.7 million for the year ended December 31, 2019, primarily attributable to the decrease in interest on other borrowings — from an investor since the underlying borrowings had been repaid in August 2018. See "History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital." Our finance costs increased by 9.9% from RMB5.0 million for the six months ended June 30, 2019 to RMB5.5 million for the same period in 2020, primarily due to the increase in interest on bank loans of RMB2.4 million, mainly as a result of the increase in bank loans of RMB80.0 million and the increase in interest rate of such loans in 2020.

Income Tax Expense

Our income tax expense consists of current tax and deferred tax. The table below sets forth a breakdown of our income tax expense for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	(RMB in thousands)			*(unaudited)*	
Current — Mainland China charge for the year/ period	30,551	39,357	27,474	17,834	29,601
Deferred tax	(1,947)	(9,722)	(11,902)	(9,297)	(9,067)
Total	**28,604**	**29,635**	**15,572**	**8,537**	**20,534**

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%, except Horgos Strawbear. According to the Notice of the Preferential EIT Policy in relation to Kashgar and Horgos as Two Special Economic Development Zones in Xinjiang (《關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》), Horgos Strawbear enjoys an exemption from EIT during the period from 2019 to 2023. Our effective income tax rate was 30.9%, 73.8%, 23.6% and 27.5%, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Our effective income tax rate increased significantly from 30.9% for the year ended December 31, 2017 to 73.8% for the year ended December 31, 2018, primarily due to the non-tax deductible item, the equity-settled share award expense, of RMB42.0 million in 2018, which was not operating related and lead to the much higher administrative expenses incurred in 2018. Our effective income tax rate decreased from 73.8% for the year ended December 31, 2018 to 23.6% for the year ended December 31, 2019, primarily because the equity-settled share award expense did not incur in 2019 and our subsidiary, Horgos Strawbear, started to enjoy the tax preferential treatment in 2019. Our effective income tax rate increased to 27.5% for the six months ended June 30, 2020, which was primarily because our subsidiary, Horgos Strawbear, did not generate any revenue in the first half of 2020.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

NON-HKFRS MEASURE

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

We define adjusted net profit as profit for the period adjusted by adding back changes in fair value of financial liabilities at fair value through profit or loss, equity-settled share award expense and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-operating or one-off expenses. Changes in fair value of financial liabilities at fair value through profit or loss and equity-settled share award expense are also a non-cash items and unrelated to our principal business, and therefore are not indicative of our profit from operations post-completion of our Listing. In particular, changes in fair value of financial liabilities at fair value through profit or loss refer to redeemable preferred shares, which will be converted into ordinary shares immediately prior to the Listing and are not expected to recur after such conversion. Listing expenses are one-off expenses relating to the Listing.

The table below reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is the net profit for the year/period:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	(RMB in thousands)				
				(Unaudited)	
Reconciliation of net profit to adjusted net profit					
Net profit for the year/period	64,030	10,513	50,400	37,798	54,128
Add:					
Changes in fair value of financial liabilities at fair value through profit or loss	–	(936)	14,996	4,328	3,720
Equity-settled share award expense	–	41,951	–	–	2,146
Listing expenses	–	–	–	–	12,087
Adjusted net profit	**64,030**	**51,528**	**65,396**	**42,126**	**72,081**

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2020 compared to six months ended June 30, 2019

Revenue

Our revenue slightly decreased by 10.5% to RMB579.8 million for the six months ended June 30, 2020 from RMB647.7 million for the same period in 2019, primarily due to the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB181.0 million, partially offset by (i) the increase in revenue generated from made-to-order drama series production of RMB84.9 million, and (ii) the slight increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB21.5 million.

Licensing of Broadcasting Rights of Self-produced Drama Series

Revenue generated from licensing of broadcasting rights of self-produced drama series remained relatively stable, amounting to RMB459.4 million for the six months ended June 30, 2019 and RMB480.8 million for the same period in 2020.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB183.3 million for the six months ended June 30, 2019 to RMB2.3 million for the same period in 2020, primarily due to the significantly lower licensing fees of A Sword Across The Sky (一劍橫空) recognized in the first half of 2020 than that of The Legends (招搖) and Detective Ke Chen (神探柯晨) recognized in the first half of 2019. See "— Description of Key Statement of Profit or Loss Items — Revenue" for more details.

Made-to-order Drama Series

Revenue generated from made-to-order drama series increased significantly from nil for the six months ended June 30, 2019 to RMB84.9 million for the same period in 2020, primarily attributable to Customer First (獵心者) broadcast in the first half of 2020 when the business model of made-to-order drama series became matured and became a main source of content for online video platforms.

Cost of Sales

Our cost of sales decreased by 22.7% to RMB444.2 million for the six months ended June 30, 2020 from RMB575.0 million for the same period in 2019, primarily attributable to (i) the decrease in cost of sales for licensing of broadcasting rights of outright-purchased drama series of RMB148.6 million as a result of the significantly lower procurement cost of A Sword Across The Sky (一劍橫空) distributed in the first half of 2020, and (ii) the decrease in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB58.9 million as the cost of sales we incurred for Treasure Adventure (國寶奇旅) and Love Journey (一場遇見愛情的旅行) in the first half of 2019 was higher than that of The Love Lasts Two Minds (兩世歡) and Inside Man (局中人) in the first half of 2020. The decrease was partially offset by the cost of sales occurred for made-to-order drama series production in the first half of 2020 of RMB70.8 million as a result of the broadcast of Customer First (獵心者) in the same period, while we did not incur any cost of sales for made-to-order drama series in the first half in 2019.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 86.4% to RMB135.6 million for the six months ended June 30, 2020 from RMB72.8 million for the same period in 2019. Our gross profit margin increased to 23.4% for the six months ended June 30, 2020 from 11.2% for the same period in 2019, primarily because our gross profit increased while our revenue slightly decreased from the six months ended June 30, 2019 to the same period in 2020.

Other Income and Gains

Our other income and gains decreased by 53.1% to RMB10.4 million for the six months ended June 30, 2020 from RMB22.3 million for the same period in 2019, primarily due to (i) the decrease in government grants related to income of RMB11.6 million, mainly as a result of the impact of COVID-19 in the first half of 2020, resulting in the delay in application for government grants and (ii) the decrease in investment income from the co-investment arrangements in drama series of RMB4.1 million, which was in line with the decrease in revenue generated from Treasure Adventure (國寶奇旅) for the same period.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 9.9% to RMB32.4 million for the six months ended June 30, 2020 from RMB29.4 million for the same period in 2019, primarily due to the increase in advertising expenses for the promotion of The Love Lasts Two Minds (兩世歡) and Inside Man (局中人) broadcast in the first half of 2020.

Administrative Expenses

Our administrative expenses increased significantly by 204.1% to RMB29.8 million for the six months ended June 30, 2020 from RMB9.8 million for the same period in 2019, primarily due to (i) the occurrence of listing expenses of RMB12.1 million in the first half of 2020, (ii) the increase in impairment loss of RMB4.9 million primarily due to the increase in provision of trade receivables and (iii) the increase in screenwriting fees of RMB2.5 million due to replacing the screenwriter of On The Stream Of Silence And Loneliness (在寂與寞的川流上).

Other Expenses

Our other expenses was nil for the six months ended June 30, 2020.

Finance Costs

Our finance costs increased by 9.9% to RMB5.5 million for the six months ended June 30, 2020 from RMB5.0 million for the same period in 2019, primarily due to the increase in interest on bank loans of RMB2.4 million mainly as a result of the increase in bank loans of RMB80.0 million and the increase in interest rate of such loans in 2020.

Income Tax Expense

Our income tax expense increased significantly by 140.5% to RMB20.5 million for the six months ended June 30, 2020 from RMB8.5 million for the same period in 2019, primarily due to our subsidiary, Horgos Strawbear, did not enjoy any tax preferential treatment since it did not generate any revenue in the first half of 2020. For the same reason discussed above, our effective income tax rate increased to 27.5% for the six months ended June 30, 2020 from 18.4% for the same period in 2019.

Profit for the Period and Net Profit Margin

As a result of the foregoing, our net profit significantly increased to RMB54.1 million for the six months ended June 30, 2020 from RMB37.8 million for the same period in 2019. Our net profit margin, which represents profit and total comprehensive income for the period as a percentage of revenue, increased to 9.3% for the six months ended June 30, 2020 from 5.8% for the same period in 2019 as the increase of our net profit outpaced the increase of our revenue for the same period.

Year ended December 31, 2019 compared to year ended December 31, 2018

Revenue

Our revenue increased by 12.7% to RMB765.1 million for the year ended December 31, 2019 from RMB679.1 million for the year ended December 31, 2018, primarily attributable to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB126.1 million, partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB40.9 million.

Licensing of Broadcasting Rights of Self-produced Drama Series

Revenue generated from licensing of broadcasting rights of self-produced drama series increased from RMB445.3 million for the year ended December 31, 2018 to RMB571.4 million for the year ended December 31, 2019, primarily due to (i) the broadcasting of new drama series in 2019, such as Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行), all of which were drama series with large scale investment and first-run broadcast in 2019, and (ii) the revenue generated from the re-run broadcast of drama series, such as Mr. Nanny (月嫂先生).

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB224.2 million for the year ended December 31, 2018 to RMB183.3 million for the year ended December 31, 2019, in line with the decrease of number of outright-purchased drama series that we broadcast in 2019 which was determined by the business model of such business and the market opportunities in 2019.

Made-to-order Drama Series

Revenue generated from made-to-order drama series remained stable at nil for the year ended December 31, 2018 and 2019.

Cost of Sales

Our cost of sales increased by 40.1% to RMB657.5 million for the year ended December 31, 2019 from RMB469.2 million for the year ended December 31, 2018. The increase was primarily due to the increase of cost of sales for licensing of broadcasting rights of self-produced drama series of RMB170.1 million attributable to the higher cost recognized for the new drama series broadcast in 2019, such as Treasure Adventure (國寶奇旅), Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行).

Gross Profit and Gross Profit Margin

Since the increase in cost of sales outpaced the increase in revenue from 2018 to 2019, our gross profit decreased by 48.7% to RMB107.6 million for the year ended December 31, 2019 from RMB209.9 million for the year ended December 31, 2018. Our gross profit margin decreased to 14.1% for the year ended December 31, 2019 from 30.9% for the year ended December 31, 2018, primarily due to the decline of the purchase prices of drama series broadcast in 2019 offered by online video platforms while such drama series were produced in 2017 or 2018 with a relatively high production costs before the actors' remunerations had been substantially reduced pursuant to relevant government policies, which was in line with the industry trend.

Other Income and Gains

Our other income and gains increased by 678.6% to RMB34.3 million for the year ended December 31, 2019 from RMB4.4 million for the year ended December 31, 2018, primarily attributable to (i) the increase in government grants related to income of RMB19.5 million, (ii) the increase in interest income from loans receivables of RMB6.6 million primarily attributable to the lendings for Inside Man (局中人) and My Unicorn Girl (穿盔甲的少女), and (iii) the increase in investment income of RMB4.1 million from the co-investment in Treasure Adventure (國寶奇旅).

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 55.8% to RMB33.5 million for the year ended December 31, 2019 from RMB75.8 million for the year ended December 31, 2018, mainly because the number of drama series incurring advertising expenses of over RMB1.0 million decreased from nine in 2018 to four in 2019, most of which were distributed to TV channels and we undertook the responsibility of promoting such drama series.

Administrative Expenses

Our administrative expenses decreased by 72.4% to RMB17.7 million for the year ended December 31, 2019 from RMB64.0 million for the year ended December 31, 2018, primarily attributable to the decrease in equity-settled share award expense of RMB42.0 million in 2019.

Other Expenses

Our other expenses decreased by 66.8% to RMB0.1 million for the year ended December 31, 2019 from RMB0.4 million for the year ended December 31, 2018.

Finance Costs

Our finance costs decreased by 72.1% to RMB9.7 million for the year ended December 31, 2019 from RMB34.9 million for the year ended December 31, 2018, primarily due to the decrease in interest on other borrowings — from an investor of RMB23.4 million since we had repaid the underlying borrowings in August 2018.

Income Tax Expense

Our income tax expense decreased by 47.5% to RMB15.6 million for the year ended December 31, 2019 from RMB29.6 million for the year ended December 31, 2018, primarily due to the tax preferential treatment enjoyed by our subsidiary, Horgos Strawbear, in 2019. As a result of the above as well as the effect of the equity-settled award expense on the effective income tax rate of 2018, our effective income tax rate decreased to 23.6% for the year ended December 31, 2019 from 73.8% for the year ended December 31, 2018.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our net profit increased to RMB50.4 million for the year ended December 31, 2019 from RMB10.5 million for the year ended December 31, 2018. Our net profit margin, which represents profit and total comprehensive income for the year as a percentage of revenue, increased from 1.5% for the year ended December 31, 2018 to 6.6% for the year ended December 31, 2019.

