



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)

一个上海家庭的
角色互换实验

毛利一著



2020 ANNUAL REPORT





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yuan Li (袁力) (*Chairman*)
Ms. Tian Tian (田甜) (*Chief Executive Officer*)
Ms. Fu Jieyun (傅潔雲)

Non-executive Directors

Mr. Yu Yang (余楊)
Mr. Tang Zhiwei (唐志偉)
Mr. Luo Jianxing (羅建幸)

Independent Non-executive Directors

Mr. Teng Bing Sheng (滕斌聖)
Mr. Liu Hanlin (劉翰林)
Mr. Gan Weimin (甘為民)

AUDIT COMMITTEE

Mr. Liu Hanlin (劉翰林) (*Chairman*)
Mr. Yu Yang (余楊)
Mr. Gan Weimin (甘為民)

REMUNERATION COMMITTEE

Mr. Gan Weimin (甘為民) (*Chairman*)
Mr. Teng Bing Sheng (滕斌聖)
Mr. Liu Hanlin (劉翰林)

NOMINATION COMMITTEE

Mr. Teng Bing Sheng (滕斌聖) (*Chairman*)
Mr. Liu Hanlin (劉翰林)
Ms. Fu Jieyun (傅潔雲)

JOINT COMPANY SECRETARIES

Ms. Fu Jieyun (傅潔雲)
(Appointed on 13 January 2021)
Mr. Lee Leong Yin (李亮賢)
Ms. Lau Suk Ching (劉淑貞)
(Resigned on 13 January 2021)

AUTHORISED REPRESENTATIVES

Ms. Tian Tian (田甜)
Ms. Fu Jieyun (傅潔雲)

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
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Grand Cayman, KY1-1111
Cayman Islands

REGISTERED OFFICE

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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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LEGAL ADVISORS

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HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
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PRINCIPAL BANKS

China Merchants Bank (Hangzhou Science
and Technology City Branch)
China Minsheng Bank (Hangzhou Jiefang Branch)

COMPLIANCE ADVISOR

Founder Securities (Hong Kong)
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AUDITORS

KPMG
Certified Public Accountants
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10 Chater Road
Central, Hong Kong

COMPANY WEBSITE

www.litian.tv

STOCK CODE

9958

LISTING DATE

22 June 2020



Financial Highlights

SELECTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS DATA

	Year ended 31 December		Percentage change
	2020 RMB'000 (Audited)	2019 RMB'000 (Audited)	
Revenue	455,267	390,996	+16.4%
Gross profit	125,882	141,134	-10.8%
Profit attributable to equity shareholders of the Company	70,080	77,034	-9.0%
Adjusted profit attributable to equity shareholders of the Company (excluding the effect of the Listing expenses)	85,842	88,672	-3.2%
Basic and diluted earnings per Share (RMB)	0.26	0.34	-23.5%



Chairman's Statement

Dear Shareholders,

Litian Pictures Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") embarked on its journey into the drama series industry in China in 2013. With continuous dedication to pursuing excellence in the industry, the Shares were successfully listed on the Main Board of the Stock Exchange on 22 June 2020 after seven years of effort.

The Listing marked an important milestone of the Company's development, which also fully reflected the strong development prospects of the Company. The proceeds raised from the Listing enhanced our financial strength and put us in a better position to grasp the fleeting development opportunities of the drama series industry, providing capital support for fostering the main business and diversifying business development, as well as laying a solid foundation for our long term growth.

BUSINESS REVIEW

For the year ended 31 December 2020, the Group recorded a revenue of RMB455.3 million with a year-on-year increase of 16.4%; profit attributable to equity shareholders of the Company for the year of RMB70.1 million with a year-on-year decrease of 9.0%; adjusted profit attributable to equity shareholders of the Company for the Year (excluding the effect of the Listing expenses) of RMB85.8 million with a year-on-year decrease of 3.2%. In the Year, despite the adverse effect on the drama series industry in China caused by the 2019 Coronavirus disease pandemic, the Company presented a stark contrast with its strong growth and performance.

In the Year, we successfully licensed the first-run broadcasting rights of "Double Guns" (雙槍), which was our self-produced drama series, to a satellite channel. 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.

FUTURE DEVELOPMENT

Going forward, the business development strategies of the Company will mainly focus on the following aspects:

- We will continue to strengthen and improve the results of drama series production and distribution. We will further expand the licensing of the broadcasting rights of self-produced drama series operation and invest in the production of drama series of various genres and themes with a view to diversifying the drama series portfolio of the Company.
- Given the emphasis on copyright protection in the China-US trade negotiations, China will further step up its efforts in the protection and management of intellectual property ("IP") rights. Accordingly, the Company will enhance market research to gain accurate insights into industry development and latest trends of the market, as well as expand our scripts and IP inventories.



Chairman's Statement

ACKNOWLEDGEMENT

Last but not least, on behalf the Board, I would like to thank the team of the Company for their ongoing efforts and take this opportunity to express our most sincere gratitude towards the customers, business partners and Shareholders for their long-standing and unwavering support.

Yuan Li

Chairman and Executive Director

Hong Kong, 29 March 2021

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 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.



Management Discussion and Analysis

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:

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

Management Discussion and Analysis

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.



Management Discussion and Analysis

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" (冰糖嫩雪梨) 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 outright-purchased drama series	310,800	175,233
Costs of the licensing of the broadcasting rights under co-financing arrangements	1,756	13,890
Total	329,385	249,862

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.

Management Discussion and Analysis

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 cost 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:

	Year ended 31 December			
	2020		2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Licensing of the broadcasting rights of self-produced drama series	(6,655)	(65.4)	28,243	31.7
Licensing of the broadcasting rights of outright-purchased drama series	131,467	29.7	103,355	37.1
Licensing of the broadcasting rights under co-financing arrangements	1,070	37.9	78	0.6
Distribution agency services	–	N/A	9,458	100.0
Total	125,882	27.7	141,134	36.1



Management Discussion and Analysis

(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 the 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.

Management Discussion and Analysis

Other Income

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

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
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
Total	10,651	4,069

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 the 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:

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

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.



Management Discussion and Analysis

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:

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

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

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.



Management Discussion and Analysis

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.* (霍爾果斯躍馬影業有限公司) 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:

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

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 of 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.



Management Discussion and Analysis

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.

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.

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.

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	Net	Utilised	Unutilised	Expected timeline for utilisation of proceeds
		of total amount %	proceeds HK\$ million	amount HK\$ million	amount HK\$ million	
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.



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yuan Li (袁力), aged 43, was appointed as a Director on 17 June 2019 and was re-designated to the chairman of the Board and an executive Director on 27 September 2019. Mr. Yuan has over 22 years' experience in the television and film industry. The following table shows the key working experience of Mr. Yuan:

Period	Company	Latest position	Roles and responsibilities
August 2013 to present	LiTian TV & Film	Director and general manager	Oversee management and operations of the company
June 1998 to June 2013	Great Wall Movie and Television Co., Ltd.* (長城影視股份有限公司, "Great Wall Movie and Television"), a company listed on the Shenzhen Stock Exchange (stock code: 002071)	Deputy general manager	Oversee management and operations of the distribution department

Mr. Yuan was an executive director, supervisor and/or legal representative of the below companies established in the PRC at the time of or within one year prior to its dissolution. Mr. Yuan confirmed that (i) these companies were solvent and not in operation immediately prior to their dissolution, (ii) there was no wrongful act on his part leading to the dissolution of these companies, (iii) he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of these companies, and (iv) that no misconduct or misfeasance has been involved in the dissolution of these companies.

Company	Principal business	Methods of dissolution	Role(s)
Dongyang Changli Firm Services Co. Ltd.* (東陽長立影視服務有限公司)	Rental & sale of film and television equipments	Dissolved by deregistration	Legal representative and supervisor
Beijing Great Wall Huanyu International Film Advertising Co. Ltd.* (北京長城環宇國際影視廣告有限公司)	Design, production, agency and release of domestic and foreign advertisements	Dissolved by deregistration	Legal representative and executive director

Mr. Yuan has graduated from The Open University of China (中央廣播電視大學) in Beijing, the PRC in January 2016 with a diploma in administration management. Mr. Yuan was awarded the Outstanding Distributor Award (優秀發行人) by the Shanghai Eastern Television Channel (上海東方電影頻道) in 2017.

Ms. Tian Tian is the spouse of Mr. Yuan Li.

Directors and Senior Management

Ms. Tian Tian (田甜), aged 38, was appointed as an executive Director on 27 September 2019 and the chief executive officer of the Group on 24 May 2020.

Ms. Tian has over 16 years' experience in the television and film industry. The following table shows the key working experience of Ms. Tian:

Period	Company	Latest position	Roles and responsibilities
August 2016 to present	LiTian TV & Film	Director	Oversee operation of the company
August 2018 to February 2019	Chongqing Wanmei Zhenzhi Film Co., Ltd.* ⁽¹⁾ (重慶完美臻至影視文化有限公司)	Director and general manager	Oversee management and operations of the company
October 2017 to February 2019	Beijing Perfect World Pictures Limited Liability Company* (北京完美影視傳媒有限責任公司)	Vice president	Responsible for the investment, production, promotion and distribution of film
February 2004 to November 2016	Beijing Enlight Media Co., Ltd.* (北京光線傳媒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300251)	General manager of distribution department and producer	Responsible for the investment, production, promotion and distribution of film

Note:

(1) Chongqing Wanmei Zhenzhi Film Co., Ltd is a subsidiary of Perfect World Joint Stock Company* (完美世界股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002624).

Ms. Tian has graduated from the Beijing Normal University (北京師範大學) in Beijing, the PRC in June 2004 with a diploma in music education. Ms. Tian is in the course of obtaining a degree in EMBA from the Cheung Kong Graduate School of Business (長江商學院) in Beijing, the PRC.

Mr. Yuan Li is the spouse of Ms. Tian Tian.



Directors and Senior Management

Ms. Fu Jieyun (傅潔雲), aged 39, was appointed as an executive Director on 27 September 2019, the chief financial officer of the Group on 24 May 2020 and the joint company secretary of the Company on 13 January 2021.

Ms. Fu has over 16 years' experience in accounting. The following table shows the key working experience of Ms. Fu:

Period	Company	Latest position	Roles and responsibilities
September 2015 to present	LiTian TV & Film	Chief financial officer, deputy manager and secretary to the board of directors	Oversee financial operations of the company
May 2011 to September 2015	Hangzhou Unimas Data Technology Co., Ltd.* (杭州合眾資料技術有限公司)	Secretary to the board of directors and deputy general manager	Participate in management and operations of the company and assisting the operations of the board of directors
September 2004 to April 2011	Zhejiang Dongfang Accounting Firm* (浙江東方會計師事務所) which was merged into Pan-China Certified Public Accountants LLP* (天健會計師事務所) in 2009	Accountant – auditing manager	Manage auditing projects

Ms. Fu received bachelor's degrees in management and economics from the Zhejiang University of Finance & Economics (浙江財經大學) in Zhejiang, the PRC, majoring in accounting and finance, respectively, in June 2004. Ms. Fu has received her qualification in intermediate accounting in December 2008.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Yu Yang (余楊), aged 39, was appointed as a non-executive Director on 27 September 2019.

The following table shows the key working experience of Mr. Yu:

Period	Company	Latest position	Roles and responsibilities
May 2019 to present	Hangzhou Xiaoshan Ansheng Asset Management Co., Ltd.* (杭州蕭山安晟資產管理有限公司)	General manager	Overall operation and management
October 2018 to April 2019	An Yang Asset Management Hangzhou Co., Ltd.* (安揚資產管理(杭州)有限公司)	Managing director	Oversee management and operations of the company
March 2011 to September 2018	Zhejiang Yongle TV & Film Production Co., Ltd.* (浙江永樂影視製作有限公司)	Deputy general manager and secretary to the board of directors	Participate in management and operations of the company and the board of directors
November 2008 to February 2011	Zhejiang Development Asset Operations Co., Ltd.* (浙江省發展資產經營有限公司)	Investment manager	Participate in project investment
March 2006 to February 2008	Tongyi Nengyuan (Hangzhou) Investment Management Consulting Co., Ltd.* (統一能源(杭州)投資管理諮詢有限公司)	Planning manager	Participate in project planning

Mr. Yu received a master's degree in political economics from the School of Economics of the Zhejiang University (浙江大學) in Zhejiang, the PRC in March 2006.



Directors and Senior Management

Mr. Tang Zhiwei (唐志偉), aged 48, was appointed as a non-executive Director on 27 September 2019.

Mr. Tang joined the Group as a director of LiTian TV & Film on 24 December 2018. The following table shows the other key working experience of Mr. Tang:

Period	Company	Latest position	Roles and responsibilities
June 2011 to present	Shenzhen Junfeng Chuangye Investment Management Co., Ltd.* (深圳市君豐創業投資基金管理有限公司)	Director and general manager	Oversee management and operations of the company

Mr. Tang graduated from Guizhou Industrial College (貴州工學院) (later known as Guizhou Industrial University (貴州工業大學) which has now merged into Guizhou University (貴州大學)) in Guizhou, the PRC in August 1994 with a diploma in architecture.

Mr. Luo Jianxing (羅建幸), aged 48, was appointed as a non-executive Director on 27 September 2019.

Mr. Luo joined the Group as a director of LiTian TV & Film since 1 August 2016. The following table shows the other key working experience of Mr. Luo:

Period	Company	Latest position	Roles and responsibilities
September 2005 to present	Faculty of Creative Art and Management of the Zhejiang Institute of Communications* (浙江傳媒學院文化創意與管理學院)	Associate professor	Teaching
July 2001 to May 2004	Beingmate Baby & Child Food Co., Ltd.* (貝因美嬰童食品有限公司), a company listed on the Shenzhen Stock Exchange, stock code: 002570	Marketing director	Development and implementation of the brand strategy
March 2000 to June 2001	Guangdong Strong Group Co., Ltd.* (廣東喜之郎集團有限公司)	Market research manager	Oversee market research department and development of the marketing strategy
May 1998 to February 2000	Johnson & Johnson (China) Co., Ltd.* (強生中國有限公司)	District sales manager	Establish sales goals and implement sales strategy
July 1994 to May 1998	Hangzhou Wahaha Group Co., Ltd.* (杭州娃哈哈集團有限公司)	Secretary to general manager, market supervisor	Management and organisation of projects and division

Directors and Senior Management

Mr. Luo graduated from the Shandong University (山東大學) in Shandong, the PRC in July 1994 with a bachelor's degree in marketing. Mr. Luo also received a master's degree in Management from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, PRC in September 2005.

Mr. Luo has received his qualification as an associate professor in Management Science and Engineering from the Department of Personnel of Zhejiang Province in September 2011.

Mr. Luo was an executive director, supervisor and/or legal representative of the below companies established in the PRC at the time of or within one year prior to its dissolution. Mr. Luo confirmed that (i) these companies were solvent and not in operation immediately prior to their dissolution, (ii) there was no wrongful act on his part leading to the dissolution of these companies, (iii) he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of these companies, and (iv) that no misconduct or misfeasance has been involved in the dissolution of these companies:

Company	Principal business	Methods of dissolution	Role(s)
Hangzhou Taolinqi Network Technology Co. Ltd.* (杭州淘臨期網絡科技有限公司)	Electronic business technology, consultancy	Dissolved by deregistration	Legal representative, executive director and general manager
Hangzhou Youxianjia E-Commerce Co. Ltd.* (杭州悠閒家電子商務有限公司)	E-commerce	Revoked ⁽¹⁾	Supervisor

Note:

(1) the license of Hangzhou Youxianjia E-Commerce Co. Ltd.* was revoked by the authority as the company did not complete the incorporation procedure.



Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Teng Bing Sheng (滕斌聖), aged 50, was appointed as an independent non-executive Director on 24 May 2020.

The following table shows the key working experience of Mr. Teng:

Period	Company	Latest position	Roles and responsibilities
January 2007 to present	Cheung Kong Graduate School of Business (CKGSB) (長江商學院)	Professor of strategic management and the associate dean for CKGSB	Teaching strategic management courses
August 1998 to February 2007	George Washington University	Tenured associate professor of Strategic Management	Doctoral advisor and lead professor of the departmental doctoral program

Mr. Teng received a Doctor of Philosophy degree in business from the City University of New York in October 1998 in New York, the United States.

Mr. Teng concurrently served as an independent non-executive director of Wanda Hotel Development Company Limited (Stock Exchange, stock code: 169) since March 2019, and an independent director of each of Aoshikang Technology Company* (奧士康科技股份有限公司) (Shenzhen Stock Exchange stock code: 002913) since November 2018 and Haisco Pharmaceutical Group Co., Ltd.* (海思科醫藥集團股份有限公司) (Shenzhen Stock Exchange stock code: 002653) since January 2017. Mr. Teng served as an independent non-executive director of ZTE Corporation (中興通訊股份有限公司) (Stock Exchange, stock code: 763, and Shenzhen Stock Exchange stock code: 000063) from July 2015 to June 2018, and an independent director of Shandong Gold Mining Co., Ltd.* (山東黃金礦業股份有限公司) (Shanghai Stock Exchange stock code: 600547) from December 2014 to December 2017.

Mr. Liu Hanlin (劉翰林), aged 57, was appointed as an independent non-executive Director on 24 May 2020.

The following table shows the key working experience of Mr. Liu:

Period	Company	Latest position	Roles and responsibilities
July 1984 to present	Hangzhou Dianzi University (杭州電子科技大學)	Professor	Teaching and Researching

Directors and Senior Management

Mr. Liu graduated from the Hangzhou Dianzi University (杭州電子科技大學) in Hangzhou, the PRC in July 1984 with a bachelor's degree in economics majoring in financial accounting. Mr. Liu also received a master's degree in Management majoring in accounting from Xiamen University (廈門大學) in Xiamen, PRC in December 1999.

Mr. Liu has received his qualification as a professor in Accounting from the Department of Personnel of Zhejiang Province in December 2002. Mr. Liu became an associate member of the Chinese Institute of Certified Public Accounts since October 1997.

Mr. Liu concurrently served as an independent director of each of Zhejiang Changsheng Sliding Bearings Co.,Ltd.* (浙江長盛滑動軸承股份有限公司) (Shenzhen Stock Exchange stock code: 300718) since July 2016, Zhejiang Tiantai Xianghe Industrial Co., Ltd.* (浙江天台祥和實業股份有限公司) (Shanghai Stock Exchange stock code: 603500) since November 2016 and New East New Materials Co., Ltd.* (新東方新材料股份有限公司) (Shanghai Stock Exchange stock code: 603110) since February 2017. Mr. Liu served an independent director of Zhejiang Shouxiangu Pharmaceutical Co., Ltd.* (浙江壽仙谷醫藥股份有限公司) (Shanghai Stock Exchange stock code: 603896) from May 2013 to March 2019.

Mr. Gan Weimin (甘為民), aged 54, was appointed as an independent non-executive Director on 24 May 2020.

The following table shows the key working experience of Mr. Gan:

Period	Company	Latest position	Roles and responsibilities
January 2019 to present	Guantao Law Firm* (北京觀韜中茂律師事務所)	Managing partner	Oversee management and operation of the firm
November 2012 to December 2018	Guantao Law Firm (Shanghai)* (北京觀韜中茂(上海)律師事務所)	Lawyer	Provide legal services
June 2003 to October 2012	Zhejiang High Mark Law Firm* (浙江凱麥律師事務所)	Lawyer	Provide legal services
January 2002 to May 2003	Beijing Kaiyuan Law Firm* (北京市凱源律師事務所)	Lawyer	Provide legal services
April 1998 to January 2002	Zhejiang T&C Law Firm* (浙江天冊律師事務所)	Lawyer	Provide legal services



Directors and Senior Management

Mr. Gan graduated from the Zhejiang University (浙江大學) in Zhejiang, the PRC in July 1986 with a bachelor's degree in engineering awarded by the Department of Optical Instruments and Engineering (光學儀器工程學) and received from the same university a bachelor's degree in law and a master's degree in law respectively in June 1988 and April 1996. Mr. Gan has passed the national qualification examination in the PRC which accredited him as a qualified lawyer in the PRC in April 1991.

Mr. Gan concurrently serves as an independent non-executive director of Xin Point Holdings Limited (信邦控股有限公司) (Stock Exchange, stock code: 1571) since July 2017, and an independent director of each of Zhejiang Aishida Electric Co., Ltd.* (浙江愛仕達電器股份有限公司) (Small and Medium Enterprise Board of the Shenzhen Stock Exchange, stock code: 002403) since March 2017, Hangzhou Sunrise Technology Co., Ltd.* (杭州炬華科技股份有限公司) (ChiNext of the Shenzhen Stock Exchange, stock code: 300360) since January 2017, Shimge Pump Industry Group Co., Ltd.* (新界泵業集團股份有限公司) (Small and Medium Enterprise Board of the Shenzhen Stock Exchange, stock code: 002532) since May 2015, and Shanghai Huace Navigation Technology Ltd.* (上海華測導航技術股份有限公司) (ChiNext of the Shenzhen Stock Exchange, stock code: 300627) since January 2015.

Mr. Gan was an executive director, supervisor and/or legal representative of the below companies established in the PRC at the time of or within one year prior to its dissolution. Mr. Gan confirmed that (i) these companies were solvent and not in operation immediately prior to their dissolution, (ii) there was no wrongful act on his part leading to the dissolution of these companies, (iii) he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of these companies, and (iv) that no misconduct or misfeasance has been involved in the dissolution of these companies:

Name of the company	Nature of business	Methods of dissolution	Role(s)
Zhejiang Zuanmu Electronic Technology Co. Ltd.* (浙江鑽木電子科技有限公司)	Technology development, technical services	Dissolved by deregistration	Supervisor
Hangzhou Yincan Info Tech Co. Ltd.* (杭州因餐信息科技有限公司)	Technology development, technical services	Dissolved by deregistration	Supervisor

Directors and Senior Management

SENIOR MANAGEMENT

Ms. Lau Suk Ching (劉淑貞), aged 47, was appointed as the deputy general manager of the Company on 24 May 2020 and acted as the joint company secretary of the Company from 14 October 2019 to 13 January 2021.

Ms. Lau has over 22 years' experience in corporate financing and accounting. The following table shows the key working experience of Ms. Lau:

Period	Company	Latest position	Roles and responsibilities
June 2017 to present	Beijing Huicheng Asset Management Co., Ltd* (北京惠承資產管理有限公司)	Executive director	Oversee the management and operations of the company
April 2017 to present	Yi An Capital Management Company Limited (溢安資本管理有限公司)	Director	Oversee the management and operations of the company
November 2014 to November 2015	Tianjin Plateau Equity Investment Fund Management Ltd* (天津普拓股權投資基金管理有限公司)	Managing director of investment bank department	Manage and oversee private equity investments projects
November 2013 to October 2014	Harbin Bank Co., Ltd.* (哈爾濱銀行)	Deputy general manager of the planning & finance department and deputy head to the board office	Manage corporate financing activities and provide secretarial services to the board office
March 2007 to November 2013	China International Capital Corporation Limited (中國國際金融有限公司)	Executive general manager	Manage securities listing projects and provide corporate financing advisory services to customers
September 1997 to March 2007	Ernst & Young	Senior manager of assurance and advisory services department	Manage auditing projects



Directors and Senior Management

Ms. Lau received a bachelor's degree in business administration from the Chinese University of Hong Kong in December 1997. Ms. Lau has been an associate member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since May 2003 and became a fellow member of the Association of Chartered Certified Accountants in January 2012.

Ms. Zhang Yijia (張憶佳), aged 33, was appointed as the project director of the Company on 24 May 2020.

Ms. Zhang has over 7 years' experience in the television and film industry. The following table shows the key working experience of Ms. Zhang:

Period	Company	Latest position	Roles and responsibilities
August 2017 to present	LiTian TV & Film	Project director	Manage the production and operation of television drama and film
July 2016 to August 2017	Beijing Deyi Jujia Culture Media Co. Ltd.* (北京德藝巨佳文化傳媒有限公司)	Film producer	Oversee the production and development of TV and films
April 2013 to June 2016	Shanghai Juhe Film Culture Co.,Ltd.* (上海劇合影視文化有限公司)	Assistant to general manager and director of agents planning department	Oversee the operations of the department and agent related works

Ms. Zhang graduated from the Sichuan Normal University (四川師範大學) in Sichuan, the PRC in June 2011 with a bachelor's degree in broadcasting and television director.

Directors and Senior Management

Ms. Zhang Tianbi (張天碧), aged 32, was appointed as the distribution director of the Company on 24 May 2020.

Ms. Zhang has over 10 years' experience in the television and film industry. The following table shows the key working experience of Ms. Zhang:

Period	Company	Latest position	Roles and responsibilities
February 2017 to present	LiTian TV & Film	Distribution director	Manage the distributions of drama series
June 2010 to February 2017	Beijing Enlight Media Co., Ltd.* (北京光線傳媒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300251)	Director of new media copyright	Responsible for the distribution of drama series and film copyright

Ms. Zhang graduated from the Minzu University of China (中央民族大學) in Beijing, the PRC in July 2012 with a diploma in human resources management.

JOINT COMPANY SECRETARIES

Ms. Fu Jieyun (傅潔雲), aged 39, was appointed as a joint company secretary of the Company on 13 January 2021. For the biography of Ms. Fu Jieyun, please see the paragraph headed "Executive Director" in this section.

Mr. Lee Leong Yin (李亮賢), aged 33, was appointed as a joint company secretary of the Company on 14 October 2019. He is primarily responsible for the overall company secretarial matters of the Group. Mr. Lee is a manager of Corporate Secretarial Department of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for providing listed and private companies in corporate secretarial works. Mr. Lee has over ten years of experience in the corporate secretarial field. He is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute.

Save as otherwise disclosed in this annual report, there is no relationship between any of the members of the Board and senior management, and there is no information relating to the Directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1).



Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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 CG Code and adopted most of the recommended best practices as set out therein.

MODEL CODE FOR SECURITIES TRANSACTIONS

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.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board directly, and indirectly through the Board Committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

Composition

As at the date of this annual report, the Board is comprised of nine Directors, with three executive Directors, namely Mr. Yuan Li (袁力), Ms. Tian Tian (田甜) and Ms. Fu Jieyun (傅潔雲), three non-executive Directors, namely Mr. Yu Yang (余楊), Mr. Tang Zhiwei (唐志偉) and Mr. Luo Jianxing (羅建幸), and three independent non-executive Directors, namely Mr. Teng Bing Sheng (滕斌聖), Mr. Liu Hanlin (劉翰林) and Mr. Gan Weimin (甘為民). From the Listing Date to 31 December 2020 and up to the date of this annual report, there has been no change to the composition of the Board.

A list of Directors and their respective biographies are set out in the section headed "Directors and Senior Management" of this annual report.

Save as disclosed in this annual report, to the best knowledge of the Board, there is no relationship (including financial, business, family or other material relationship(s)) among the Board members.

The Board's composition is in compliance with the requirement under Rule 3.10A and Rule 3.10 of the Listing Rules that the number of independent non-executive Directors must represent at least one-third of the Board and at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The Board believes that the balance between the executive Directors and the independent non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the Shareholders and the Group.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out under Rule 3.13 of the Listing Rules.

According to the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established. Mr. Yuan Li currently assumes the role of chairman of the Board while Ms. Tian Tian assumes the role of chief executive officer. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies.

Each of the Directors (including the non-executive Directors and independent non-executive Directors) has entered into a service contract or an letter of appointment with the Company. The terms of the Directors are set out in the paragraph headed "Directors' Service Contracts" under "Report of the Directors" of this annual report.



In accordance with Article 84(1) of the Articles of Association, notwithstanding any other provisions in the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

In accordance with Article 83(3) of the Articles of Association, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to reelection at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee (as defined below) is responsible for reviewing the Board composition, considering and formulating the relevant procedures for nomination and appointment of Directors and monitoring the appointment and succession planning of Directors and assessing the independence of the independent non-executive Directors.

Training and Continuous Professional Development

Pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director has been provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. Prior to the Listing, each of Directors has attended the training courses conducted by the Hong Kong legal advisor of the Company regarding the on-going obligations and duties of directors of a publicly listed company.

All the Directors have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

All the Directors confirmed that they had complied with code provision A.6.5 of the CG Code during the year ended 31 December 2020, that all Directors had participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group including reading materials in relation to regulatory update and/or attending seminar to develop professional skills. The joint company secretaries of the Company (the "**Joint Company Secretaries**") are responsible for maintaining and updating records for the Directors' training.

Attendance Records at the Meetings of the Board, the Board Committees and General Meeting

The attendance records of the individual Directors at the meetings of the Board, the Board Committees and the general meeting during the Year are set out as follows:

Directors	Number of Meetings Attended/Held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Yuan Li	4/4	N/A	N/A	N/A	0/0
Ms. Tian Tian	4/4	N/A	N/A	N/A	0/0
Ms. Fu Jieyun ⁽¹⁾	4/4	N/A	N/A	0/0	0/0
Non-executive Directors					
Mr. Yu Yang ⁽²⁾	4/4	1/1	N/A	N/A	0/0
Mr. Tang Zhiwei	4/4	N/A	N/A	N/A	0/0
Mr. Luo Jianxing	4/4	N/A	N/A	N/A	0/0
Independent Non-executive Directors					
Mr. Teng Bing Sheng ⁽³⁾	3/4	N/A	0/0	0/0	0/0
Mr. Liu Hanlin ⁽⁴⁾	3/4	1/1	0/0	N/A	0/0
Mr. Gan Weimin ⁽⁵⁾	3/4	1/1	0/0	0/0	0/0

Notes:

- Ms. Fu Jieyun was appointed as a member of the Nomination Committee with effect from 24 May 2020.
- Mr. Yu Yang was appointed as a member of the Audit Committee with effect from 24 May 2020.
- Mr. Teng Bing Sheng was appointed as an independent non-executive Director, the chairman of the Nomination Committee and a member of the Remuneration Committee with effect from 24 May 2020.
- Mr. Liu Hanlin was appointed as an independent non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee with effect from 24 May 2020.
- Mr. Gan Weimin was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee with effect from 24 May 2020.

The Company expects to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code. Notices for all regular Board meetings and the agenda and accompanying Board paper will be given to all Directors at least 14 days before the meetings in order that they have sufficient time to review the papers.



Corporate Governance Report

The Board will hold other Board meetings from time to time whenever necessary. Reasonable notice will be given to all Directors and they can include matters for discussion in the agenda as they think fit.

Minutes of meetings are kept by the Joint Company Secretaries with copies circulated to all Directors or Board Committee members for information and records. Directors who have conflicts of interest in a board resolution have abstained from voting for that resolution.

The Joint Company Secretaries are responsible for taking and keeping minutes of all Board meetings and Board Committee meetings. In compliance with the code provision A.1.5 of the CG Code, minutes of Board meetings and meetings of Board Committees were recorded in sufficient detail covering the matters considered by the Board and decisions reached, including any concerns raised by the Directors, or dissenting views expressed. Draft and final versions of minutes of Board meetings were sent to all the Directors for their comment and record respectively, in both cases within a reasonable time after the Board meeting was held.

Every Board member has full access to the advice and services of the Joint Company Secretaries with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

The Board has established procedure to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. As the Shares were listed on the Stock Exchange on the Listing Date, no general meeting was held during the year ended 31 December 2020.

CORPORATE GOVERNANCE FUNCTIONS

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the code provisions of the CG Code and disclosure in the corporate governance report under the Listing Rules.

The Board has reviewed the policies and practices on corporate governance and this corporate governance report.

BOARD COMMITTEES

Audit Committee

The Audit Committee was established by the Company with written terms of reference in compliance with the Rule 3.22 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules.

The Audit Committee consists of three members, namely, Mr. Liu Hanlin and Mr. Gan Weimin, independent non-executive Directors, and Mr. Yu Yang, a non-executive Director. The chairman of the Audit Committee is Mr. Liu Hanlin who holds the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process, to nominate and monitor our external auditors, and to oversee the risk management, internal control procedures and the effectiveness of internal control procedures of the Company.

From the Listing Date and up to the date of this annual report, two Audit Committee meetings were held to review (i) the interim financial results for the six months ended 30 June 2020 and (ii) the annual financial results for the year ended 31 December 2020 and report and major internal audit issues, re-appointment of external auditor and relevant scope of works and continuing connected transactions.

The Audit Committee also reviewed the financial reporting system, compliance procedures, internal audit function and risk management systems and processes. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor. They also reviewed final results of the Group for the financial year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. The written terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

Remuneration Committee

The Remuneration Committee was established by the Company with written terms of reference in compliance with Rule 3.26 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules.

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Gan Weimin, Mr. Liu Hanlin and Mr. Teng Bing Sheng. The chairman of the Remuneration Committee is Mr. Gan Weimin. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company and to make recommendation to the Board to approve the management's remuneration proposals with reference to the Board's corporate goals objectives, and to ensure that none of the Board members determine their own remuneration.



Corporate Governance Report

From the Listing Date and up to the date of this annual report, one Remuneration Committee meeting was held for considering and recommending to the Board the remuneration and other benefits paid by the Company to the Directors and senior management and other related matters.

The remuneration of Directors is determined with reference to the qualification, experience, responsibility, performance of the individual, performance of the Group and the market practices.

The Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, made recommendations to the Board on the remuneration packages of individual executive Directors and senior management and fulfilled duties as required aforesaid as set out in Appendix 14 B.1.2 (c).

Details of the remuneration by band of the members of senior management of the Company for the year ended 31 December 2020 fell within the following bands:

	Number of individuals
Less than RMB1,000,000	3

Nomination Committee

The Nomination Committee was established by the Company with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

The Nomination Committee consists of three members, namely, Mr. Teng Bing Sheng and Mr. Liu Hanlin, independent non-executive Directors, and Ms. Fu Jieyun, an executive Director. The chairman of the Nomination Committee is Mr. Teng Bing Sheng. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and the board diversity policy, to identify individuals suitably qualified to become members of the Board, to assess the independence of our independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to appointments of Directors.

From the Listing Date and up to the date of this annual report, one Nomination Committee meeting was held to review the structure, size and composition of the Board, assess the independence of independent non-executive Directors and make recommendation to the Board on the re-election of the retiring Directors.

The Company has also received from each independent non-executive Director an annual confirmation of his independence and the Nomination Committee has conducted an annual review and considered that all independent non-executive Directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules.

NOMINATION POLICY

In evaluating and selecting any candidate for directorship, the Nomination Committee would consider the criteria, including, among other things, character and integrity, qualifications (cultural and educational background, professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy), any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity, and willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board Committee(s).

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship with a ranking of the candidates (if applicable) by order of preference based on the needs of the Company and reference check of each candidate.

BOARD DIVERSITY POLICY

The Company embraces the benefits of diversity in the Board and have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board and to maintain the high standards of corporate governance. The Board Diversity Policy provides that the Company should endeavor to ensure that the Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, gender, age, cultural background, educational background and length of service.

The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board. The Board believes that such merit-based appointments will best enable the Company to serve the Shareholders and other stakeholders going forward.

REMUNERATION POLICY

The remuneration of Directors and senior executives is determined with reference to benchmarking of relevant competitors in geographical areas where the Group carry on its businesses, career progressions of the individual, economic trend in geographical areas where the Group carry on its businesses, recognition of experience, role contribution; performance of the Group and the individual's performance.

The Directors' fees and all other emoluments paid or payable to the Directors during the Year are set out on an individual and named basis in note 8 to the consolidated financial statements.



JOINT COMPANY SECRETARIES

Ms. Lau Suk Ching and Mr. Lee Leong Yin, who is a manager of SWCS Corporate Services Group (Hong Kong) Limited, acted as the Joint Company Secretaries during the year ended 31 December 2020. Due to Ms. Lau Suk Ching pursuit of other personal endeavours, the Company has appointed Ms. Fu Jieyun as one of the Joint Company Secretaries, in place of Ms. Lau Suk Ching with effect from 13 January 2021 and Mr. Lee Leong Yin remains to act as another Joint Company Secretary. The primary contact person at the Company for Mr. Lee Leong Yin is Ms. Fu Jieyun, an executive Director and the Joint Company Secretary.

Ms. Lau Suk Ching and Mr. Lee Leong Yin confirmed that each of them has taken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2020.

AUDITOR'S REMUNERATION

The Group's consolidated financial statements for the year ended 31 December 2020 have been audited by KPMG, Certified Public Accountants. Service fees which shall be paid/payable by the Company to KPMG for the year ended 31 December 2020 amounted to RMB3.1 million.

Service rendered	Fees paid/payable RMB'000
Audit services	1,600
Services in connection with the listing of the Company's shares	1,521
Total	3,121

DIRECTORS' RESPONSIBILITY ON FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group for the financial year ended 31 December 2020.

The Directors are responsible for overseeing the preparation of financial statements of the Group with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with. The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by KPMG in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The unqualified auditor's report is set out on pages 85 to 92. The financial statements of the Group for the year ended 31 December 2020 have also been reviewed by the Audit Committee.

DIVIDEND POLICY

The Company has adopted dividend policy, the dividend policy does not have any pre-determined dividend payout ratio. In considering any dividend, the Board shall consider the actual and expected financial performance of the Group, retained earnings and distributable reserves of the Company and each of the members of the Group, the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants, any restrictions on payment of dividends that may be imposed by the Group's lenders or other contractual restrictions, the Group's expected working capital requirements and future expansion plans, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group, and any other factors that the Board deems appropriate. The Board has the absolute discretion to recommend any dividends.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal controls to safeguard our business and asset at all times.

The Group has established risk management procedures to address and handle all significant risks associated with the business of the Group. The Board would perform annual review on any significant change of the business environment and establish procedures to response the risks result from significant change of business environment.

The risk management and internal control systems are designed to mitigate the potential losses of the business.

The management would identify the risks associated with the business of the Group by considering both internal and external factors and events which include politics, economy, technology, environmental, social and staff. Each of risks has been assessed and prioritised based on their relevant impact and occurrence opportunity. The relevant risk management strategy would be applied to each type of risks according to the assessment results, type of risk management strategy has been listed as follow:

- Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;
- Risk avoidance: change business process or objective so as to avoid the risk;
- Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market;
- Risk transfer: transfer ownership and liability to a third party.



The Company has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the financial, operational and compliance controls, and the risk management and internal control systems and reports the review results to the Board on an annual basis. Such procedures are designed to manage rather than to eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The review report showed that the Group maintained an effective internal control system and no major control deficiency had been identified during the year ended 31 December 2020. The scope and findings of the review had been reported to and reviewed by the Audit Committee. The Board also reviewed and was satisfied with the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget.

The Board has received a confirmation from management on the effectiveness of the risk management and internal control systems.

The Board is not aware of any significant internal control and risk management weaknesses nor significant breach of limits or risk management policies, and considers that the current internal control systems of the Company are effective and adequate and that the qualifications and experience of the staff, performing accounting and financial reporting functions and the training programmes of the Company as well as the experiences and resources for setting the budget of the Company are adequate. The Company has complied with the requirements under C.2.1 to C.2.5 and C.3.3 of the CG Code relating to risk management and internal control.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meeting, including the election of individual Director(s). All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Procedures for Shareholders to convene an extraordinary general meeting

Shareholders are encouraged to attend all general meetings of the Company. Pursuant to Article 58 of the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings (the "EGM"). Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary(ies) of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM as follows: – At least fourteen (14) clear days' notice in writing (and not less than ten (10) business days). