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## **Litian Pictures Holdings Limited**

**力天影業控股有限公司**

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

**(Stock Code: 9958)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the year ended 31 December 2020 increased by approximately 16.4% to approximately RMB455.3 million from approximately RMB391.0 million for the year ended 31 December 2019.
- Gross profit for the year ended 31 December 2020 decreased by approximately 10.8% to approximately RMB125.9 million from approximately RMB141.1 million for the year ended 31 December 2019.
- Profit attributable to equity shareholders of the Company for the year ended 31 December 2020 decreased by approximately 9.0% to approximately RMB70.1 million from approximately RMB77.0 million for the year ended 31 December 2019. Excluding the effect of the Listing expenses, the adjusted profit attributable to equity shareholders of the Company for the year ended 31 December 2020 decreased by approximately 3.2% to approximately RMB85.8 million from approximately RMB88.7 million for the year ended 31 December 2019.
- Basic and diluted earnings per share for the year ended 31 December 2020 decreased by approximately 23.5% to approximately RMB0.26 from approximately RMB0.34 for the year ended 31 December 2019.
- The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020.

The board (the “**Board**”) of directors (the “**Directors**”) of Litian Pictures Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020 (the “**Year**”), together with the comparative figures for the year ended 31 December 2019. The annual results of the Group have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

*For the Year Ended 31 December 2020*

*(Expressed in Renminbi (“RMB”))*

	<i>Note</i>	<b>2020</b> <i>RMB’000</i>	2019 <i>RMB’000</i>
<b>Revenue</b>	3	<b>455,267</b>	390,996
Cost of sales		<u>(329,385)</u>	<u>(249,862)</u>
<b>Gross profit</b>	3(b)	<b>125,882</b>	141,134
Other income	4	<b>10,651</b>	4,069
Selling and marketing expenses		<b>(1,168)</b>	(543)
Administrative expenses		<b>(24,636)</b>	(20,597)
Impairment loss on trade and other receivables		<u>(18,519)</u>	<u>(28,287)</u>
<b>Profit from operations</b>		<b>92,210</b>	95,776
Finance costs	5(a)	<b>(5,067)</b>	(4,769)
Costs incurred in connection with the listing of the Company’s shares		<u>(15,762)</u>	<u>(11,638)</u>
<b>Profit before taxation</b>	5	<b>71,381</b>	79,369
Income tax	6	<u>(1,301)</u>	<u>(2,335)</u>
<b>Profit attributable to equity shareholders of the Company for the year</b>		<b>70,080</b>	77,034
<b>Other comprehensive income for the year (after tax):</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation into presentation currency of the Group		<u>(11,479)</u>	–
<b>Total comprehensive income attributable to equity shareholders of the Company for the year</b>		<u><b>58,601</b></u>	<u>77,034</u>
<b>Earnings per share</b>	7		
Basic and diluted ( <i>RMB</i> )		<u><b>0.26</b></u>	<u>0.34</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in RMB)

	<i>Note</i>	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
<b>Non-current assets</b>			
Property and equipment		6,408	3,787
Other financial assets	8	3,000	–
Deferred tax assets		17,768	10,454
		<u>27,176</u>	<u>14,241</u>
<b>Current assets</b>			
Drama series copyrights	9	385,448	179,013
Trade and bills receivables	10	474,935	530,944
Prepayments, deposits and other receivables		97,974	35,688
Cash at bank and on hand		185,686	89,701
		<u>1,144,043</u>	<u>835,346</u>
<b>Current liabilities</b>			
Trade payables	11	379,480	294,975
Other payables and accrued expenses		149,380	150,236
Bank and other loans	12	79,151	56,661
Lease liabilities		863	650
Current taxation		4,121	13,688
		<u>612,995</u>	<u>516,210</u>
<b>Net current assets</b>		<u>531,048</u>	<u>319,136</u>
<b>Total assets less current liabilities</b>		558,224	333,377
<b>Non-current liabilities</b>			
Lease liabilities		3,320	115
<b>NET ASSETS</b>		<u>554,904</u>	<u>333,262</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	2,742	90
Reserves		552,162	333,172
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY</b>		<u>554,904</u>	<u>333,262</u>

# NOTES TO THE FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in RMB unless otherwise indicated)*

## 1 CORPORATE INFORMATION

Litian Pictures Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 17 June 2019 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 22 June 2020 (the “**Listing Date**”). The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the production, distribution and licensing of broadcasting rights of drama series.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The financial statements included in the annual report have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations issued by the International Accounting Standards Board (the “**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). Significant accounting policies adopted by the Group are disclosed in the annual report.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in the financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments in equity securities are stated at their fair value as explained in the accounting policies as set in the annual report.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Prior to the incorporation of the Company and completion of the corporate reorganisation as described below, the principal business of the Group was carried out by Zhejiang LiTian TV & Film Co., Ltd. (“**LiTian TV & Film**”), which was established as a limited liability company on 2 August 2013 in the People’s Republic of China (the “**PRC**”), and its subsidiaries.

To rationalise the corporate structure in preparation of the listing of the Company’s shares on the Main Board of the Stock Exchange, the Group underwent a corporate reorganisation (the “**Corporate Reorganisation**”).

Since the business conducted by LiTian TV & Film and its subsidiaries is subject to foreign investment restrictions under the relevant laws and regulations in the PRC, as part of the Corporate Reorganisation, Haining Marshal Films Planning Co., Ltd. (“**LiTian WFOE**”), a wholly-owned subsidiary of the Company, entered into a series of agreements (the “**Contractual Arrangements**”) with LiTian TV & Film and its equity holders which became effective on 14 October 2019. As a result of the Contractual Arrangements, the Group has rights to exercise power over LiTian TV & Film and its subsidiaries, receives variable returns from its involvement in LiTian TV & Film and its subsidiaries, has the ability to affect those returns through its power over LiTian TV & Film and its subsidiaries, and hence, the control over LiTian TV & Film and its subsidiaries. Consequently, the Group regards LiTian TV & Film and its subsidiaries as controlled entities. The directors of the Company have determined that the Contractual Arrangements are in compliance with PRC laws and are legally enforceable.

Upon completion of the Corporate Reorganisation on 14 October 2019, the Company became the holding company of the companies now comprising the Group. The Corporate Reorganisation only involved inserting the Company and other newly formed entities with no substantive operations as holding companies of LiTian TV & Film and its subsidiaries.

There were no changes in the economic substance of the ownership and business carried out by LiTian TV & Film and its subsidiaries before and after the Corporate Reorganisation. Accordingly, the financial information for the year ended 31 December 2019 have been prepared and presented as a continuation of the consolidated financial statements of LiTian TV & Film and its subsidiaries with the assets and liabilities of LiTian TV & Film and its subsidiaries recognised and measured at their historical carrying amounts prior to the Corporate Reorganisation. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the financial information for the year ended 31 December 2019.

**(c) Changes in accounting policies**

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year (if any). Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

### 3 REVENUE AND SEGMENT REPORTING

#### (a) Revenue

The Group is principally engaged in the production, distribution and licensing of broadcasting rights of drama series. All of the Group's revenue was recognised at a point in time.

Further details regarding the Group's principal activities are disclosed in Note 3(b).

#### *Disaggregation of revenue*

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from the distribution and licensing of broadcasting rights of self-produced drama series	10,174	88,982
Revenue from the distribution and licensing of broadcasting rights of outright-purchased drama series	442,267	278,588
Revenue from the distribution and licensing of broadcasting rights under co-financing arrangements	2,826	13,968
Revenue from provision of distribution agency services	–	9,458
	<u>455,267</u>	<u>390,996</u>

The Group's customers with whom transactions have exceeded 10% of the Group's revenue are set out below:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	154,774	160,625
Customer B	66,872	42,526
Customer C	54,332	*
Customer D	47,555	*
Customer E	*	42,275
	<u>          </u>	<u>          </u>

\* Transactions with these customers did not exceed 10% of the Group's revenue in the respective years.

**(b) Segment reporting**

The Group manages its businesses by products and services. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments.

- Self-produced drama series: this segment includes primarily the production, distribution and licensing of broadcasting rights of self-produced drama series.
- Outright-purchased drama series: this segment includes primarily the acquisition, distribution and licensing of broadcasting rights of outright-purchased drama series.
- Others: this segment includes miscellaneous revenue streams such as distribution and licensing of broadcasting rights of drama series under co-financing arrangements, acquisition and sale of script copyrights, and provision of distribution agency services.

**(i) Segment results**

For the purposes of assessing segment performance and allocating resources, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income, selling and marketing expenses, administrative expenses, finance costs, and costs incurred in connection with the listing of the Company's shares, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	<b>2020</b>			
	<b>Self-produced drama series RMB'000</b>	<b>Outright- purchased drama series RMB'000</b>	<b>Others RMB'000</b>	<b>Total RMB'000</b>
Revenue from external customers	<u>10,174</u>	<u>442,267</u>	<u>2,826</u>	<u>455,267</u>
Reportable segment gross profit	<u>(6,655)</u>	<u>131,467</u>	<u>1,070</u>	<u>125,882</u>

	2019			
	Self-produced drama series <i>RMB'000</i>	Outright- purchased drama series <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	88,982	278,588	23,426	390,996
Reportable segment gross profit	28,243	103,355	9,536	141,134

(ii) **Geographic information**

The Group generated all revenue in the PRC and its non-current assets are substantially located in the PRC, and accordingly, no analysis of geographic information is presented.

**4 OTHER INCOME**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	9,652	3,163
Interest income from:		
– cash at bank	102	49
– loans to third parties	–	837
Net foreign exchange gain	457	–
Others	440	20
	<u>10,651</u>	<u>4,069</u>

**5 PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging/(crediting):

(a) **Finance costs**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses on:		
– bank and other loans	5,271	7,761
– lease liabilities	31	62
	<u>5,302</u>	<u>7,823</u>
Less: interest expenses capitalised into drama series copyrights*	(235)	(3,054)
	<u>5,067</u>	<u>4,769</u>

\* The borrowing costs have been capitalised at a rate of 15.0% per annum for the year ended 31 December 2020 (2019: 12.9%).



(b) **Staff costs**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, wages and other benefits	11,149	7,752
Contributions to defined contribution retirement plans	64	812
	<u>11,213</u>	<u>8,564</u>

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in defined contribution retirement benefit plans managed by the local government authorities. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement plans at their normal retirement age.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

In 2020, in an effort to provide financial support to enterprises during the COVID-19 pandemic, the PRC government authorities have granted partial exemption on the Group's contributions to the defined contribution retirement plans. The total exempted amount was RMB823,000 in 2020.

(c) **Other items**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Depreciation expenses:		
– owned property and equipment	1,006	1,049
– right-of-use assets	993	959
Impairment losses on:		
– drama series copyrights ( <i>Note 9</i> )	11,489	–
– trade and other receivables	18,519	28,287
Operating lease expenses relating to short-term leases and leases of low-value assets	215	377
Auditors' remuneration:		
– audit services	1,600	145
– services in connection with the listing of the Company's shares	1,521	2,342
Cost of drama series copyrights ( <i>Note 9</i> )	<u>190,762</u>	<u>186,320</u>

**6 INCOME TAX**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Current taxation</b>		
Provision for the year	8,615	9,590
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	<u>(7,314)</u>	<u>(7,255)</u>
	<u>1,301</u>	<u>2,335</u>

*Notes:*

- (i) The Company and the subsidiary of the Group incorporated in the British Virgin Islands (the “BVI”) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The Company and the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2020 (2019: RMBNil).
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2020 (2019: 25%).
- (iv) In accordance with the income tax rules and regulations in the PRC, entities newly established in the Xinjiang Kashi/Horgos special economic areas during the years from 2010 to 2020 can enjoy full exemption on PRC Corporate Income Tax for five years starting from the year in which revenue was generated. The Group has established subsidiaries in the Xinjiang Kashi/Horgos special economic areas in 2017 and 2018, and accordingly, these subsidiaries are entitled to full exemption on PRC Corporate Income Tax from the calendar year of their respective establishments to the calendar year of 2020.

## **7 EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2020 is based on the profit attributable to ordinary equity shareholders of the Company of RMB70,080,000 and the weighted average of 264,549,000 ordinary shares in issue during the year, comprising:

- (i) 10,000,000 ordinary shares in issue at 1 January 2020;
- (ii) 215,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering of the Company, as if these ordinary shares were outstanding throughout the year ended 31 December 2020; and
- (iii) 75,000,000 ordinary shares issued on the Listing Date by initial public offering.

The basic earnings per share for the year ended 31 December 2019 was calculated based on the profit attributable to equity shareholders of the Company of RMB77,034,000 and the weighted average of 225,000,000 ordinary shares, comprising 1 ordinary share issued on 17 June 2019, 999,999 ordinary shares issued on 30 September 2019, 9,000,000 ordinary shares issued on 17 October 2019 and the related 215,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering of the Company, as if the above total of 225,000,000 ordinary shares were outstanding throughout the year ended 31 December 2019.

The calculation of the weighted average number of ordinary shares for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Issued ordinary shares at 1 January	10,000,000	–
Issuance of share upon the incorporation of the Company	–	1
Issuance of shares prior to the listing of the Company	–	9,999,999
Effect of capitalisation issue	215,000,000	215,000,000
Effect of shares issued by initial public offering on the Listing Date	<u>39,549,000</u>	<u>–</u>
	<u><b>264,549,000</b></u>	<u><b>225,000,000</b></u>

**(b) Diluted earnings per share**

There were no dilutive potential shares outstanding during the years ended 31 December 2020 and 2019.

**8 OTHER FINANCIAL ASSETS**

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Unlisted equity securities measured at FVPL	<u><b>3,000</b></u>	<u>–</u>

The investment in unlisted equity securities represent the Group's 9.38% equity interests (ie a limited partner) in Jiaxing Chengling Equity Investment Limited Partnership, a limited partnership established in the PRC principally engages in investing activities.

**9 DRAMA SERIES COPYRIGHTS**

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Self-produced drama series ( <i>Note (i)</i> )		
– under production	109,131	21,691
– with production completed	<u>92,989</u>	<u>74,784</u>
	<b>202,120</b>	96,475
Outright-purchased drama series	24,505	24,024
Co-financed drama series with production completed ( <i>Note (ii)</i> )	37,956	32,363
Script copyrights ( <i>Note (iii)</i> )	<u>132,356</u>	<u>26,151</u>
	<b>396,937</b>	179,013
Less: impairment losses	<u>(11,489)</u>	<u>–</u>
	<u><b>385,448</b></u>	<u><b>179,013</b></u>

Notes:

- (i) The Group acts either as sole investor or executive producer under co-financing arrangements.
- (ii) The Group acts as non-executive producers under these co-financing arrangements.
- (iii) The carrying amount of script copyrights represents the payment on obtaining the literature patent and the cost incurred in relation to adaptation of these intellectual properties.
- (iv) At 31 December 2020, the amounts of drama series copyrights that are expected to be recognised in profit or loss after more than one year are RMB66,089,000 (2019: RMB38,289,000). Other than the above, the remaining drama series copyrights are expected to be recognised in profit or loss within one year.

Movements of drama series copyrights are set out below:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
At 1 January	<b>179,013</b>	169,398
Additions	<b>408,686</b>	195,935
Recognised in cost of sales ( <i>Note 5(c)</i> )	<b>(190,762)</b>	(186,320)
Impairment losses ( <i>Note 5(c)</i> )	<b>(11,489)</b>	–
	<b>385,448</b>	179,013

## 10 TRADE AND BILLS RECEIVABLES

	At	At
	31 December	31 December
	2020	2019
	<b>RMB'000</b>	RMB'000
Trade receivables	<b>525,367</b>	552,462
Less: loss allowance ( <i>Note 10(b)</i> )	<b>(58,213)</b>	(39,713)
	<b>467,154</b>	512,749
Bills receivables	<b>7,781</b>	18,195
	<b>474,935</b>	530,944

All of the trade and bills receivables are expected to be recovered within one year.

(a) **Ageing analysis**

The ageing analysis of trade and bills receivables, based on the date revenue is recognised and net of loss allowance, of the Group is as follows:

	At <b>31 December</b> <b>2020</b> <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 3 months	<b>154,818</b>	141,613
3 to 6 months	<b>48,338</b>	14,427
6 to 12 months	<b>65,467</b>	167,570
1 to 2 years	<b>106,846</b>	148,129
2 to 3 years	<b>55,164</b>	59,205
Over 3 years	<b>44,302</b>	–
	<b>474,935</b>	530,944

(b) **Impairment of trade and bills receivables**

The movements in the loss allowance account during the year are as follows:

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
At 1 January	<b>39,713</b>	11,481
Impairment losses recognised during the year	<b>18,500</b>	28,232
At 31 December	<b>58,213</b>	39,713

(c) At 31 December 2020, no trade receivables have been pledged for the Group's loans from banks (2019: RMB36,965,000).

(d) The Group has discounted certain bills it received at banks, and endorsed certain bills it received to its suppliers and other creditors for settlement of the Group's trade payables on a full recourse basis. Upon the above discounting or endorsement, the Group has not derecognised the bills receivables as the Group remains to have a significant exposure to the credit risk of these bills receivables. The carrying amounts of the associated bank loans and trade payables amounted to RMB6,309,000 at 31 December 2020 (2019: RMB6,714,000).

**11 TRADE PAYABLES**

	At <b>31 December</b> <b>2020</b> <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Payables for productions and acquisitions of drama series	<b>379,480</b>	294,975

All of the trade payables are expected to be settled within one year or are repayable on demand. The ageing analysis of trade payables, based on the transaction date, is as follows:

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	94,220	134,820
3 to 6 months	8,447	2,260
6 to 12 months	80,861	45,010
1 to 2 years	116,098	103,925
More than 2 years	79,854	8,960
	<u>379,480</u>	<u>294,975</u>

## 12 BANK AND OTHER LOANS

The Group's short-term bank and other loans are analysed as follows:

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Bank loans:		
– Secured by the Group's trade and bills receivables and restricted deposits ( <i>Note (i)</i> )	50,000	27,793
– Guaranteed by a subsidiary of the Group and related parties	15,000	–
	<u>65,000</u>	27,793
Other loans from third parties:		
– Unsecured and unguaranteed ( <i>Note (ii)</i> )	14,151	28,868
	<u>79,151</u>	<u>56,661</u>

*Notes:*

- (i) At 31 December 2020, the aggregate amount of deposits pledged is RMB52,181,600 (2019: the aggregate amount of deposits and trade and bills receivables pledged are RMB51,166,000).
- (ii) The balance represents loans from third-party non-executive producers with fixed repayment terms and bears interest at a rate of 15% per annum (2019: 15%).

## 13 SHARE CAPITAL

	At 31 December 2020		At 31 December 2019	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised share capital ( <i>Note (i)</i> )	<b>500,000</b>	<b>5,000</b>	38,000	380

  

	At 31 December 2020		At 31 December 2019	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
<b>Ordinary shares, issued and fully paid:</b>				
<b>At 1 January 2020/17 June 2019 (date of incorporation)</b>	<b>10,000,000</b>	<b>90</b>	1	*
Issuance of shares	–	–	9,999,999	90
Capitalisation issue ( <i>Note (ii)</i> )	<b>215,000,000</b>	<b>1,966</b>	–	–
Issuance of shares by initial public offering ( <i>Note (iii)</i> )	<b>75,000,000</b>	<b>686</b>	–	–
At 31 December 2020	<b>300,000,000</b>	<b>2,742</b>	10,000,000	90

\* Amount less than RMB1,000.

### Notes:

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 June 2019. The Company's initial authorised share capital was HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. On 24 May 2020, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$5,000,000 into 500,000,000 shares of HK\$0.01 each.
- (ii) Immediately prior to the completion of the initial public offering, the Company allotted and issued 215,000,000 ordinary shares, credited as fully paid, to the equity shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 24 May 2019 by way of capitalisation of the sum of HK\$2,150,000 (equivalent to approximately RMB1,966,000) standing to the credit of the share premium account of the Company.
- (iii) 75,000,000 ordinary shares of par value of HK\$0.01 each were issued at a price of HK\$2.56 per ordinary share upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HK\$750,000 (equivalent to approximately RMB686,000), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of share issuance expenses (including issuance expenses of RMB4,076,000 paid prior to 2020), of approximately HK\$177,563,000 (equivalent to approximately RMB162,355,000) were credited to the Company's share premium account.

## **14 DIVIDENDS**

The directors of the Company do not recommend the payment of any final dividends for the current year (2019: Nil).

## **15 IMPACTS FROM COVID-19 PANDEMIC**

The COVID-19 pandemic since early 2020 continues to bring uncertainties to the Group's operating environment and may impact the Group's operations and financial position.

Despite of the easing of the COVID-19 pandemic in Mainland China, the Group continues to closely monitor the possible impact of the COVID-19 pandemic has on the Group's businesses and keep contingency measures in place and under review in the case where the COVID-19 pandemic rebounds. The directors of the Company confirm that these contingency measures include but not limited to reassessing changes to the customers' preferences on the types of drama series to be broadcasted, assessing the readiness of the production units and revisiting the progress of self-produced drama series, reassessing the adequacy and suitability of the Group's existing suppliers inventory of drama series, expanding the Group's supplier base in a view to procure suitable drama series to be broadcasted, negotiating with customers on possible delay in delivery timetables, increasing monitoring of the business environment of the Group's customers, and improving the Group's cash management by expediting debtor settlements and negotiating with suppliers on extension of payment terms.

The exact timing of the cessation of the COVID-19 pandemic is still uncertain. Nonetheless, the directors of the Company is optimistic that the COVID-19 pandemic will eventually be under full control.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospects

We are a drama series distribution company in the PRC. The Group was established in 2013, and is primarily engaged in the business of licensing the broadcasting rights of self-produced and outright-purchased drama series. For the years ended 31 December 2019 and 2020, we distributed a total of 45 and 40 drama series, respectively, which were comprised of self-produced drama series and outright-purchased drama series we purchased outright from third-party copyright owners/licensors.

For the year ended 31 December 2020, we had licensed more than 30 drama series to well-known TV stations, including the first-run broadcast and rerun broadcast.

On 22 June 2020, the Shares of the Company were successfully listed on the Main Board of the Stock Exchange. The Listing marks an important milestone in the Company's history as it was a recognition of our efforts in business development and past success.

The outbreak of the 2019 coronavirus disease (“**COVID-19**”) has impacted our operations and financial position adversely. Although the outbreak of COVID-19 has caused some suppliers to implement work-from-home arrangements and impose travel restrictions on their employees, the content review and inspection of the relevant outright-purchased drama series could be completed remotely through mobile phones and/or video conferences. We still focused on expanding our business of licensing the broadcasting rights of outright-purchased drama series and self-produced drama series during the Year. We actively communicated with third-party copyright owners/licensors to procure the broadcasting rights of quality drama series and recommended suitable genres of drama series to our customers.

During the Year, we successfully licensed the first-run broadcasting rights of “Double Guns” (雙槍), which was our self-produced drama series.

In addition, we successfully licensed the first-run broadcasting rights of “Waiting for You in Beijing” (我在北京等你), “Skate into Love” (冰糖燉雪梨) and “The Story of Happiness” (幸福里的故事) to the satellite channels, which were our outright-purchased drama series.

With respect to our self-produced drama series, we filmed the drama series named “Unparalleled at Thirty” (無與倫比的美麗) during the Year and currently plan to begin filming several drama series such as the drama series named “Starting Line” (別擔心，我們一起長大) in the 2021.

Looking forward, we expect that the biggest challenge in 2021 will still be the COVID-19 pandemic, the impact of which has already been reflected in the following aspects: (1) due to the travel restrictions caused by the COVID-19 pandemic, our business of outright-purchased drama series will be adversely affected to a certain extent; (2) certain drama series planned to be filmed are temporarily halted and the completion time of production is expected to be delayed; (3) due to the said halt in new drama series production and the difficulties in obtaining relevant outright-purchased drama series, the revenue contribution of which in 2021 is expected to be adversely affected; and (4) the Group's daily operation is interrupted to a certain degree due to the precautionary measures.

In 2021, we will work closely with the third-party copyright owners/licensors to obtain the copyrights of additional outright-purchased drama series of different genres to cater to the different preferences of our customers. In addition, we will try our best to begin filming our expected self-produced drama series.

Nevertheless, our management is confident in the future growth of our business. Notwithstanding the uncertainties brought about by the COVID-19 pandemic to the industry and the overall competitive business environment, the Group will be continue to dedicated to implementing the business strategies as set out in the Prospectus.

## Financial Review

### Revenue

The following table sets forth a breakdown of our revenue by business segments for the years indicated:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from the licensing of the broadcasting rights of self-produced drama series	<b>10,174</b>	88,982
Revenue from the licensing of the broadcasting rights of outright-purchased drama series	<b>442,267</b>	278,588
Revenue from the licensing of the broadcasting rights under co-financing arrangements	<b>2,826</b>	13,968
Revenue from the provision of distribution agency services	–	9,458
<b>Total</b>	<b>455,267</b>	390,996

Our revenue increased by approximately 16.4% from approximately RMB391.0 million for the year ended 31 December 2019 to approximately RMB455.3 million for the year ended 31 December 2020. The increase was mainly due to an increase of approximately RMB163.7 million in revenue from the licensing of the broadcasting rights of outright-purchased drama series, partially offset by (i) a decrease of approximately RMB78.8 million in revenue from the licensing of the broadcasting rights of self-produced drama series; (ii) a decrease of approximately RMB11.1 million in revenue from the licensing of broadcasting rights under co-financing arrangements; and (iii) a decrease of approximately RMB9.5 million in revenue from the provision of distribution agency services.

### ***Revenue by Business Segments***

#### *(i) Licensing of the broadcasting rights of self-produced drama series*

Revenue generated from the licensing of the broadcasting rights of self-produced drama series decreased by approximately 88.6% from approximately RMB89.0 million for the year ended 31 December 2019 to approximately RMB10.2 million for the year ended 31 December 2020, primarily because only one self-produced drama series was licensed the first-run broadcast on satellite channels in 2020, as we shifted to focus on expanding our business of licensing the broadcasting rights of outright-purchased drama series to cater to the timing and content preferences of our customers.

Under this business segment, revenue generated from our customers that are TV channels accounted for approximately 94.0% and 81.1% of our revenue generated from licensing the broadcasting rights of self-produced drama series for the years ended 31 December 2019 and 2020, respectively, while the remainder of this segment revenue was attributable to other third-party customers.

Among revenue generated from licensing the broadcasting rights of self-produced drama series, approximately 62.0% and 43.0% was generated from first-run broadcast on satellite TV channels for the years ended 31 December 2019 and 2020, respectively. For the same years, approximately 32.0% and 38.1% of the revenue, respectively, was generated from rerun broadcast and terrestrial broadcast on satellite TV channels. The remainder was generated from licensing the broadcasting rights of self-produced drama series to other third-party customers.

#### *(ii) Licensing of the broadcasting rights of outright-purchased drama series*

In addition to licensing the broadcasting rights of our self-produced drama series, we are engaged in licensing the broadcasting rights of drama series which we purchased from third-party copyright owners/licensors.

Under this business segment, we either purchase the entire copyrights of the drama series (in which case, we will be able to license the broadcasting rights to our customers in any region in the PRC for any period of time at our discretion), or we only purchase the rights to use, or the rights to transfer the broadcasting rights of, the drama series in certain designated regions of the PRC for a specific period of time. We generally enter into the content distribution agreements with the copyright owners/licensors to obtain copyrights or the rights to use, or the rights to license the broadcasting rights of, the particular drama series, as the case may be. Subsequently, we distribute the relevant drama series to our customers.

Under this business segment, revenue generated from our customers that are TV channels accounted for approximately 89.9% and 91.8% of our revenue generated from licensing the broadcasting rights of outright-purchased drama series for the years ended 31 December 2019 and 2020, respectively, while the remainder of our segment revenue was attributable to other third-party customers.

In addition, for the years ended 31 December 2019 and 2020, among revenue generated from licensing the broadcasting rights of outright-purchased drama series, approximately 60.7% and 49.8%, respectively, was generated from first-run broadcast on satellite TV channels. For the same years, approximately 28.8% and 42.0% was generated from rerun broadcast on satellite TV channels, respectively, and the remainder was attributable to terrestrial TV channels and other third-party customers.

Our revenue generated from the licensing of the broadcasting rights of outright-purchased drama series increased by approximately 58.8% from approximately RMB278.6 million for the year ended 31 December 2019 to approximately RMB442.3 million for the year ended 31 December 2020, primarily because (a) the Group recorded the revenue of approximately RMB220.2 million generated from first-run broadcast on satellite TV channels as a result of the licensing of the first-run broadcasting rights of “Waiting for You in Beijing” (我在北京等你), “Skate into Love” (冰糖炖雪梨) and “The Story of Happiness” (幸福里的故事) during the Year; and (b) the Group recorded the revenue of approximately RMB53.4 million generated from rerun broadcasting rights of “I Will Find You a Better Home” (安家) on satellite TV channels.

*(iii) Revenue from the licensing of the broadcasting rights under co-financing arrangements*

Revenue generated from the licensing of the broadcasting rights under co-financing arrangements decreased by approximately 80.0% from approximately RMB14.0 million for the year ended 31 December 2019 to approximately RMB2.8 million for the year ended 31 December 2020, primarily because the Group recorded the revenue from the licensing of the broadcasting rights of only one drama series under co-financing arrangements during the Year.

(iv) *Acting as a distribution agent of the broadcasting rights of drama series*

Revenue generated from distribution of broadcasting rights of drama series decreased by 100% from approximately RMB9.5 million for the year ended 31 December 2019 to nil for the year ended 31 December 2020. No distribution agent service was provided by the Group in the year ended 31 December 2020.

**Cost of Sales**

The following table sets forth our cost of sales by business segment for the years ended 31 December 2019 and 2020:

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Costs of the licensing of broadcasting rights of self-produced drama series	16,829	60,739
Costs of the licensing of broadcasting rights of out right-purchased drama series	310,800	175,233
Costs of the licensing of the broadcasting rights under co-financing arrangements	1,756	13,890
<b>Total</b>	<b>329,385</b>	<b>249,862</b>

Our cost of sales increased by approximately 31.8% from approximately RMB249.9 million for the year ended 31 December 2019 to approximately RMB329.4 million for the year ended 31 December 2020, primarily due to the increase in costs of the licensing of broadcasting rights series of outright-purchased drama series, partially offset by a decrease in the costs relating to our self-produced drama series and the costs of the licensing of the broadcasting rights under co-financing arrangements.

Our costs of the licensing of broadcasting rights of outright-purchased drama series increased by approximately 77.4% from approximately RMB175.2 million for the year ended 31 December 2019 to approximately RMB310.8 million for the year ended 31 December 2020. This increase was primarily due to an increase in costs of purchasing the broadcasting rights of drama series, including “Skate into Love” (冰糖燉雪梨), “Waiting for You in Beijing” (我在北京等你), “The Story of Happiness” (幸福里的故事) and “I Will Find You a Better Home” (安家).

For the business segment of licensing of the broadcasting rights of self-produced drama series, the costs of sales decreased by approximately 72.3% from approximately RMB60.8 million for the year ended 31 December 2019 to approximately RMB16.8 million for the year ended 31 December 2020, primarily due to the decrease in revenue from the broadcasting rights of self-produced drama series.

For the business segment of licensing of the broadcasting rights under co-financing arrangements, the cost of sales decreased by approximately 87.4% from approximately RMB13.9 million for the year ended 31 December 2019 to approximately RMB1.8 million for the year ended 31 December 2020, primarily due to the decrease in the revenue of the licensing of the broadcasting rights under co-financing arrangements.

No cost of sales is presented for our distribution agency services business as the revenue from the provision of such services was presented on a net basis.

### ***Gross Profit and Gross Profit Margin***

The following table sets forth a breakdown of our gross profit and gross profit margin by business segments for the years indicated:

	<b>Year ended 31 December</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Gross profit RMB'000</b>	<b>Gross profit margin %</b>	<b>Gross profit RMB'000</b>	<b>Gross profit margin %</b>
Licensing of the broadcasting rights of self-produced drama series	<b>(6,655)</b>	<b>(65.4)</b>	28,243	31.7
Licensing of the broadcasting rights of outright-purchased drama series	<b>131,467</b>	<b>29.7</b>	103,355	37.1
Licensing of the broadcasting rights under co-financing arrangements	<b>1,070</b>	<b>37.9</b>	78	0.6
Distribution agency services	–	N/A	9,458	100
<b>Total</b>	<b>125,882</b>	<b>27.7</b>	<b>141,134</b>	<b>36.1</b>

#### *(i) Gross profit*

Our gross profit decreased by approximately 10.8% from approximately RMB141.1 million for the year ended 31 December 2019 to approximately RMB125.9 million for the year ended 31 December 2020, primarily due to (a) a decrease in gross profit from the licensing of the broadcasting rights of self-produced drama series; and (b) a decrease in gross profit from the distribution agency services, because we had no revenue from the provision of distribution agency services, partially offset by an increase in gross profit from the licensing of the broadcasting rights of outright-purchased drama series.

(ii) *Gross profit margin*

Our gross profit margin decreased from approximately 36.1% for the year ended 31 December 2019 to approximately 27.7% for the year ended 31 December 2020, mainly because (a) we did not generate revenue from the distribution agency services for the year ended 31 December 2020, and (b) the low gross profit margin of our outright-purchased drama series “Skate into Love” (冰糖燉雪梨) and “The Story of Happiness” (幸福里的故事), from which our Group generated approximately 32.4% of the revenue during the Year.

In addition, our gross profit margin of licensing the broadcasting rights of self-produced drama series was approximately 31.7% and negative 65.4%, respectively, for the years ended 31 December 2019 and 2020. Our gross profit margin of licensing the broadcasting rights of self-produced drama series for the year ended 31 December 2020 was lower than that for 2019, primarily because we made impairment provision of the carrying value of “Double Guns” (雙槍) and “Glory of the Blood” (鐵血榮耀), which resulted in gross loss of approximately RMB9.5 million and negative gross profit margin of approximately 150.3%.

Our gross profit margin of licensing the broadcasting rights of outright-purchased drama series was approximately 37.1% and 29.7%, respectively, for the years ended 31 December 2019 and 2020. Our gross profit margin of licensing the broadcasting rights of outright-purchased drama series for the year ended 31 December 2020 was lower than that for 2019, primarily because the low gross profit margin of our outright-purchased drama series “Skate into Love” (冰糖燉雪梨) and “The Story of Happiness” (幸福里的故事), from which the Group generated 32.4% of the revenue during the Year.

***Other Income***

The following table sets forth a breakdown of our other income for the years indicated:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Government grants	<b>9,652</b>	3,163
Interest income from:		
– Cash at bank	<b>102</b>	49
– Loans to third parties	–	837
Net foreign exchange gain	<b>457</b>	–
Others	<b>440</b>	20
<b>Total</b>	<b><u>10,651</u></b>	<u>4,069</u>



Our other income increased by approximately 161.8% from approximately RMB4.1 million for the year ended 31 December 2019 to approximately RMB10.7 million for the year ended 31 December 2020, primarily due to an increase of approximately RMB6.5 million in government grants, which was due to (i) the bonus of RMB2.0 million in connection with the Listing awarded by the local government of Haining City, Zhejiang Province; and (ii) value-added tax and enterprise income tax refund of approximately RMB6.9 million in the aggregate received by our Group.

### *Selling and Marketing Expenses*

Selling and marketing expenses primarily consist of (i) staff costs relating to our sales and marketing employees; (ii) travel and transportation expenses of our marketing staff; and (iii) conference expenses relating to booth displays for television conferences and festivals we attended.

The following table sets forth the breakdown of our selling and marketing expenses for the years indicated:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	<b>868</b>	416
Travel and transportation expenses	<b>60</b>	57
Conference expenses	<b>157</b>	69
Others	<b>83</b>	1
<b>Total</b>	<b><u>1,168</u></b>	<b><u>543</u></b>

Our selling and marketing expenses increased by approximately 140.0% from approximately RMB0.5 million for the year ended 31 December 2019 to approximately RMB1.2 million for the year ended 31 December 2020, primarily due to an increase in staff costs as a result of the increased average number of our staff.

### *Administrative Expenses*

Administrative expenses primarily consist of (i) staff costs relating to our administrative department; (ii) rental fees, which includes the rental expenses and property management fees in connection with our leased properties; (iii) depreciation and amortization; (iv) office expenses; (v) consultancy fees, which mainly represents professional services fees, such as legal consulting fees, in connection with our business operations; (vi) transportation fees; (vii) travel expenses; (viii) entertainment expenses; (ix) taxes and surcharges, which primarily consist of construction tax, stamp duty and other education surcharges; and (x) bank charges, which primarily represent bank transaction fees.



The following table sets forth a breakdown of our administrative expenses for the years indicated:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	<b>10,345</b>	8,148
Rental fees	<b>267</b>	432
Depreciation and amortization	<b>1,999</b>	2,008
Office expenses	<b>347</b>	324
Consultancy fees	<b>4,842</b>	2,671
Transportation fees	<b>226</b>	213
Travel expenses	<b>541</b>	1,258
Entertainment expenses	<b>1,718</b>	1,670
Taxes and surcharges	<b>2,875</b>	3,269
Bank charges	<b>35</b>	404
Others	<b>1,441</b>	200
<b>Total</b>	<b>24,636</b>	20,597

Administrative expenses increased by approximately 19.4% from approximately RMB20.6 million for the year ended 31 December 2019 to approximately RMB24.6 million for the year ended 31 December 2020. This increase was primarily due to an increase of staff costs and consultancy fees.

#### ***Impairment Loss on Trade and Other Receivables***

We recorded impairment loss on trade and other receivables amounting to approximately RMB18.5 million during the Year.

The decrease of impairment provision was primarily due to the decrease in long outstanding trade receivables by our customers as of 31 December 2020.

## *Finance Costs*

Finance costs primarily consist of (i) interest on bank and other loans, which primarily includes interest on the investments made by passive investors in drama series that allow the investors (who may or may not participate in the production and/or distribution of such drama series) to receive the fixed contractual cash flows regardless of the sales performance of such drama series, which is partially capitalized, and interest on other loans; and (ii) interest on lease liabilities. The following table sets forth a breakdown of our finance costs for the years indicated:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest expenses on:		
– bank and other loans	<b>5,271</b>	7,761
– lease liabilities	<b>31</b>	62
Less: interest expenses capitalised into drama series copyrights	<b>(235)</b>	(3,054)
<b>Total</b>	<b><u>5,067</u></b>	<b><u>4,769</u></b>

Our finance costs increased slightly by approximately 6.2% from approximately RMB4.8 million for the year ended 31 December 2019 to approximately RMB5.1 million for the year ended 31 December 2020, primarily due to a decrease in interest expenses capitalised into drama series copyrights.

## *Income Tax*

Income tax expenses represent the tax expenses arising from the assessable profit generated by the Group in the PRC. The Company and subsidiaries are incorporated in different jurisdictions with different taxation requirements.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes. Pursuant to the PRC Income Tax Law and respective regulations, the Group operating income are subject to enterprise income tax (“EIT”) at a rate of 25% on the taxable income. No provision for Hong Kong profits tax was made as the Group had no assessable profit subject to Hong Kong profits tax for the years ended 31 December 2019 and 2020.

In addition, according to the Notice on Preferential EIT Policies 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》) promulgated by the Ministry of Finance and the State Taxation Administration of the PRC on 29 November 2011, an enterprise established in Horgos between 1 January 2010 to 31 December 2020 and falling within the scope of the Catalog of EIT Incentives for Industries Particularly Encouraged in Underprivileged Areas of Xinjiang for Development (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》) shall be exempted from the EIT entirely for five years beginning from the first year in which operational income is earned. According to the preferential filing record of EIT (企業所得稅優惠事項備案表) of our consolidated affiliated entities, (i) Horgos Tiantian Meimei Film Co., Ltd.\* (霍爾果斯甜甜美美影業有限公司), Horgos Haohao Xuexi Film Co., Ltd.\* (霍爾果斯好好學習影業有限公司), Tiantian Xiangshang Film Co., Ltd.\* (霍爾果斯天天向上影業有限公司) obtained the approval from the relevant PRC tax bureaus for entitlement of EIT exemption from January 2017 to December 2020; and (ii) Xinjiang Qingchun LiTian Film Co., Ltd.\* (新疆青春力天影業有限公司) and Horgos Yuema Film Co., Ltd.\* (霍爾果斯馮馬影業有限公司) are entitled to EIT exemption from January 2018 to December 2020 and in 2020, respectively.

The following table sets forth the major components of our income tax expense for the years indicated:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Current taxation</b>		
Provision for the year	<b>8,615</b>	9,590
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	<b>(7,314)</b>	(7,255)
<b>Total</b>	<b><u>1,301</u></b>	<u>2,335</u>

Our income tax expense was approximately RMB2.3 million and RMB1.3 million for the years ended 31 December 2019 and 2020, respectively. The decrease in the income tax expense primarily due to the decrease of provision of current taxation from approximately RMB9.6 million for the year ended 31 December 2019 to approximately RMB8.6 million for the year ended 31 December 2020.

#### ***Profit Attributable to Equity Shareholders of the Company for the Year***

As a result of the foregoing, our profit attributable to equity shareholders of the Company decreased by approximately 9.0% from approximately RMB77.0 million for the year ended 31 December 2019 to approximately RMB70.1 million for the year ended 31 December 2020.

## ***Liquidity, Financial Resources***

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations, bank loans and proceeds from the global offering.

As of 31 December 2020, we had cash at bank and on hand of approximately RMB185.7 million as compared to cash at bank and on hand of approximately RMB89.7 million as of 31 December 2019, which were predominantly denominated in RMB.

As of 31 December 2020, we had net current assets of approximately RMB531.0 million as compared to the net current assets of approximately RMB319.1 million as of 31 December 2019.

The Group primarily obtains borrowings from banks and other third parties to finance our business operations and to fulfil working capital requirements. In addition, we had total bank and other loans of approximately RMB79.2 million as of 31 December 2020 as compared to total bank and other loans of approximately RMB56.7 million as of 31 December 2019.

As of 31 December 2020, we had bank loans of RMB65.0 million, among which RMB50.0 million were secured by the deposits of approximately RMB52.2 million. In addition, we had unsecured and unguaranteed loans from third-party non-executive producers under the co-financing arrangement with fixed repayment terms of approximately RMB14.2 million as of 31 December 2020. The loans from third parties bore an interest rate of 15.0% per annum as of 31 December 2020.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, bank loans and other borrowings and other funds raised from the capital markets from time to time. Our objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and banks loans and other borrowings. We regularly review its major funding positions to ensure that hawse have adequate financial resources in meeting its financial obligations.

## ***Key Financial Ratios***

### *Return on equity*

The return on equity decreased from approximately 26.1% for the year ended 31 December 2019 to approximately 15.8% for the year ended 31 December 2020. Return on equity equals net profit for the year divided by the average of beginning and ending balances of total equity of the relevant year.

### *Return on total assets*

The return on total assets decreased from approximately 10.5% for the year ended 31 December 2019 to approximately 6.9% for the year ended 31 December 2020. Return on total assets equals net profit for the year divided by the average of beginning and ending balances of total assets of the relevant year.

### *Current ratio*

The Group's current ratio increased from approximately 1.6 times as at 31 December 2019 to approximately 1.9 times as of 31 December 2020. Current ratio equals our current assets divided by current liabilities as of the end of the year.

### *Gearing ratio*

The Group's gearing ratio decreased from approximately 17.0% as of 31 December 2019 to approximately 14.3% as of 31 December 2020. Gearing ratio equals total debt as of the end of the year divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.

### *Capital Expenditures*

Our capital expenditure primarily consists of expenditures on the improvements to leased properties and purchase of office furniture and other equipment. Our capital expenditures for the year ended 31 December 2020 and the year ended 31 December 2019 were insignificant and were primarily financed by cash flows from our operating activities.

### *Foreign Exchange Exposure*

The Group operates in the PRC and the functional currency is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As of 31 December 2020, only certain bank balances were denominated in HKD.

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

### *Pledge of Assets and Contingent Liabilities*

As of 31 December 2019 and 31 December 2020, our deposits and trade and bills receivables, which had an aggregate amount of approximately RMB51.2 million and RMB52.2 million, respectively, were pledged to secure the bank loans of approximately RMB27.8 million and RMB50.0 million granted to the Group.

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

## **Human Resources and Remuneration Policy**

As of 31 December 2020, the Group had 51 employees (47 as of 31 December 2019). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. The remuneration policies of the Group are determined based on prevailing market levels and performance of the Group as well as the individual employees. These policies are reviewed on a regular basis. In addition to salary, the Group also offers to its employees other fringe benefits, including year-end bonus, discretionary bonus, share options to be granted under the Company's share option scheme, contributory provident fund, social security fund and medical benefits. We also provide suitable technical training according to the needs of different positions in order to improve their abilities. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the Year.

### **Share Option Scheme**

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to the resolution passed on 24 May 2020 to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible Persons of the Share Option Scheme include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group (the "**Executive**"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; (g) an associate of any of the persons referred to in paragraphs (a) to (f) above; and (h) any person involved in the business affairs of the Company whom the Board determines to be appropriate to participate in the Share Option Scheme.

No share options have been granted since the adoption date of the Share Option Scheme and there are no outstanding share options as at 31 December 2020.

## Significant Investment, Material Acquisition and Disposal

For the year ended 31 December 2020, the Group did not have any significant investment and material acquisition or disposal of subsidiaries, associates and joint ventures.

## EVENTS AFTER THE REPORTING PERIOD

From 31 December 2020 and up to the date of this announcement, we had licensed the first-run broadcasting rights of “The Ideal Life of Love” (愛的理想生活).

The Group will continue to monitor the impact of COVID-19 pandemic and adjust our business contingency plans as appropriate. Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2020 and up to the date of this announcement.

## USE OF NET PROCEEDS

The Shares of the Company were listed on the main board of the Stock Exchange on 22 June 2020. Net proceeds from the global offering of the Company in 2020 amounted to approximately HK\$152.0 million, after deducting underwriting commission fee and relevant expenses in connection with the global offering.

The following table sets forth a breakdown of the utilisation and proposed utilisation of net proceeds as of 31 December 2020:

No.	Purpose	Percentage of total amount %	Net proceeds HK\$ million	Utilised amount HK\$ million	Unutilised amount HK\$ million	Expected timeline for utilisation of proceeds
1.	Produce own drama series	50.0	76.0	30.3	45.70	By December 2023
2.	Outright-purchase the copyrights (or broadcasting rights) associated with drama series from third-party copyright owners/licensors	37.5	57.0	18.8	38.2	By December 2023
3.	Hire additional experienced professionals and provide staff training	7.5	11.4	–	11.4	By December 2023
4.	Working capital and general corporate purposes	5.0	7.6	1.0	6.6	By December 2023
Total		100.0	152.0	50.1	101.9	

From the Listing Date to 31 December 2020, the Group has used approximately HK\$50.1 million, representing approximately 33.0% of the net proceeds from the global offering. The Group will utilise the net proceeds in the manners as stated in the Prospectus.



## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining high standards of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Company has studied relevant regulations thoroughly as stipulated in the Listing Rules and introduced corporate governance practices appropriate for its operation and management. The Board believes that good corporate governance is one of the essential factors leading to the success and sustainability of the Group.

Throughout the period from the Listing Date to 31 December 2020, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code and adopted most of the recommended best practices as set out therein.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company had also adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to 31 December 2020.

## **AUDIT COMMITTEE**

The Company established the Audit Committee which currently comprises two independent non-executive Directors, Mr. Liu Hanlin (劉翰林先生) and Mr. Gan Weimin (甘為民先生) and a non-executive Director, Mr. Yu Yang (余楊先生). Mr. Liu Hanlin is the chairman of the Audit Committee. The primary duties of the Audit Committee include but not limited to supervising our internal control, risk management, financial information disclosure and financial reporting matters. The Audit Committee's composition and written terms of reference are in line with the Corporate Governance Code.

The Audit Committee, together with the management and the external auditor of the Company, has reviewed the annual results of the Group for the year ended 31 December 2020. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group. The Audit Committee considered that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.



## **SCOPE OF WORK OF THE AUDITORS**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, KPMG, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance had been expressed by KPMG on this announcement.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities throughout the period from the Listing Date to 31 December 2020.

## **ANNUAL GENERAL MEETING**

The forthcoming annual general meeting of the Company will be held on Friday, 28 May 2021, the notice of which will be published and despatched to the Shareholders as soon as practicable in accordance with the Company's Articles of Association and the Listing Rules.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 28 May 2021, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021 (both days inclusive), during which no transfer of Shares will be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, for registration not later than 4:30 p.m. on Monday, 24 May 2021.

## **FINAL DIVIDEND**

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.litian.tv](http://www.litian.tv)). The annual report of the Company for the year ended 31 December 2020 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

## DEFINITIONS

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

“Audit Committee”	the audit committee of the Company
“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Litian Pictures Holdings Limited (力天影業控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 17 June 2019 and whose Shares are listed on the Main Board of the Stock Exchange (Stock code: 9958)
“Corporate Governance Code”	the corporate governance code contained in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Group” or “We”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing”	the Shares were listed on the Main Board of the Stock Exchange
“Listing Date”	22 June 2020, the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules
“Prospectus”	the prospectus of the Company dated 10 June 2020
“RMB”	Renminbi, the lawful currency of the PRC

“Share(s)”	the ordinary share(s) of the Company with a nominal value of HK\$0.01 each, in the share capital of the Company
“Shareholder(s)”	the holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in sections 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“%”	per cent.

*If there is any inconsistency between the Chinese names of PRC nationals, entities, departments, facilities, certificates, titles, etc. and their English translations, the Chinese names shall prevail. The English translation of PRC nationals, entities, departments, facilities, certificates, titles, etc. which are marked with “\*” is for identification purpose only.*

By order of the board of  
**Litian Pictures Holdings Limited**  
**Yuan Li**  
*Chairman and executive Director*

Hong Kong, 29 March 2021

*As at the date of this announcement, the Board comprises Mr. Yuan Li, Ms. Tian Tian and Ms. Fu Jieyun as executive Directors, Mr. Yu Yang, Mr. Tang Zhiwei and Mr. Luo Jianxing as non-executive Directors and Mr. Teng Bing Sheng, Mr. Liu Hanlin and Mr. Gan Weimin as independent non-executive Directors.*