Year ended December 31, 2018 compared to year ended December 31, 2017

Revenue

Our revenue increased by 25.1% to RMB679.1 million for the year ended December 31, 2018 from RMB542.9 million for the year ended December 31, 2017, primarily due to the increase in revenue generated from licensing of broadcasting rights of self-produced drama series of RMB349.5 million, partially offset by the decrease in revenue generated from licensing of broadcasting rights of outright-purchased drama series of RMB198.9 million.

Licensing of Broadcasting Rights of Self-produced Drama Series

Revenue generated from licensing of broadcasting rights of self-produced drama series increased significantly from RMB95.8 million for the year ended December 31, 2017 to RMB445.3 million for the year ended December 31, 2018, primarily due to the broadcasting of Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) , both of which were drama series with large scale investment and first-run broadcast and recognized revenue in 2018.

Licensing of Broadcasting Rights of Outright-purchased Drama Series

Revenue generated from licensing of broadcasting rights of outright-purchased drama series decreased from RMB423.1 million for the year ended December 31, 2017 to RMB224.2 million for the year ended December 31, 2018, primarily because the revenue of RMB348.7 million generated from Lost Love In Times (醉玲瓏) broadcast in 2017 was much higher than the revenue of the drama series broadcast in 2018. See "— Description of Key Statement of Profit or Loss Items — Revenue" for more details.

Made-to-order Drama Series

Revenue generated from made-to-order drama series decreased from RMB5.2 million for the year ended December 31, 2017 to nil for the year ended December 31, 2018. Such business model was relatively immature in 2017 and 2018 and the price of made-to-order drama series was therefore relatively lower. We did not receive any suitable order in 2018.

Cost of Sales

Our cost of sales increased by 20.1% to RMB469.2 million for the year ended December 31, 2018 from RMB390.8 million for the year ended December 31, 2017. The increase was primarily due to the increase in cost of sales for licensing of broadcasting rights of self-produced drama series of RMB296.6 million, primarily reflecting the cost recognized for producing and distributing Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Mr. Nanny (月嫂先生) that were broadcast in 2018, partially offset by the decrease in cost of sales recognized for licensing of broadcasting rights of outright-purchased drama series of RMB221.5 million, primarily because the purchase cost of drama series recognized in 2018 was significantly lower than the high purchase cost of Lost Love In Times (醉玲瓏) recognized in 2017.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 38.0% to RMB209.9 million for the year ended December 31, 2018 from RMB152.1 million for the year ended December 31, 2017. Our gross profit margin increased to 30.9% for the year ended December 31, 2018 from 28.0% for the year ended December 31, 2017 as the increase in our gross profit outpaced the increase in our revenue from 2017 to 2018.

Other Income and Gains

Our other income and gains increased by 10.1% to RMB4.4 million for the year ended December 31, 2018 from RMB4.0 million for the year ended December 31, 2017, primarily due to the increase in interest income from loans receivables, partially offset by the slight decrease in government grants.

Selling and Distribution Expenses

Our selling and distribution expenses significantly increased by 210.8% to RMB75.8 million for the year ended December 31, 2018 from RMB24.4 million for the year ended December 31, 2017, primarily because the number of drama series incurring advertising expenses of over RMB1.0 million increased from three in 2017 to nine in 2018, most of which were distributed to TV channels and we undertook the responsibility of promoting such drama series.

Administrative Expenses

Our administrative expenses increased by 315.1% to RMB64.0 million for the year ended December 31, 2018 from RMB15.4 million for the year ended December 31, 2017, primarily due to the increase in the equity-settled share award expense of RMB42.0 million in 2018.

Other Expenses

Our other expenses decreased by 53.4% to RMB0.4 million for the year ended December 31, 2018 from RMB0.8 million for the year ended December 31, 2017, primarily due to the decrease in donations.

Finance Costs

Our finance costs increased by 53.0% to RMB34.9 million for the year ended December 31, 2018 from RMB22.8 million for the year ended December 31, 2017, primarily due to the increase in interest on borrowings from a related party in 2018 due to the borrowings from Mr. Liu at the principal amount of RMB350.0 million in August 2018 to (i) repurchase the equity investment in our Group by a former investor and (ii) fund our working capital. See "— Material Related Party Transactions."

Income Tax Expense

Our income tax expense increased by 3.6% to RMB29.6 million for the year ended December 31, 2018 from RMB28.6 million for the year ended December 31, 2017, primarily due to the increase in profit made in 2018. Our effective income tax rate increased to 73.8% for the year ended December 31, 2018 from 30.9% for the year ended December 31, 2017, primarily due to the increase in a non-deductible expenses, equity-settled share award expense, from 2017 to 2018.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our net profit decreased by 83.6% to RMB10.5 million for the year ended December 31, 2018 from RMB64.0 million for the year ended December 31, 2017. Our net profit margin, which represents profit and total comprehensive income for the year as a percentage of revenue, decreased from 11.8% for the year ended December 31, 2017 to 1.5% for the year ended December 31, 2018 as a result of the decrease of our net profit and the increase of our revenue from 2017 to 2018.

DISCUSSION OF CERTAIN BALANCE SHEET ITEMS

The following is a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Non-current assets:				
Property, plant and equipment	1,628	2,921	2,665	10,367
Right-of-use assets	3,313	1,730	894	4,071
Goodwill	–	–	108,341	112,983
Other intangible assets	28	24	42,920	27,200
Investment in an associate	–	300	300	–
Investment in a joint venture	–	–	14,000	14,000
Deferred tax assets	6,429	16,151	28,053	30,020
Total non-current assets	**11,398**	**21,126**	**197,173**	**198,641**

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Current assets:				
Inventories	314,509	536,664	919,119	681,121
Trade and notes receivables	289,851	180,344	485,396	776,634
Prepayments, other receivables and other assets	83,981	244,498	340,906	254,012
Due from a related party	–	–	3,000	–
Financial assets at fair value through profit or loss	20,000	–	–	–
Cash and cash equivalents	153,258	97,255	52,349	83,295
Restricted cash	–	–	54,312	18
Total current assets	**861,599**	**1,058,761**	**1,855,082**	**1,795,080**
Current liabilities:				
Trade payables	189,570	236,863	449,190	425,521
Other payables and accruals	177,894	177,497	734,535	602,808
Interest-bearing bank and other borrowings	43,000	66,000	125,000	140,500
Lease liabilities	1,493	907	509	896
Due to a joint venture	–	–	51,000	71,260
Tax payable	19,585	16,648	6,604	7,999
Due to a related party	–	81,013	105,926	–
Dividend payable	–	80,000	81,507	80,000
Total current liabilities	**431,542**	**658,928**	**1,554,271**	**1,328,984**
Net current assets	**430,057**	**399,833**	**300,811**	**466,096**
Non-current liabilities:				
Lease liabilities	1,379	472	–	2,874
Financial liabilities at fair value through profit or loss	–	274,525	289,521	401,491
Interest-bearing bank and other borrowings	246,578	–	–	–
Deferred tax liabilities	–	–	14,012	8,676
Total non-current liabilities	**247,957**	**274,997**	**303,533**	**413,041**
Net assets	**193,498**	**145,962**	**194,451**	**251,696**

Inventories

The table below sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Raw materials	19,916	25,882	60,873	69,523
Work in progress	102,750	308,351	462,944	494,138
Finished goods	191,843	202,431	395,302	117,460
Total	**314,509**	**536,664**	**919,119**	**681,121**

Our inventories increased by 70.6% to RMB536.7 million as of December 31, 2018 from RMB314.5 million as of December 31, 2017, primarily due to the increase in our work in progress of RMB205.6 million as a result of the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域).

Our inventories increased by 71.3% to RMB919.1 million as of December 31, 2019 from RMB536.7 million as of December 31, 2018, primarily due to (i) the increase in finished goods of RMB192.9 million primarily because we completed the production of our drama series, Inside Man (局中人), The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) in 2019 which were yet to be broadcast as of December 31, 2019, partially offset by the decrease as a result of the broadcast of Treasure Adventure (國寶奇旅); (ii) the increase in work in progress of RMB154.6 million primarily attributable to the production of our drama series, Spirit Realm (靈域); and (iii) the increase in raw materials of RMB35.0 million primarily attributed to the purchase of IP rights and screenplays.

Our inventories decreased by 25.9% to RMB681.1 million as of June 30, 2020 from RMB919.1 million as of December 31, 2019, primarily due to a decrease of finished goods of RMB277.8 million since our drama series, Inside Man (局中人), The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and A Sword Across The Sky (一劍橫空), were broadcast and recognized revenue in the first half of 2020, partially offset by the increase in work in progress of RMB31.2 million as a result of the continuous production of our drama series, such as Breath Of Destiny (一起深呼吸), My Bargain Queen (我的砍價女王), Dating In The Kitchen (我，喜歡你) and Spirit Realm (靈域) in the first half of 2020.

For the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020, our inventory turnover days were 171 days, 331 days, 404 days and 328 days, respectively. We calculate the inventory turnover days using the average of the opening and ending inventory balances for the period, divided by cost of sales for the relevant period, multiplied by 365 days for 2017, 2018 and 2019, and 182 days for the six months ended June 30, 2020. Inventory turnover days increased from 171 days in 2017 to 331 days in 2018, primarily because our cost of sales increased slightly while the inventories increased significantly from the year ended December 31, 2017 to the year ended December 31, 2018, which was in line with the increase in the number of drama series we produced. Inventory turnover days increased from 331 days in 2018 to 404 days in 2019, primarily due to the delay in broadcast schedule of certain of our self-produced drama series related to war or spy from late 2019 to the first half of 2020 as a result of the readjusted broadcasting plan of TV channels and online video platforms for celebrating the 70th anniversary of the National Day of the PRC. Inventory turnover days decreased from 404 days in 2019 to 328 days for the six months ended June 30, 2020, primarily attributable to the decrease in the inventory balances as a result of the broadcast of four drama series in the first half of 2020.

As of the Latest Practicable Date, approximately RMB158.0 million, or 22.7% of our inventories as of June 30, 2020 were subsequently utilized or sold. Among the remaining inventories of approximately RMB523.1 million that had not been utilized or sold as of the Latest Practicable Date, approximately RMB446.9 million for our drama series, Spirit Realm (靈域), Breath of Destiny (一起深呼吸) and My Bargain Queen (我的砍價女王), all of which were in post-production stage as of the same date, are expected to be utilized or sold in 2021 based on the expected broadcasting schedules of these three drama series arranged by online video platforms. Specifically, (i) pursuant to the relevant licensing agreement, our self-produced drama series My Bargain Queen (我的砍價女王) is expected to be broadcast on Youku in 2021; and (ii) Spirit Realm (靈域) and Breath of Destiny (一起深呼吸) are our made-to-order drama series, the broadcasting time of which is determined by the online video platform pursuant to the relevant production agreements. Based on iQIYI's confirmations, these two drama series are expected to be broadcast in 2021. The rest of the inventories as of June 30, 2020 that had not been utilized or sold as of the Latest Practicable Date are mainly IP rights and screenplays that were at the pre-production stage as of the same date, the expected settlement time of which is not practicable to predict at this stage.

The tables below set forth the aging analysis of our inventories as of the dates indicated:

	As of December 31, 2017			
	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
	(RMB in thousands)			
Raw materials	**10,380**	**9,536**	**–**	**19,916**
Work-in-progress				
Mr. Nanny (月嫂先生)	100,703	–	–	100,703
Treasure Adventure (國寶奇旅)	2,047	–	–	2,047
Sub-total	**102,750**	**–**	**–**	**102,750**
Finished goods				
Adoptive Mother's Mood For Love (養母的花樣年華)	2,280	–	–	2,280
Starry April (繁星四月)	–	459	–	459
The Impossible Mission (不可能完成的任務)	–	823	–	823
Legend Of Zu Mountain 2 (蜀山戰紀2劍俠傳奇)	184,706	–	–	184,706
A Sword Across The Sky (一劍橫空)	–	6,435	–	6,435
Sub-total	**186,986**	**7,717**	**–**	**194,703**
Sub-total	**300,116**	**17,253**	**–**	**317,369**
Impairment	–	(2,860)	–	(2,860)
Total	**300,116**	**14,393**	**–**	**314,509**

	As of December 31, 2018			
	Less than 1 year	1 to 2 years	Over 2 years	Total
	(RMB in thousands)			
Raw materials	**7,700**	**9,565**	**8,617**	**25,882**
Work-in-progress				
Love Journey (一場遇見愛情的旅行)	175,150	–	–	175,150
Inside Man (局中人)	118,090	–	–	118,090
Spirit Realm (靈域)	15,111	–	–	15,111
Sub-total	**308,351**	**–**	**–**	**308,351**
Finished goods				
Adoptive Mother's Mood For Love (養母的花樣年華)	–	538	–	538
Starry April (繁星四月)	–	–	42	42
The Impossible Mission (不可能完成的任務)	–	–	54	54
A Sword Across The Sky (一劍橫空)	–	–	4,803	4,803
Treasure Adventure (國寶奇旅)	196,959	–	–	196,959
Mr. Nanny (月嫂先生)	2,169	–	–	2,169
Other	13,820	–	–	13,820
Sub-total	**212,948**	**538**	**4,899**	**218,385**
Sub-total	**528,999**	**10,103**	**13,516**	**552,618**
Impairment	(13,820)	–	(2,134)	(15,954)
Total	**515,179**	**10,103**	**11,382**	**536,664**

	As of December 31, 2019			
	Less than 1 year	1 to 2 years	Over 2 years	Total
	(RMB in thousands)			
Raw materials	**34,206**	**9,933**	**16,734**	**60,873**
Work-in-progress				
Spirit Realm (靈域)	218,588	15,112	–	233,700
Breath of Destiny (一起深呼吸)	85,822	–	–	85,822
Marry Me (三嫁惹君心)	89,041	–	–	89,041
My Bargain Maker (我的砍價女王)	22,383	–	–	22,383
Dating In The Kitchen (我，喜歡你)	31,808	–	–	31,808
Other	190	–	–	190
Sub-total	**447,832**	**15,112**	**–**	**462,944**
Finished goods				
A Sword Across The Sky (一劍橫空)	–	–	4,803	4,803
Treasure Adventure (國寶奇旅)	–	5,723	–	5,723
The Love Lasts Two Minds (兩世歡)	128,635	–	–	128,635
Inside Man (局中人)	187,520	–	–	187,520
Customer First (獵心者)	70,755	–	–	70,755
Other	–	13,820	–	13,820
Sub-total	**386,910**	**19,543**	**4,803**	**411,256**
Sub-total	**868,948**	**44,588**	**21,537**	**935,073**
Impairment	–	(13,820)	(2,134)	(15,954)
Total	**868,948**	**30,768**	**19,403**	**919,119**

	As of June 30, 2020			
	Less than 1 year	1 to 2 years	Over 2 years	Total
	(RMB in thousands)			
Raw materials	**40,823**	**9,395**	**19,305**	**69,523**
Work-in-progress				
Spirit Realm (靈域)	7,485	218,588	15,112	241,185
Breath of Destiny (一起深呼吸)	168,975	–	–	168,975
My Bargain Queen (我的砍價女王)	14,350	22,383	-	36,733
Dating In The Kitchen (我，喜歡你)	42,948	–	–	42,948
Others	4,297	–	–	4,297
Sub-total	**238,055**	**240,971**	**15,112**	**494,138**
Finished goods				
Marry Me (三嫁惹君心)	104,775	–	–	104,775
Treasure Adventure (國寶奇旅)	–	5,534	–	5,534
Inside Man (局中人)	7,151	–	–	7,151
Other	–	13,820	–	13,820
Sub-total	**111,926**	**19,354**	**–**	**131,280**
Sub-total	**390,804**	**269,720**	**34,417**	**694,941**
Impairment	–	(13,820)	–	(13,820)
Total	**390,804**	**255,900**	**34,417**	**681,121**

As of December 31, 2017, 2018 and 2019 and June 30, 2020, approximately 94.6%, 95.7%, 92.9% and 56.2% of our inventories were aged less than one year. The significant decrease in our inventories with a term of less than one year as of June 30, 2020 was primarily because (i) our made-to-order drama series, Spirit Realm (靈域), had longer production cycle primarily due to its fantasy features which required a longer period for post-production efforts, including special effects; and (ii) our self-produced drama series, My Bargain Queen (我的砍價女王) had longer pre-production period and incurred certain pre-production cost in the first half of 2019 which remain unutilized as of June 30, 2020.

Raw materials mainly represent the cost of screenplays and IP rights for production of our drama series. Depending on genre, theme and length of the screenplays and producers' requirements on the screenplays, it usually takes from months to years to develop the screenplays, which is in line with market practice. As of June 30, 2020, we recorded raw materials aged over two years of RMB19.3 million, mainly relating to nine screenplays which were at the pre-production stage as of the Latest Practicable Date. We believe there is no material recoverability issue for our raw materials aged over two years and we did not record any impairment of our raw materials during the Track Record Period.

We closely monitor our inventory level and carry out an inventory review on a project-by-project basis at the end of each reporting period, and make provision for obsolete and slow-moving projects accordingly. See "Business — Inventory — Inventory Provision Policy" for details. Through the implementation of stringent inventory review procedures and provision policy, we are able to effectively monitor the balance of our aged inventories.

Trade and Notes Receivables

The table below sets forth the breakdown of our trade and notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Trade receivables	293,481	178,301	491,881	769,006
Notes receivables	1,000	7,000	–	20,000
	294,481	185,301	491,881	789,006
Impairment	(4,630)	(4,957)	(6,485)	(12,372)
Total	**289,851**	**180,344**	**485,396**	**776,634**

Trade Receivables

Trade receivables mainly represent the balances due from our customers, such as TV channels, online video platforms and third party enterprises.

Our trade receivables decreased by 39.2% to RMB178.3 million as of December 31, 2018 from RMB293.5 million as of December 31, 2017, primarily due to the decrease in trade receivables of RMB97.0 million and RMB33.2 million for Lost Love In Times (醉玲瓏) and My! P.E. Teacher (我的！體育老師), respectively.

Our trade receivables increased by 175.9% to RMB491.9 million as of December 31, 2019 from RMB178.3 million as of December 31, 2018, primarily due to the increases in trade receivables of RMB270.5 million from a top online video platform for Second Time Is A Charm (第二次也很美) and trade receivables of RMB96.2 million from a top satellite TV channel for Love Journey (一場遇見愛情的旅行).

Our trade receivables increased by 56.3% to RMB769.0 million as of June 30, 2020 from RMB491.9 million as of December 31, 2019, primarily due to the increase in trade receivables of RMB357.6 million for Inside Man (局中人) broadcast in the first half of 2020.

The table below sets forth the aging analysis of trade receivables, based on the transaction dates and net of loss allowance, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Within 3 months	141,952	76,738	340,901	373,644
3 to 6 months	49,740	–	817	2,820
6 to 12 months	51,793	920	125,626	297,513
1 to 2 years	45,366	66,919	12,882	82,420
2 to 3 years	–	28,767	5,170	237
Total	**288,851**	**173,344**	**485,396**	**756,634**

As of the Latest Practicable Date, approximately RMB515.2 million, or 67.0% of our trade receivables as of June 30, 2020 were subsequently settled, among which approximately RMB293.6 million, or 81.4% of our trade receivables due from iQIYI as of June 30, 2020 were subsequently settled. Among the remaining trade receivables of approximately RMB253.8 million that had not been settled as of the Latest Practicable Date, (i) approximately RMB15.4 million of trade receivables due from iQIYI is expected to be settled by the end of 2020 and the rest is expected to be settled by June 30, 2021 based on iQIYI's confirmation; and (ii) approximately RMB10.0 million is expected to be settled by the end of 2020 based on our communications with other customers, and the rest is expected to be mainly settled in 2021 based on the past settlement experience with them.

As indicated above, approximately 84.3%, 44.8%, 96.3% and 89.1% of trade receivables net of loss allowance as of December 31, 2017, 2018 and 2019 and June 30, 2020 were aged within one year as of the same dates, respectively. The significant increase in trade receivables aged more than one year as of December 31, 2018 was due to the receivables of approximately RMB40.5 million for Starry April (繁星四月) and approximately RMB23.4 million for Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), both from Anhui TV, which had been subsequently settled in 2019. Our trade receivables aged more than one year as of the end of each year/period during the Track Record Period were mainly receivables from TV channels, which are generally state-owned entities, where the collection is usually time-consuming involving prolonged internal administrative procedures. However, the risk of failing to settle the trade receivables from such state-owned TV channels is relatively low as state-owned entities generally have good payment ability. In addition, according to our Industry Consultant, Frost & Sullivan, it is an industry norm for drama series production and distribution companies in the PRC to grant relatively favorable credit terms, e.g., 2 to 3 years, to their major customers, state-owned TV channels, considering the long-term business relationships after conducting reasonable risk assessments as to (i) the track record and credibility of such customers; and (ii) the amount of gross payables arising from such contracts.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, we made provisions for impairment of trade receivables of approximately RMB4.6 million, RMB5.0 million, RMB6.5 million and RMB12.4 million, respectively, which we believe were sufficient as of the end of each year/period during the Track Record Period.

In addition, in order to minimize potential credit risks, we have established record system to monitor receivables and outstanding invoices, in particular, we maintain a customer credit profile, continuously evaluate the credit of customers, maintain trade receivables management account and aging analysis tables, and will take appropriate follow-up actions such as active communications with our customers and legal actions, depending on the specific circumstances. We also usually check the balance of our trade receivables on a regular basis and will send payment reminders to our customers to collect the trade receivables. Through the implementation of stringent credit control procedures, we are able to effectively monitor the balance and collection progress of our trade receivables. As a result, approximately RMB48.6 million, or 58.8% of our outstanding trade receivables aged over one year as of June 30, 2020 net of loss allowance had been settled as of the Latest Practicable Date. Based on the above, our Directors are of the view that there is no material recoverability issue of our trade receivables aged over one year that may adversely affect our financial position and we believe that the default risk of our trade receivables is relatively low.

Notes Receivables

Notes receivables mainly represent the balances due from TV channels.

Our notes receivables increased by 600.0% to RMB7.0 million as of December 31, 2018 from RMB1.0 million as of December 31, 2017, primarily due to the increase in notes receivables from a satellite TV channel to pay the licensing fees of Starry April (繁星四月) and Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) broadcast in 2017 and 2015, respectively, which were settled in 2019. Our notes receivables increased from nil as of December 31, 2019 to RMB20.0 million as of June 30, 2020, primarily due to the increase in notes receivables from a top satellite TV channel for the licensing fees of Love Journey (一場遇見愛情的旅行) broadcast in 2019.

As of the Latest Practicable Date, RMB20.0 million, or 100.0% of our notes receivables as of June 30, 2020 were subsequently settled.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade and notes receivables turnover days were 139 days, 129 days, 162 days and 201 days, respectively. We calculate the trade and notes receivables turnover days using the average of the opening and closing trade and notes receivables (before deduction of loss allowance) balances for the period, divided by revenue for the relevant period, multiplied by 365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020. Trade and notes receivables turnover days decreased from 139 days in 2017 to 129 days in 2018, primarily attributable to payments from a drama production entity, a top satellite TV channel and a top online video platform. Trade and notes receivables turnover days increased from 129 days in 2018 to 162 days in 2019, primarily due to the delay of payments from a top online video platform and a top satellite TV channel. Trade and notes receivables turnover days increased from 162 days in 2019 to 201 days for the six months ended June 30, 2020, primarily due to the increase in trade and notes receivables for the same period.

Our relatively long trade and notes receivables turnover days was primarily due to the fact that certain of our major customers are state-owned TV channels, the settlement with which is usually time-consuming involving prolonged internal administrative procedures, which is in line with the industry norm as advised by Frost & Sullivan. Frost & Sullivan further advised although the turnover days of trade and notes receivables from customers such as TV channels are normally longer than those from the online video platforms, the risk of failing to settle payments by TV channels is relatively low as they are generally state-owned entities.

Prepayment, Other Receivables and Other Assets

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

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Prepayments	44,229	114,477	113,041	99,728
Prepayments under the co-investment arrangement[1]	19,670	4,331	45,448	74,397
Deductible input value-added tax	12,965	23,782	13,244	2,791
Deposits and other receivables	7,117	6,648	8,493	4,082
Prepaid listing expenses	–	–	–	3,687
Loans receivables[2]	–	95,260	160,680	69,327
Total	**83,981**	**244,498**	**340,906**	**254,012**

Notes:

(1) Prepayments under the co-investment arrangement mainly represent the investment we made in drama series.

(2) Loans receivables represent (i) investments in the drama series of other companies with fixed return, (ii) lendings to our co-investors for the production of our self-produced drama series, and (iii) lendings to third parties.

Our prepayment, other receivables and other assets increased significantly by 191.1% to RMB244.5 million as of December 31, 2018 from RMB84.0 million as of December 31, 2017, primarily due to (i) the increase in loans receivables of RMB95.3 million due from certain drama production entities for the production of Love Journey (一場遇見愛情的旅行) and Inside Man (局中人); and (ii) the increase in prepayments of RMB70.2 million for the production fee of Second Time Is A Charm (第二次也很美) paid to the production company, partially offset by the decrease in prepayments under the co-investment arrangement of RMB15.3 million primarily because the certain amount under prepayment had been recognized as inventories in 2018.

Our prepayment, other receivables and other assets increased by 39.4% to RMB340.9 million as of December 31, 2019 from RMB244.5 million as of December 31, 2018, primarily due to (i) the increases in loans receivables of RMB65.4 million as a result of new loans to a drama series production company for the investment in My Unicorn Girl (穿盔甲的少女) and (ii) the increase in prepayments under the co-investment arrangement of RMB41.1 million as a result of our investment in Legend Of Yong Ye (永夜), Dear Physicist (親愛的物理學家) and My Bargain Queen (我的砍價女王), which was partially offset by the decrease in deductible input value-added tax of RMB10.5 million.

Our prepayment, other receivables and other assets decreased by 25.5% to RMB254.0 million as of June 30, 2020 from RMB340.9 million as of December 31, 2019, primarily attributable to (i) the decrease in loans receivables of RMB91.4 million mainly as a result of the repayment of loans from a drama series production company for My Unicorn Girl (穿盔甲的少女), and the settlement with our co-investor for our lendings to it for Inside Man (局中人), (ii) the decrease in prepayments of RMB13.3 million since certain amount of prepayment for producing our drama series, Breath Of Destiny (一起深呼吸), had been recognised as work-in-progress under inventories according to the production schedule in the first half of 2020. The decrease was partially offset by the increase in prepayments under the co-investment arrangement of RMB28.9 million as a result of our investment in, and development of the IP reserve for, Two Capitals (兩京十五日) in the first half of 2020.

Prepayments

Prepayments mainly represent (i) prepayments relating to drama series, including prepaid production fees to third parties, prepaid screenwriting fees, prepaid tax, (ii) prepaid consideration of equity transfer and (iii) others. According to our accounting policy, (i) prepaid production fees to third parties for a drama series shall be recognized as inventories when the relevant expense incurs and further be recognized as cost of sales once we recognize revenue for the relevant drama series; (ii) prepaid screenwriting fees shall be recognized as raw materials under inventories when the complete screenplays received and accepted by us; (iii) prepaid tax shall be recognized as deductible input value-added tax on the invoice date; (iv) prepaid consideration of equity transfer shall be recognized as consideration of equity transfer upon completion of such equity transfer; and (v) others shall be recognized in its respective corresponding line items once it takes place.

The table below sets forth the breakdown of our prepayments by nature as of the dates indicated below:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Prepayments relating to drama series[1]	43,496	99,420	112,493	99,462
Prepaid consideration of equity transfer[2]	–	15,000	–	–
Others[3]	733	57	548	266
Total	**44,229**	**114,477**	**113,041**	**99,728**

Notes:

(1) Prepayments relating to drama series mainly include prepaid production fees, prepaid screenwriting fees and prepaid tax relating to relevant drama series. Prepaid tax represents value-add tax included in prepayments for production of our drama series, which had not yet issued invoices.

(2) Represents the prepaid consideration of equity transfer of RMB15.0 million to one of the transferring shareholders of Hangzhou Yide, an Independent Third Party, in 2018, which had been subsequently settled on January 31, 2019.

(3) Others mainly include prepayments relating to renovation, decoration and agency fees of our offices.

As of the Latest Practicable Date, approximately RMB19.0 million, or 19.1% of our prepayments as of June 30, 2020 were subsequently settled. Among the prepayments of approximately RMB80.7 million that had not been settled as of the Latest Practicable Date, approximately RMB21.5 million is expected to be settled by June 30, 2021, and approximately RMB25.0 million is expected to be settled by the end of 2021. In addition, the remaining amount mainly represents the prepayments for drama series that are at an early stage of development, the expected settlement time of which is not practicable to predict at this stage.

The table below sets forth an aging analysis of our prepayments relating to drama series, based on date of payment, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Within 1 year	43,496	99,420	108,051	44,505
over 1 year	–	–	4,442	54,957
Total	**43,496**	**99,420**	**112,493**	**99,462**

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our prepayments relating to drama series aged over one year was nil, nil, RMB4.4 million and RMB55.0 million, respectively. The higher balance as of June 30, 2020 mainly represented prepayments relating to (i) On The Stream Of Silence And Loneliness (在寂與寞的川流上), which was under development as of the Latest Practicable Date; and (ii) Hello Baby (你好寶貝), which had applied for public record and registered with the local counterpart of the NRTA and is expected to be settled by the end of 2021. We believe there is no material recoverability issue for our prepayments relating to drama series aged over one year and we did not record any impairment of prepayments relating to drama series during the Track Record Period.

Prepayments under the Co-investment Arrangement

Prepayments under the co-investment arrangement mainly represent the investment we made in drama series.

Our prepayments under the co-investment arrangement decreased significantly from RMB19.7 million as of December 31, 2017 to RMB4.3 million as of December 31, 2018, primarily because the number of drama series under the co-investment arrangement decreased from four in 2017 to two in 2018 and we made higher investments in two drama series in 2017, Crazy Troupe (瘋狂劇團) and Love Journey (一場遇見愛情的旅行). Our prepayments under the co-investment arrangement increased significantly from RMB4.3 million as of December 31, 2018 to RMB45.4 million as of December 31, 2019, primarily as a result of the number of drama series under co-investment arrangements increased from two in 2018 to seven in 2019. Our prepayments under the co-investment arrangement further increased to RMB74.4 million as of June 30, 2020, primarily because we significantly increased the investments in one drama series, Two Capitals (兩京十五日).

As of the Latest Practicable Date, approximately RMB22.8 million, or 30.6% of our prepayments under the co-investment arrangement as of June 30, 2020 were subsequently settled.

The table below sets forth an aging analysis of our prepayments under the co-investment arrangement, based on date of payment, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Within 1 year	19,670	2,981	41,117	62,397
over 1 year	–	1,350	4,331	12,000
Total	**19,670**	**4,331**	**45,448**	**74,397**

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our prepayments under the co-investment arrangement aged over one year was nil, RMB1.4 million, RMB4.3 million and RMB12.0 million, respectively. The relatively higher balance as of June 30, 2020 mainly represented our investments in Dear Physicist (親愛的物理學家) and Legend Of Yong Ye (永夜), both of which were still under development as of the Latest Practicable Date. We believe there is no material recoverability issue for our prepayments under the co-investment arrangement aged over one year and we did not record any impairment of prepayments under the co-investment arrangement during the Track Record Period.

Loans Receivables

Loans receivables represent (i) investments in the drama series of other companies with fixed return, (ii) lendings to our co-investors for the production of our self-produced drama series, and (iii) lendings to third parties. The annual effective interest rates of such loans receivables ranged from 10.0% to 13.0% during the Track Record Period. As advised by our PRC Legal Advisors, fixed return investment contracts, which are arrangements between our Group and other third parties for the purpose of the production and distribution of drama series, do not fall under the definition of a loan agreement under the PRC Contract Law. Such contracts reflect the true intention of both parties, and do not involve the circumstances as set forth in Article 52 of the PRC Contract Law which will result in the invalidity of the contracts. The content of such contracts do not violate the mandatory provisions in PRC laws and regulations. Thus, our fixed return investment contracts are valid. Further, regarding the loan agreements entered into between third-party non-financial institutions and us, according to Article 11 of the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the "**Provisions**"), a private loan agreement entered into among legal persons and other organizations for the purpose of production or business operation shall be valid, except under the circumstances as set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions. Article 26 of the Provisions provides that where the interest rate agreed upon by the borrower and the lender does not exceed four times the LPR for one-year loan when the loan agreement is concluded, and the lender requests the borrower's payment of interest at the agreed interest rate, the people's court shall support such a request. LPR for one-year loan refers to the loan prime rate for one-year loan to be published on a monthly basis by the National Interbank Funding Center authorized by the People's Bank of China as of August 20, 2019. As advised by our PRC Legal Advisors, the loan agreements entered into between third-party non-financial institutions and us do not involve the circumstances prescribed in Article 52 of the PRC Contract Law or Article 14 of the Provisions, and the annual interest rates are below four times the LPR for one-year loan when the loan agreements were concluded; therefore, our loan agreements related to the loans receivables shall be valid.

The table below sets forth the breakdown of our loans receivables by category as of the dates indicated:

	As of December 31,			**As of June 30,**
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Investments in the drama series of other companies with fixed return	–	–	91,972	46,543
Lendings to our co-investors for the production of our self-produced drama series[(1)]	–	82,760	34,070	–
Lendings to third parties	–	12,500	34,638	22,784
Total	**–**	**95,260**	**160,680**	**69,327**

Note:

(1) During the Track Record Period, we provided loans to two of our co-investors, who were also our suppliers for the production of the same self-produced drama series, to finance part of their respective contribution under relevant co-investment agreements. We believe such lending arrangement can not only motivate them to ensure the quality of their production, but also enable us to share with them the investment risk inherent in the self-produced drama series.

Our loans receivables increased from RMB95.3 million as of December 31, 2018 to RMB160.7 million as of December 31, 2019, mainly due to the increase in investments in the drama series of other companies with fixed return for Love In A Fallen City (一身孤注擲溫柔) and My Unicorn Girl (穿盔甲的少女), partially offset by the decrease in lendings to our co-investors for the production of our self-produced drama series, Love Journey (一場遇見愛情的旅行). Our loans receivables decreased from RMB160.7 million as of December 31, 2019 to RMB69.3 million as of June 30, 2020, primarily due to (i) the repayment from a drama series production company for our investment with fixed return in My Unicorn Girl (穿盔甲的少女), and (ii) the settlement with our co-investor for our lendings to it for the production of our self-produced drama series, Inside Man (局中人).

As of the Latest Practicable Date, approximately RMB33.4 million, or 48.2% of our loans receivables as of June 30, 2020 had been subsequently settled. Among the remaining loans receivables of approximately RMB35.9 million that had not been settled as of the Latest Practicable Date, approximately RMB33.7 million is expected to be settled by the end of 2020, and the rest is expected to be settled by the end of 2021.

Financial Assets at Fair Value through Profit or Loss

We recorded financial assets at fair value through profit or loss of RMB20.0 million as of December 31, 2017, which represented the low risk wealth management products that do not have a stated maturity and are redeemable at will issued by PRC commercial banks. We have settled such investment in 2018. As we did not invest in any wealth management products from 2018 to the end of the Track Record Period, our financial assets at fair value through profit or loss remained nil, nil and nil as of December 31, 2018 and 2019 and June 30, 2020, respectively.

Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of consideration transferred over and (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date. Our goodwill was nil as of December 31, 2017 and December 31, 2018. Our goodwill increased to RMB108.3 million as of December 31, 2019, primarily due to our acquisition of Hangzhou Yide in January 2019. Our goodwill further increased to RMB113.0 million as of June 30, 2020, primarily due to our acquisition of Nova Film in June 2020.

Other Intangible Assets

Other intangible assets represent identifiable intangible assets including software, trademarks, backlog and patents, among of which, we obtained backlog and patents through our acquisition of Hangzhou Yide and Nova Film. Our other intangible assets were RMB28.0 thousands, RMB24.0 thousands, RMB42.9 million and RMB27.2 million, as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively. Our other intangible assets increased from RMB24.0 thousands as of December 31, 2018 to RMB42.9 million as of December 31, 2019, primarily due to the increase in identifiable intangible assets as a result of the acquisition of Hangzhou Yide. Our other intangible assets decreased from RMB42.9 million as of December 31, 2019 to RMB27.2 million as of June 30, 2020, primarily due to the amortization of intangible assets of RMB28.4 million for our drama series, The Love Lasts Two Minds (兩世歡), partially offset by the increase in intangible assets of RMB12.7 million as a result of the acquisition of Nova Film.

Trade Payables

Trade payables primarily represent payables to our co-investors for the drama series that they invested in, as well as payables for the production or purchase of broadcasting rights of drama series.

Our trade payables increased by 24.9% from RMB189.6 million as of December 31, 2017 to RMB236.9 million as of December 31, 2018, and further increased by 89.6% to RMB449.2 million as of December 31, 2019, primarily due to the increase of recognized revenue as more drama series were broadcast from 2017 to 2018 and further to 2019, which contained investment returns entitled by our co-investors for such drama series. Our trade payables decreased by 5.3% from RMB449.2 million as of December 31, 2019 to RMB425.5 million as of June 30, 2020, primarily due to the settlement of our payables of production fees of Customer First (獵心者) and The Love Lasts Two Minds (兩世歡) and our payables for purchasing the broadcasting rights of The Legends (招搖).

The table below sets forth an aging analysis of our trade payables, based on invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Within 3 months	186,293	123,388	284,097	67,657
3 to 6 months	989	–	34,075	23,723
6 to 12 months	–	32,957	106,040	305,276
1 to 2 years	2,288	78,230	14,770	17,052
2 to 3 years	–	2,288	7,920	11,798
Over 3 years	–	–	2,288	15
Total	**189,570**	**236,863**	**449,190**	**425,521**

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade payables turnover days were 87 days, 166 days, 190 days and 179 days, respectively. We calculate the trade payables turnover days using the average of the opening and closing trade payable balances for the period, divided by cost of sales for the relevant period, multiplied by 365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020. Trade payables turnover days increased from 87 days in 2017 to 166 days in 2018, primarily due to the significant increase in trade payables as a result of allocating the revenue of My! PE Teacher (我的！體育老師), Mask (面具) and Mr. Nanny (月嫂先生), while the cost of sales increased slightly. Trade payables turnover days increased from 166 days in 2018 to 190 days in 2019, primarily due to the increase in our trade payables as a result of the broadcast of Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行) in 2019. Trade payables turnover days decreased from 190 days in 2019 to 179 days for the six months ended June 30, 2020, primarily attributable to the relatively high cost of sales recognized in the first half of 2020 primarily due to the broadcast of The Love Lasts Two Minds (兩世歡), Inside Man (局中人) and Customer First (獵心者) in the same period.

The slow subsequent settlement of our trade payables from 2017 to 2019 was mainly due to the slow-down collection of our trade and notes receivables, which had prolonged the settlement period of our trade payables. Based on our long-term and good relationships with our major co-investors and certain suppliers, such as our suppliers in relation to purchasing the broadcasting rights of outright-purchased drama series, we will generally explicitly stipulate that we shall settle the trade payables to such co-investors and suppliers upon the receipt of payments from corresponding customers for the underlying drama series in the co-investment or supplying agreements with them. If relevant customers delay their payments, which could affect our timely settlement with the relevant co-investors or suppliers, we will communicate with such co-investors or suppliers in advance and postpone our payments accordingly under mutual consent. To the best of our knowledge, we had not been involved in or subject to any dispute or disagreement with our co-investors, suppliers or creditors over trade payables that we believe would have a material adverse effect on our results of operations and financial condition during the Track Record Period and up to the Latest Practicable Date.

As of the Latest Practicable Date, approximately RMB264.2 million, or 62.1% of our trade payables as of June 30, 2020 were subsequently settled. Among the remaining trade payables of approximately RMB161.4 million that had not been settled as of the Latest Practicable Date, approximately RMB52.3 million is expected to be settled by the end of 2020, and the rest amount to be mainly settled in 2021 according to our current payment plan.

Other Payables and Accruals

The table below sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB in thousands)			
Contract liabilities[(1)]	79,966	41,823	535,762	405,414
Other payables[(2)]	4,840	11,775	84,264	78,385
Accrued liabilities[(3)]	18,228	43,693	89,773	93,887
Other tax payables[(4)]	1,324	20,795	21,747	22,924
Interest payable	1,835	1,036	1,370	349
Payroll and welfare payable	11	375	347	319
Amount received under the co-investment arrangements — without share of copyrights[(5)]	19,012	58,000	1,272	1,229
Amount received under the co-investment arrangements — with share of copyrights[(6)]	52,678	–	–	–
Advances from a customer	–	–	–	301
Total	**177,894**	**177,497**	**734,535**	**602,808**

Notes:

(1) Contract liabilities represent advances received from customers for purchasing broadcasting rights or copyrights of relevant drama series or procuring our production services.

(2) Other payables primarily represent payables for purchasing equity interest, amounts to be refunded to third parties and others.

(3) Accrued liabilities represent accrued distribution expenses.

(4) Other tax payables represent tax other than income tax.

(5) Amount received under the co-investment arrangements — without share of copyrights refers to the amount of investment from the co-investors to whom we transferred no share of the drama series copyright.

(6) Amount received under the co-investment arrangements — with share of copyrights refers to the amount of investment from the co-investors to whom we transferred certain shares of the drama series copyright.

Our other payables and accruals remained stable at RMB177.5 million as of December 31, 2018 as compared with RMB177.9 million as of December 31, 2017.

Our other payables and accruals increased by 313.8% to RMB734.5 million as of December 31, 2019 from RMB177.5 million as of December 31, 2018, primarily due to the increases in contract liabilities of RMB493.9 million as a result of (i) the increase in advance from customers for The Love Lasts Two Minds (兩世歡), Spirit Realm (靈域), Customer First (獵心者) and Marry Me (三嫁惹君心) and (ii) the increase in other payables of RMB72.5 million due to the payables for acquiring the shares of Hangzhou Yide, partially offset by the decrease in amount received under the co-investment arrangements — without share of copyrights of RMB56.7 million primarily because the investment payable from our investors with no share of copyrights for Love Journey (一場遇見愛情的旅行) and Treasure Adventure (國寶奇旅) incurred in 2018 had been settled in 2019.

Our other payables and accruals decreased by 17.9% to RMB602.8 million as of June 30, 2020 from RMB734.5 million as of December 31, 2019, primarily due to the decrease in contract liabilities of RMB130.3 million since certain amount of contract liabilities had been recognized as revenue as of June 30, 2020 for The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) broadcast in the first half of 2020.

Contract Liabilities

During the Track Record Period, our contract liabilities represent advances received from customers for purchasing broadcasting rights or copyrights of relevant drama series or procuring our production services. As of June 30, 2020, our contract liabilities primarily include the advances received from our customers for procuring the production services for made-to-order drama series, which was in line with our strategic focus on our business for made-to-order drama series in 2020. The table below sets forth the breakdown of our contract liabilities by drama series as of the dates indicated:

	Nature of the contract liabilities	As of December 31,			As of June 30,
		2017	2018	2019	2020
		(RMB in thousands)			
Untouchable Lovers (鳳囚凰)	Advances for purchasing broadcasting rights of outright-purchased drama series	24,057	–	–	–
Legend of Zu Mountain 2 (蜀山戰紀2 踏火行歌)	Advances for purchasing the broadcasting rights of self-produced drama series	51,840	–	–	–
Love Journey (一場遇見愛情的旅行)	Advances for purchasing the broadcasting rights of self-produced drama series	–	39,010	–	–
Mr. Nanny (月嫂先生)	Advances for purchasing the broadcasting rights of self-produced drama series	–	143	–	–
Marry Me (三嫁惹君心)	Advances for procuring our production services for made-to-order drama series	–	–	90,720	120,960
Spirit Realm (靈域)	Advances for procuring our production services for made-to-order drama series	–	–	216,000	216,000

	Nature of the contract liabilities	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of June 30, 2020
		(RMB in thousands)			
Customer First (獵心者)	Advances for procuring our production services for made-to-order drama series	–	–	86,400	–
The Love Lasts Two Minds (兩世歡)	Advances for purchasing the broadcasting rights for self-produced drama series	–	–	142,642	–
Treasure Adventure (國寶奇旅)	Advances for purchasing the broadcasting rights for self-produced drama series	–	–	–	50
Dating In The Kitchen (我，喜歡你)	Advances for procuring our production services for made-to-order drama series	–	–	–	39,623
Breath of Destiny (一起深呼吸)	Advances for procuring our production services for made-to-order drama series	–	–	–	26,470
Others	Advances for copyrights for IP derivatives	4,069	2,670	–	2,311
Total		**79,966**	**41,823**	**535,762**	**405,414**

The table below further sets forth the breakdown of our contract liabilities by customer type as of the dates indicated:

	Nature of the contract liabilities	As of December 31, 2017	2018	2019	As of June 30, 2020
		(RMB in thousands)			
TV channels	Advances for purchasing broadcasting rights for self-produced or outright-purchased drama series	24,057	39,010	–	–
Online video platforms	Advances for purchasing the broadcasting rights for self-produced drama series /Advances for procuring our production services for made-to-order drama series/ Advances for copyrights for IP derivatives	54,510	2,670	535,762	403,053
Others	Advances for purchasing the broadcasting rights for self-produced drama series/ Advances for copyrights for IP derivatives	1,399	143	–	2,361
Total		**79,966**	**41,823**	**535,762**	**405,414**

Our contract liabilities decreased by 47.8% from RMB80.0 million as of December 31, 2017 to RMB41.8 million as of December 31, 2018, primarily because advances from customers of RMB76.1 million for the drama series, Untouchable Lovers (鳳囚凰) and Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) had been recognized as revenue as of December 31, 2018. Our contract liabilities significantly increased by 1,181.8% from RMB41.8 million as of December 31, 2018 to RMB535.8 million as of December 31, 2019, primarily due to the increase in advances from our customers for made-to-order drama series, Marry Me (三嫁惹君心), Spirit Realm (靈域) and Customer First (獵心者), and our self-produced drama series, The Love Lasts Two Minds (兩世歡). Our contract liabilities decreased by 24.3% from RMB535.8 million as of December 31, 2019 to RMB405.4 million as of June 30, 2020, primarily because the advances of RMB142.6 million from customers for purchasing the broadcasting rights of our self-produced drama series, The Love Lasts Two Minds (兩世歡), and advances of RMB86.4 million for procuring our production services for made-to-order drama series, Customer First (獵心者), had been recognized as revenue due to the broadcasting of such drama series in the first half of 2020.

The table below sets forth the aging analysis of our contract liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Within 1 year	79,966	39,153	535,762	405,414
1 to 2 years	–	2,670	–	–
Total	**79,966**	**41,823**	**535,762**	**405,414**

Almost all of our contract liabilities at the end of each year/period comprising the Track Record Period are aged less than one year. Our contract liabilities aged more than one year at the amount of RMB2.7 million as of December 31, 2018 were the advances from our customer for the copyrights for IP derivatives, which had been settled in the year ended December 31, 2019. As of the Latest Practicable Date, approximately RMB161.0 million, or 39.7% of our contract liabilities as of June 30, 2020 were utilised. Among the remaining balance of RMB244.4 million that had not been settled as of the Latest Practicable Date, the contract liabilities in an aggregate amount of approximately RMB242.5 million for Spirit Realm (靈域) and Breath of Destiny (一起深呼吸) are expected to be utilized in the first quarter of 2021.

Interest-bearing Bank and Other Borrowings

The table below sets forth the breakdown of our interest-bearing bank and other borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Current portion				
Bank loans — secured	30,000	35,000	110,000	135,500
Other borrowings — unsecured	13,000	31,000	15,000	5,000
Sub-total	**43,000**	**66,000**	**125,000**	**140,500**
Non-current portion				
Other borrowings — unsecured	246,578	–	–	–
Sub-total	**246,578**	**–**	**–**	**–**
Total	**289,578**	**66,000**	**125,000**	**140,500**

Our current portion of interest-bearing bank and other borrowings increased by 53.5% from RMB43.0 million as of December 31, 2017 to RMB66.0 million as of December 31, 2018, primarily due to the increase in the current portion of other borrowings of RMB18.0 million. Our current portion of interest-bearing bank and other borrowings further increased by 89.4% to RMB125.0 million as of December 31, 2019, primarily due to the increase in bank borrowings to meet the increase of our capital needs for our drama series production, partially offset by the decrease in the current portion of other borrowings as a result of repayment of loans for the production of Love Journey (一場遇見愛情的旅行) and Treasure Adventure (國寶奇旅). Our current portion of interest-bearing bank and other borrowings increased by 12.4% from RMB125.0 million as of December 31, 2019 to RMB140.5 million as of June 30, 2020, primarily due to the increase in bank loans of RMB25.5 million.

Other borrowings under non-current portion of RMB246.6 million as of December 31, 2017 was due to the equity investment by an investor who has the redemption right under certain circumstances, which is recognised as other borrowings at amortized cost. We repurchased such equity investment from such investor in August 2018, as a result of which our non-current portion of other borrowings decreased to nil as of December 31, 2018. See "History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital."

The annual interest rates of our bank borrowings ranged from 3.75% to 6.50% during the Track Record Period, with a general term of no more than one year.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss primarily represent preferred shares held by iQIYI.

Our financial liabilities at fair value through profit or loss increased significantly from nil as of December 31, 2017 to RMB274.5 million as of December 31, 2018, primarily due to the investment of iQIYI in the form of preferred shares in November 2018.

Our financial liabilities at fair value through profit or loss increased by 5.5% from RMB274.5 million as of December 31, 2018 to RMB289.5 million as of December 31, 2019, and further increased by 38.7% to RMB401.5 million as of June 30, 2020, primarily due to the change in the fair value of the preferred shares held by iQIYI issued in November 2018 and in May 2020.

Due to a Related Party

Our due to a related party increased to RMB81.0 million as of December 31, 2018 from nil as of December 31, 2017, primarily due to the increase in the amount due to a related party to fund our working capital.

Our due to a related party increased by 30.8% to RMB105.9 million as of December 31, 2019 from RMB81.0 million as of December 31, 2018, primarily due to the increase in the amount due to a related party to finance our acquisition of Hangzhou Yide, which had been settled in late June 2020. As a result, our due to a related party was nil as of June 30, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including costs for drama series production, purchase of broadcasting rights of drama series, repay bank loans and other borrowings, and related interest expenses and other working capital requirements. Historically, we financed our capital expenditure and working capital requirements mainly through cash generated from operations, bank and other borrowings and capital contributions from Shareholders. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had cash and cash equivalents of RMB153.3 million, RMB97.3 million, RMB52.3 million and RMB83.3 million, respectively.

Cash Flows

The table below sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	(RMB in thousands)				
				(Unaudited)	
Profit before tax	92,634	40,148	65,972	46,335	74,662
Adjustments	27,100	88,878	17,504	5,895	38,953
Change in working capital	(148,679)	(150,718)	(6,824)	21,761	(73,583)
Income tax paid	(27,757)	(42,294)	(37,518)	(29,922)	(28,206)
Net cash (used in)/generated from operating activities	(56,702)	(63,986)	39,134	44,069	11,826
Net cash generated from/(used in) investing activities	131,671	(89,666)	(186,570)	(68,291)	20,139
Net cash generated from/(used in) financing activities	62,431	97,649	102,530	(20,352)	(1,019)
Net increase/(decrease) in cash and cash equivalent	137,400	(56,003)	(44,906)	(44,574)	30,946
Cash and cash equivalents at the beginning of the year/period	15,858	153,258	97,255	97,255	52,349
Cash and cash equivalents at the end of the year/period	**153,258**	**97,255**	**52,349**	**52,681**	**83,295**

Operating Activities

During the Track Record Period, we derive our cash inflow from operating activities primarily through the receipt of proceeds from licensing the broadcasting rights of self-produced and outright-purchased drama series and production of made-to-order drama series. Cash outflow from operating activities primarily comprises costs incurred in drama series production and distribution. Our cash from operating activities reflects our profit before tax as adjusted by non-cash and non-operating items and movements in working capital.

Our net cash generated from operating activities was approximately RMB11.8 million for the six months ended June 30, 2020. This net cash inflow was primarily attributable to (i) a profit before tax of approximately RMB74.7 million; (ii) the adjustments by adding back certain non-cash and non-operating items such as amortization of other intangible assets; (iii) the decrease in inventories of approximately RMB239.6 million primarily attributable to the decrease of finished goods since Inside Man (局中人), The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and A Sword Across The Sky (一劍橫空) were broadcast and the revenues of which were recognized in the first half of 2020; (iv) the decrease in deposits, and other receivables of RMB58.3 million primarily attributable to the decrease in loans receivables as a result of settlement of loans for Inside Man (局中人); and (v) the decrease in restricted cash of RMB54.3 million primarily due to the usage of such cash for the production of our drama series in the first half of 2020, partially offset by (i) the increase in trade and notes receivables of RMB285.2 million primarily due to the increase in trade receivables for our self-produced drama series of Inside Man (局中人); (ii) the decrease in contract liabilities of RMB130.7 million primarily attributable to the decrease in contract liabilities since certain amount of contract liabilities had been recognized as revenue as of June 30, 2020 for The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) broadcast in the first half of 2020; and (iii) the decrease in trade payables of RMB33.9 million primarily due to the settlement of our payables of production fees of Customer First (獵心者) and The Love Lasts Two Minds (兩世歡) and our payables for purchasing the broadcasting rights of The Legends (招搖).

Our net cash generated from operating activities was approximately RMB39.1 million for the year ended December 31, 2019. This net cash inflow was primarily attributable to (i) a profit before tax of approximately RMB66.0 million; (ii) the adjustments by adding back non-cash and non-operating items such as changes in fair value of financial liabilities at fair value through profit or loss and deducting the non-cash and non-operating items such as interest income from loans receivables; (iii) the increase in contract liabilities of RMB361.5 million as a result of the increase in advances from customers for The Love Lasts Two Minds (兩世歡), Spirit Realm (靈域), Customer First (獵心者) and Marry Me (三嫁惹君心); (iv) the increase in trade payables of RMB206.4 million as a result of the increase of recognized revenue as more drama series were broadcast in the same year, such as Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行); and (v) the decrease in deposits and other receivables of RMB102.2 million primarily because our loans receivables of RMB54.1 million for Love Journey (一場遇見愛情的旅行) from our co-investor was offset by our payables to the co-investor for the same drama series, partially offset by (i) the increase in trade and notes receivable of RMB306.6 million as a result of the increase in trade receivables for Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行); and (ii) the increase in inventories of RMB260.4 million primarily attributable to the increase in finished goods because we completed the production of our drama series, Inside Man (局中人), The Love Lasts Two Minds (兩世歡) and Customer First (獵心者), in 2019, and the increase in work in progress primarily due to the production of our drama series, Spirit Realm (靈域).

Our net cash used in operating activities was approximately RMB64.0 million for the year ended December 31, 2018. This net cash outflow was primarily attributable to (i) a profit before tax of approximately RMB40.1 million; (ii) the adjustments by adding back non-cash and non-operating items such as finance costs and equity-settled share award expense, and write-down of inventories to net realizable value; (iii) the increase in inventories of RMB236.0 million mainly as a result of the increase in our work in progress attributable to the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域); (iv) the increase in prepayments and other assets of RMB50.7 million primarily attributable to the increase of prepayments for the production fee of Second Time Is A Charm (第二次也很美); and (v) the decrease in contract liabilities of RMB38.1 million primarily because the contract liabilities for Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌) were recognized as revenue in 2018, partially offset by (i) the decrease in trade and notes receivable of RMB107.6 million primarily due to the decrease in trade receivables for Lost Love In Times (醉玲瓏) and My! P.E. Teacher (我的！體育老師); and (ii) the increase in trade payables of RMB47.3 million primarily attributable to the increase in payables to our co-investors for Mr. Nanny (月嫂先生) and the increase in payables for purchasing the broadcasting right of Mask (面具) broadcast in 2018.

Our net cash used in operating activities was approximately RMB56.7 million for the year ended December 31, 2017. This net cash outflow was primarily attributable to (i) a profit before tax of approximately RMB92.6 million; (ii) the adjustments by adding back non-cash and non-operating items such as finance costs; (iii) the increase in inventories of RMB262.2 million, primarily due to the commencement of production of our drama series, Mr. Nanny (月嫂先生) and Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌), in 2017; and (iv) the increase in trade and notes receivables of RMB176.6 million primarily because certain of our drama series, such as Starry April (繁星四月), Lost Love in Times (醉玲瓏), and My! P.E. Teacher (我的！體育老師), were broadcast and the revenues were recognized in 2017, partially offset by (i) the increase in trade payables of RMB185.9 million primarily due to the increase in trade payables for Starry April (繁星四月), Lost Love in Times (醉玲瓏), and My! P.E. Teacher (我的！體育老師); (ii) the increase in contract liabilities of RMB62.3 million mainly attributable to the increase in advances from customers for Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Untouchable Lovers (鳳囚凰); and (iii) the decrease in prepayments and other assets of RMB17.8 million primarily attributable to the decrease in prepayments for Legend of Zu Mountain 2 (蜀山戰紀2踏火行歌).

Investing Activities

During the Track Record Period, our cash used in investing activities mainly relates to purchases of financial assets at fair value through profit or loss, acquisition of a subsidiary net of cash acquired, and advances of loans to third parties. Our cash generated from investing activities mainly comprises disposal of financial assets at fair value through profit or loss.

Our net cash generating from from investing activities was approximately RMB20.1 million for the six months ended June 30, 2020. This net cash inflow was primarily due to repayment of advances of loans to third parties, partially offset by net of cash acquired as a result of acquisition of Nova Film and Hangzhou Yide, and purchase of items of property, plant and equipment.

Our net cash used in investing activities was approximately RMB186.6 million for the year ended December 31, 2019. This net cash outflow was primarily due to (i) advances of loans to third parties; (ii) the acquisition of a subsidiary, Hangzhou Yide; and (iii) purchases of shareholding in a joint venture, Nanjing Huawen.

Our net cash used in investing activities was approximately RMB89.7 million for the year ended December 31, 2018. This net cash outflow was primarily due to advances of loans to third parties and the acquisition of a subsidiary, Hangzhou Yide, partially offset by the disposal of financial assets at fair value through profit or loss.

Our net cash generated from investing activities was approximately RMB131.7 million for the year ended December 31, 2017. This net cash inflow was primarily due to disposal of financial assets at fair value through profit or loss, partially offset by purchases of financial assets at fair value through profit or loss.

Financing Activities

During Track Record Period, our cash inflow from financing activities mainly comprises of proceeds from bank loans and other borrowings; while our cash outflow from financing activities mainly comprises of repayment of bank loans and other borrowings, interest paid, and repayment of principal portion of lease liabilities.

Our net cash used in financing activities was approximately RMB1.0 million for the six months ended June 30, 2020. This net cash outflow was primarily due to the repayment of other borrowings, partially offset by the proceeds from financial liabilities at fair value through profit or loss and proceeds from other borrowings.

Our net cash generated from financing activities was approximately RMB102.5 million for the year ended December 31, 2019. This net cash inflow was primarily due to the proceeds from new bank loans and proceeds from other borrowings, partially offset by the repayment of bank loans and repayment of other borrowings.

Our net cash generated from financing activities was approximately RMB97.6 million for the year ended December 31, 2018. This net cash inflow was primarily due to the proceeds from other borrowings, proceeds from financial liabilities through profit or loss and new bank loans, partially offset by repayment of bank loans and repayment of other borrowings.

Our net cash generated from financing activities was approximately RMB62.4 million for the year ended December 31, 2017. This net cash inflow was primarily due to the proceeds from other borrowings and new bank loans, partially offset by repayment of bank loans.

Net Current Assets

The table below sets forth our current assets, current liabilities and net current assets as of the dates indicated:

	As of December 31,			As of June 30,	As of October
	2017	2018	2019	2020	31, 2020
	(RMB in thousands)				
					(Unaudited)
Current assets:					
Inventories	314,509	536,664	919,119	681,121	656,018
Trade and notes receivables	289,851	180,344	485,396	776,634	535,686
Prepayments, other receivables and other assets	83,981	244,498	340,906	254,012	303,622
Due from a related party	–	–	3,000	–	–
Financial assets at fair value through profit or loss	20,000	–	–	–	–
Cash and cash equivalents	153,258	97,255	52,349	83,295	190,965
Restricted Cash	–	–	54,312	18	20
Total current assets	861,599	1,058,761	1,855,082	1,795,080	1,686,311
Current liabilities:					
Trade payables	189,570	236,863	449,190	425,521	357,916
Other payables and accruals	177,894	177,497	734,535	602,808	508,912
Interest-bearing bank and other borrowings	43,000	66,000	125,000	140,500	170,500
Lease liabilities	1,493	907	509	896	1,638
Due to a joint venture	–	–	51,000	71,260	72,945
Tax payable	19,585	16,648	6,604	7,999	3,648
Due to a related party	–	81,013	105,926	–	–
Dividend payable	–	80,000	81,507	80,000	80,000
Total current liabilities	431,542	658,928	1,554,271	1,328,984	1,195,559
Net current assets	430,057	399,833	300,811	466,096	490,752

Our net current assets increased from RMB466.1 million as of June 30, 2020 to RMB490.8 million as of October 31, 2020, primarily because the decrease in our current liabilities outpaced the decrease in our current assets. Our current liabilities decreased from RMB1,329.0 million as of June 30, 2020 to RMB1,195.6 million as of October 31, 2020, primarily attributable to (i) the decrease in other payables and accruals of RMB93.9 million mainly as a result of the decrease in contract liabilities since certain amount of contract liabilities for Marry Me (三嫁惹君心) had been recognized as revenue as of October 31, 2020; and (ii) the decrease in trade payables of RMB67.6 million mainly as a result of the allocation and payments of the licensing revenue generated from Second Time is A Charm (第二次也很美) to co-investors. Our current assets decreased from RMB1,795.1 million as of June 30, 2020 to RMB1,686.3 million as of October 31, 2020, primarily due to the decrease in trade and notes receivables of RMB240.9 million as a result of receipts of the licensing revenue generated from Inside Man (局中人), Second Time is A Charm (第二次也很美), Love Journey (一場遇見愛情的旅行) and Detective Ke Chen (神探柯晨), partially offset by the increase in cash and cash equivalents of RMB107.7 million mainly as a result of the collection of trade receivables and settlement of trade payables for our drama series.

Our net current assets increased from RMB300.8 million as of December 31, 2019 to RMB466.1 million as of June 30, 2020, primarily because the decrease in our current liabilities outpaced the decrease in our current assets. Our current liabilities decreased from RMB1,554.3 million as of December 31, 2019 to RMB1,329.0 million as of June 30, 2020, primarily attributable to (i) the repayment of due to a related party of RMB105.9 million; and (ii) the decrease in other payables and accruals of RMB131.7 million as a result of the decrease in contract liabilities since certain amount of contract liabilities had been recognized as revenue as of June 30, 2020 for The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) broadcast in the first half of 2020. Our current assets decreased from RMB1,855.1 million as of December 31, 2019 to RMB1,795.1 million as of June 30, 2020, primarily due to (i) the decrease in inventories of RMB238.0 million as a result of the broadcast of Inside Man (局中人), The Love Lasts Two Minds (兩世歡), Customer First (獵心者) and A Sword Across The Sky (一劍橫空) in the first half of 2020, which were recognized as revenue in the same period, (ii) the decrease in prepayments, other receivables and other assets of RMB86.9 million primarily due to the decrease in loans receivables as a result of the repayment of loans for My Unicorn Girl (穿盔甲的少女) and the settlement of loans for Inside Man (局中人), and (iii) the decrease in restricted cash of RMB54.3 million primarily due to the usage of such cash for the production of our drama series, partially offset by the increase of trade and notes receivables of RMB291.2 million primarily attributable to the increase of trade receivables for Inside Man (局中人).

Our net current assets decreased from RMB399.8 million as of December 31, 2018 to RMB300.8 million as of December 31, 2019, primarily because the increase in our current liabilities outpaced the increase in our current assets. Our current liabilities increased from RMB658.9 million as of December 31, 2018 to RMB1,554.3 million as of December 31, 2019, primarily due to (i) the increase in other payables and accruals of RMB557.0 million as a result of the increase in advance from customers for The Love Lasts Two Minds (兩世歡), Spirit Realm (靈域), Customer First (獵心者) and Marry Me (三嫁惹君心) and the increase in the payables for acquiring the shares of Hangzhou Yide, (ii) the increase in trade payables of RMB212.3 million as a result of the increase of recognized revenue as more drama series were broadcast from 2018 to 2019, and (iii) the increase in interest-bearing bank and other borrowings of RMB59.0 million as a result of the increase in bank borrowings from 2018 to 2019 to meet the increase of our capital needs for our drama series production. Our current assets increased from RMB1,058.8 million as of December 31, 2018 to RMB1,855.1 million as of December 31, 2019, primarily attributable to (i) the increase in inventories of RMB382.5 million as a result of the increase in work in progress primarily attributable to the production of Spirit Realm (靈域) and the increase in finished goods primarily because we completed the production of Inside Man (局中人), The Love Lasts Two Minds (兩世歡) and Customer First (獵心者) in 2019 which were yet to be broadcast as of December 31, 2019, and (ii) the increase in trade and notes receivables of RMB305.1 million as a result of the increase in trade receivables for Second Time Is A Charm (第二次也很美) and Love Journey (一場遇見愛情的旅行).

Our net current assets decreased from RMB430.1 million as of December 31, 2017 to RMB399.8 million as of December 31, 2018, primarily due to the increase in our current liabilities outpaced the increase in our current assets. Our current liabilities increased from RMB431.5 million as of December 31, 2017 to RMB658.9 million as of December 31, 2018, primarily due to (i) the increase in due to a related party of RMB81.0 million to fund our working capital, (ii) the increase in dividend payable of RMB80.0 million of Jiangsu Strawbear in 2018, which was still outstanding as of the Latest Practicable Date, and (iii) the increase in trade payables of RMB47.3 million, primarily due to the increase of payables to our co-investors for the drama series of Mr. Nanny (月嫂先生) and the increase in payables for purchasing the broadcasting right of Mask (面具) broadcast in 2018 as a result of the revenue recognition in the same year. Our current assets increased from RMB861.6 million as of December 31, 2017 to RMB1,058.8 million as of December 31, 2018, primarily attributable to (i) the increase in prepayments, other receivables and other assets of RMB160.5 million as a result of the increase in loans receivables due from certain drama production entities and the increase in prepayments for the production fee of Second Time Is A Charm (第二次也很美) paid to the production company, and (ii) the increase in inventories of RMB222.2 million as a result of the increase in our work in progress attributable to the commencement of production of Love Journey (一場遇見愛情的旅行), Inside Man (局中人) and Spirit Realm (靈域), partially offset by (i) the decrease in trade and notes receivables of RMB109.5 million as a result of the decrease in trade receivables for Lost Love In Times (醉玲瓏) and My! P.E. Teacher (我的！體育老師) and (ii) the decrease in cash and cash equivalents of RMB56.0 million.

Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations, bank and other borrowings and capital contributions from Shareholders.

Our anticipated cash needs include costs associated with the expansion of our program pipeline and business operations. Other than the bank borrowings that we may obtain, we do not have any plans for material external debt financing in the foreseeable future. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of bank borrowings, other borrowings, due to a related party, due to a joint venture and lease liabilities.

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

	As of December 31,			As of June 30,	As of October
	2017	2018	2019	2020	31, 2020
	(RMB in thousands)				
					(Unaudited)
Included in current liabilities					
Bank borrowings	30,000	35,000	110,000	135,500	165,500
Other borrowings	13,000	31,000	15,000	5,000	5,000
Due to a related party	–	81,013	105,926	–	–
Due to a joint venture	–	–	51,000	71,260	72,945
Current portion of lease liabilities	1,493	907	509	896	1,638
Sub-total	**44,493**	**147,920**	**282,435**	**212,656**	**245,083**
Included in non-current liabilities					
Other borrowings	246,578	–	–	–	–
Non-current portion of lease liabilities	1,379	472	–	2,874	3,902
Sub-total	**247,957**	**472**	**–**	**2,874**	**3,902**
Total	**292,450**	**148,392**	**282,435**	**215,530**	**248,985**

Bank Borrowings

Our bank borrowings during the Track Record Period were denominated in Renminbi and were used to finance our capital expenditure and working capital requirements. Certain of our borrowings during the Track Record Period were guaranteed by our Controlling Shareholders, which have been fully discharged in August and November 2020. All guarantees and mortgages provided by the former shareholders and their close family of Nova Film have been fully released in the fourth quarter of 2020. See Note 28 to the Accountants' Report included in Appendix I to this prospectus for details. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our weighted average interest rates of our bank borrowings, calculated as the total interest on bank loans for the year/period divided by the weighted average principal balance of the bank loans for the same year/period, were 4.3%, 6.1%, 5.6% and 5.7%, respectively. Our Directors confirm that we did not experience any material default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

The table below sets forth the maturity profile of our bank borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of October
	2017	2018	2019	2020	31, 2020
Within one year	30,000	35,000	110,000	135,500	165,500
Total	**30,000**	**35,000**	**110,000**	**135,500**	**165,500**

Other Borrowings

The outstanding balance of our other borrowings amounted to RMB259.6 million, RMB31.0 million, RMB15.0 million, RMB5.0 million, and RMB5.0 million as of December 31, 2017, 2018 and 2019, June 30, 2020 and October 31, 2020, respectively. The current portion of our other borrowing represented borrowings from third parties, which were primarily used for the production of our drama series and were unsecured. All of the outstanding balance of other borrowings as of October 31, 2020 had been settled by the end of November, 2020. The non-current portion of our other borrowings of RMB246.6 million as of December 31, 2017 was due to an equity investment in our Group by a former investor, who has the redemption right, which had been repurchased by us in 2018. See "History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital."

Due to a Related Party

The amounts due to a related party were nil, RMB81.0 million, RMB105.9 million, nil, and nil as of December 31, 2017, 2018 and 2019, June 30, 2020 and October 31, 2020, respectively. The amounts due to a related party represented the loans from Beijing iQIYI with an annual interest rate of 5.0%, which were used to fund our working capital and had been settled as of the Latest Practicable Date.

Due to a Joint Venture

In December 2019 and June 2020, we obtained two unsecured loans in the principal amount of RMB51.0 million and RMB20.0 million, respectively, from a joint venture, Nanjing Huawen, to fund the production of our drama series, among which RMB50.0 million has an annual interest rate of 10.0%. The loans are due for payment on December 31, 2020. We had paid the interests of RMB1.4 million in June 2020 and the outstanding balance of such loans were RMB72.9 million as of October 31, 2020. We plan to repay such borrowings by the maturity date using cash generated from our operations.

Lease Liabilities

We recognize lease liabilities to make lease payments for the right-of-use assets representing the right to use the underlying assets for all leases except for short-term leases and leases of low-value assets. As of October 31, 2020, we, as a lessee, had outstanding current lease liabilities of RMB1.6 million and outstanding non-current lease liabilities of RMB3.9 million.

Our Directors confirm that there has been no material change in our indebtedness position since October 31, 2020, being the latest practicable date for the purpose of the indebtedness statement.

As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any material breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of October 31, 2020, we did not have any unutilized credit facilities. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

CONTINGENT LIABILITIES

Except as disclosed above, we did not have, as of October 31, 2020, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on property, plant and equipment. The table below sets forth the breakdown of our capital expenditures incurred during the Track Record Period

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	(RMB in thousands)				
				(unaudited)	
Purchase for PPE	635	2,152	130	11	1,644
Total	**635**	**2,152**	**130**	**11**	**1,644**

We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering as well as cash generated from our operations.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions. For more details about our material related party transactions, see Note 37 to the Accountants' Report included in Appendix I to this prospectus.

The table below sets forth our related party transactions by nature for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	(RMB in thousands)				
				(unaudited)	
Sales of goods to:					
Beijing Qishibang Technology Co.,Ltd	2,830	–	–	–	–
Beijing Qiyi Century Technology Co., Ltd	116,226	244,703	92,528	92,528	2,288
Beijing iQIYI Internet Technology Co., Ltd	–	–	112,719	–	74,367
Beijing iQIYI	–	–	3,237	334	324,623
Purchases of goods from:					
Wuxi Youkong	481	7,438	1,563	1,205	158
Beijing iQIYI	5,677	112,358	148,933	148,933	–
Rental fee to:					
Mr. Liu	282	48	–	–	–
Borrowings from:					
Mr. Liu	–	350,000(1)	–	–	–
Nanjing Huawen	–	–	51,000(2)	–	20,000(2)
Repayment to:					
Beijing iQIYI	–	270,000(3)	–	–	100,000(3)
Interest expenses to:					
Beijing iQIYI	–	6,108	4,913	2,395	1,246
Nanjing Huawen	–	–	–	–	1,633

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	(RMB in thousands)				
				(unaudited)	
Loans to:					
Zhao Min	–	–	3,000	3,000	–
Shanghai Shaoyin	–	–	–	–	3,000
Repayments received:					
Zhao Min	–	–	–	–	3,000
Shanghai Shaoyin	–	–	–	–	3,000

Notes:

(1) The borrowings from Mr. Liu in the principal amount of RMB350.0 million in August 2018 were used to (i) repurchase the equity investment in our Group by a former investor; and (ii) fund our working capital. See "History, Reorganization and Corporate Development — Corporate Development — Jiangsu Strawbear — Reduction in the Registered Capital." Mr. Liu transferred all rights and interests of such loan to Beijing iQIYI in November 2018.

(2) The borrowings from Nanjing Huawen in the principal amount of RMB51.0 million and RMB20.0 million borrowed in December 2019 and June 2020, respectively, were used for the production of our drama series.

(3) The repayment to Beijing iQIYI in the amount of RMB270.0 million in December 2018 was due to repayment of the loan transferred from Mr. Liu to Beijing iQIYI mentioned in note(1) above.

The table below sets forth the outstanding balances with related parties as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Trade in nature:				
Trade receivables due from				
Beijing Qiyi Century Technology Co., Ltd	36,960	–	–	–
Beijing Qishibang Technology Co.,Ltd	1,000	–	–	–
Beijing iQIYI Internet Technology Co., Ltd	–	–	270,522	360,772
Prepayments, deposits and other receivables due from				
Mr. Liu	214	–	–	–
Wuxi Youkong	510	3,490	3,310	3,310
	38,684	**3,490**	**273,832**	**364,082**

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB in thousands)			
Trade payables due to				
Beijing Qiyi Century Technology Co., Ltd	2,288	2,288	2,288	–
Beijing iQIYI	–	53,672	62,338	37,367
Other payables and accruals due to				
Beijing iQIYI	6,792	6,792	535,762	363,430
Beijing Qiyi Century Technology Co., Ltd	51,840	–	–	–
	60,920	**62,752**	**600,388**	**400,797**
Non-trade in nature:				
Due to a related party				
Beijing iQIYI	–	81,013	105,926	–
Due to a joint venture				
Nanjing Huawen	–	–	51,000	71,260[1]
	–	**81,013**	**156,926**	**71,260**
Due from a related party				
Zhao Min	–	–	3,000	–
	–	**–**	**3,000**	**–**

Note:

(1) The outstanding balance of RMB71.3 million as of June 30, 2020 was due to two unsecured loans borrowed from Nanjing Huawen in December 2019 and June 2020, respectively, to invest in production of our drama series in the respective principal amount of RMB51.0 million and RMB20.0 million. For more details, see "— Indebtedness — Due to a Joint Venture."

We plan to repay the outstanding balance of borrowings from Nanjing Huawen with cash generated from our operations by or on the maturity date. Our Directors believe that the related party transactions described above were carried out on an arm's length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

KEY FINANCIAL RATIOS

The table below sets forth certain of our key financial ratios as of the dates or for the periods indicated:

	Year ended/as of December 31,			Six months ended/as of June 30,
	2017	2018	2019	2020
Profitability ratios				
Gross profit margin	28.0%	30.9%	14.1%	23.4%
Net profit margin	11.8%	1.5%	6.6%	9.3%
Return on equity(1)	39.7%	6.2%	29.6%	N/A(2)
Return on assets(3)	9.7%	1.1%	3.2%	N/A(2)
Liquidity ratios				
Current ratio(4)	2.00	1.61	1.19	1.35
Quick ratio(5)	1.27	0.79	0.60	0.84
Capital adequacy ratio				
Debt to equity ratio(6)	71.9%	35.0%	118.3%	52.5%
Interest coverage ratio(7)	5.1	2.2	7.8	14.5

Notes:

(1) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity of the same period and multiplied by 100%.

(2) Denotes "not applicable" as the ratios are not meaningful given the recorded profit only represented the amount for the six months ended June 30, 2020.

(3) Return on assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets of the same period and multiplied by 100%.

(4) Current ratio is calculated based on total current assets divided by total current liabilities as of the dates indicated.

(5) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as of the dates indicated.

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

(7) Interest coverage ratio is calculated based on the profit for the year/period before interest and tax divided by the interest expenses for the same period.

Return on Equity

Our return on equity decreased from 39.7% for the year ended December 31, 2017 to 6.2% for the year ended December 31, 2018, primarily due to the decrease in our profit for the year and the increase in the arithmetic mean of the opening and closing balances of total equity from 2017 to 2018. Our return on equity increased from 6.2% for the year ended December 31, 2018 to 29.6% for the year ended December 31, 2019, primarily because our profit for the year increased significantly while the arithmetic mean of the opening and closing balances of our total equity remained relatively stable from 2018 to 2019.

Return on Assets

Our return on assets decreased from 9.7% for the year ended December 31, 2017 to 1.1% for the year ended December 31, 2018, primarily due to the decrease in profit for the year and the increase in the arithmetic mean of the opening and closing balances of total assets from 2017 to 2018. Our return on equity increased from 1.1% for the year ended December 31, 2018 to 3.2% for the year ended December 31, 2019, primarily because the increase in our profit for the year outpaced the increase in the arithmetic mean of the opening and closing balances of total assets from 2018 to 2019.

Current Ratio

Our current ratio decreased from approximately 2.00 as of December 31, 2017 to approximately 1.61 as of December 31, 2018, and further decreased to 1.19 as of December 31, 2019, primarily due to our current liabilities increased at a faster pace compared to the increase of our current assets during the same periods, which is line with the expansion and growth of our business. Our current ratio increased to approximately 1.35 as of June 30, 2020, primarily attributable to the decrease in our current liabilities outpaced the decrease in our current assets from December 31, 2019 to June 30, 2020.

Quick Ratio

Our quick ratio decreased from approximately 1.27 as of December 31, 2017 to approximately 0.79 as of December 31, 2018, primarily due to the decreases in both (i) cash and cash equivalents and (ii) trade and notes receivables from December 31, 2017 to December 31, 2018. Our quick ratio decreased from 0.79 as of December 31, 2018 to 0.60 as of December 31, 2019, primarily because the increase in our total current liabilities and inventories outpaced the increase in our total current assets from December 31, 2018 to December 31, 2019, and increased to 0.84 as of June 30, 2020, primarily because the decrease in our total current liabilities and inventories were faster than the decrease in our total current assets from December 31, 2019 to June 30, 2020.

Debt to Equity Ratio

Our debt to equity ratio decreased from approximately 71.9% as of December 31, 2017 to approximately 35.0% as of December 31, 2018, primarily attributable to the decrease of our net debt as a result of the repayment of other borrowings from an investor in August 2018. Our debt to equity ratio then increased significantly from approximately 35.0% as of December 31, 2018 to approximately 118.3% as of December 31, 2019, primarily due to the increase of our net debt as a result of (i) the increase in amounts due to a joint venture. Our debt to equity ratio decreased from approximately 118.3% as of December 31, 2019 to approximately 52.5% as of June 30, 2020, primarily attributable to the decrease in our net debt primarily attributable to the decrease in due to a related party and the increase in cash and cash equivalent. The increase of cash and cash equivalent balance was attributable to the increase in net cash generated from investing activities as a result of the repayment from a drama series production company for our investment with fixed return in its drama series, My Unicorn Girl (穿盔甲的少女).

Interest Coverage Ratio

Our interest coverage ratio was approximately 5.1, 2.2, 7.8 and 14.5 for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. The significant decrease in our interest coverage ratio from 5.1 in 2017 to 2.2 in 2018 was primarily due to the significant increase in our interest expenses along with the increase in our interest-bearing bank and other borrowings for the same periods. The slight increase in our interest coverage ratio from 2.2 in 2018 to 7.8 in 2019 was primarily because the decrease in our interest expenses outpaced the decrease in our profit before interest and tax for the same period. The increase in our interest coverage ratio to 14.5 for the six months ended June 30, 2020 was primarily attributable to the increase in our profit before interest and tax outpaced the increase in our interest expenses from 2019 to the first half in 2020.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, see Note 40 to the Accountants' Report set out in Appendix I to this prospectus.

Credit Risk

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

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

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

For further information relating to our credit risk, see Note 40 to the Accountants' Report set forth in Appendix I to this prospectus.

Liquidity Risk

We manage liquidity risk by closely and continuously monitoring our financial position. We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the fluctuations in cash flows. See Note 40 to the Accountants' Report set forth in Appendix I to this prospectus for more details about the maturity profile of our financial liabilities.

DIVIDENDS

For the year ended December 31, 2018, a subsidiary of our Group, Jiangsu Strawbear, declared dividends of RMB100.0 million to its then shareholders, which had not been paid yet as of the Latest Practicable Date. Such dividends are expected to be paid to the relevant shareholders of Jiangsu Strawbear within about five years from 2020 in installments with our self-owned funds. For the year ended December 31, 2019, a subsidiary of our Group, Blue Boiling Point, declared dividends of RMB1.9 million to its then shareholders, which were paid in the first quarter of 2020. See Note 11 to the Accountants' Report set forth in Appendix I to this prospectus. Other than the above, no dividend has been proposed, paid or declared by our Company or our subsidiaries since its incorporation during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

Our distributable reserves comprise undistributed profits. As of June 30, 2020, our Company did not have any retained profits under HKFRS as reserves available for distribution to our equity shareholders.

LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers and the Reporting Accountants for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, excluding any discretionary incentive fee which may be payable by us) for the Global Offering are approximately RMB51.1 million, representing 6.5% of the gross IPO proceeds. During the Track Record Period, we incurred listing expenses of RMB15.8 million, among which RMB12.1 million was charged to the consolidated statements of profit or loss for the six months ended June 30, 2020 as administrative expenses and approximately RMB3.7 million was capitalized as deferred expenses in the consolidated statements of financial position as of June 30, 2020 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately RMB35.3 million, of which approximately RMB15.6 million is expected to be recognized as administrative expenses and approximately RMB19.7 million is expected to be recognized as a deduction in equity directly upon the Listing. Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2020.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2020 as if the Global Offering had taken place on June 30, 2020.

The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2020 or any future date.

	Consolidated net tangible assets attributable to owners of our Company as of June 30, 2020	Estimated net proceeds from the Global Offering	Estimated impact related to the change of terms of Preferred Shares upon Listing	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB)*	*(HK$)*
	(Note 1)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*
Based on Offer price of HK$5.10 per Share	110,639	676,919	401,491	1,189,049	1.79	2.12
Based on Offer price of HK$6.16 per Share	110,639	822,423	401,491	1,334,553	2.01	2.38

Notes:

(1) The consolidated net tangible assets attributable to owners of our Company as of June 30, 2020 is arrived at after deducting intangible assets of RMB27,200,000 and goodwill of RMB112,983,000 from the consolidated net assets attributable to owners of our Company of RMB250,822,000 as of June 30, 2020, as shown in the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are calculated based on the offer price of HK$5.10 per Share or HK$6.16 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and related expenses payable by the Company (excluding listing expenses of RMB12,087,000 charged to profit or loss during the Track Record Period) and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.

(3) Upon the Listing and the completion of the Global Offering, all the preferred shares will be converted into ordinary shares. The preferred shares will be re-classified from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the owners of our Company will be increased by RMB401,491,000, being the carrying amount of the Preferred Shares as of June 30, 2020.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are calculated based on 663,100,000 Shares in issue (including the completion of the conversion of preferred shares into ordinary shares) assuming that the Global Offering has been completed on June 30, 2020 without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in "Statutory and General Information — Further Information about Our Company and Our Subsidiaries — Resolutions of Our Shareholders Passed on December 18, 2020" in Appendix IV to this prospectus.

(5) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.84498 to HK$1.

(6) No adjustment has been made to reflect any trading results or other transactions entered into by our Group subsequent to June 30, 2020.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE CONFIRMATION

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model has remained unchanged and we continue to focus on the business of licensing the broadcasting rights of self-produced and outright-purchased drama series, as well as made-to-order drama series production. Since June 30, 2020 and up to the Latest Practicable Date, we had five drama series broadcast.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, (i) there has been no material adverse change in our financial, operational, and/or trading position since June 30, 2020, being the date of the latest audited consolidated financial position of our Group as set out in the Accountants' Report in Appendix I to this prospectus and (ii) there has been no material adverse change in our business, the industry in which we operate and/or market or regulatory environment to which we are subject. The outbreak of COVID-19 had no material adverse impact on our operations and financial conditions subsequent to the Track Record Period and up to Latest Practicable Date. See "Summary — Recent Developments."

In addition, we may record net loss for the year ending December 31, 2020 primarily due to the expected loss on fair value changes of our financial liabilities at fair value through profit or loss which represent our convertible redeemable preferred shares held by iQIYI. Although our convertible redeemable preferred shares will be automatically converted to Shares upon the closing of the Listing, to the extent we need to revalue the preferred shares prior to the Listing, any changes in fair value of these convertible redeemable preferred shares will affect our financial positions and results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance." After the automatic conversion of all preferred shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.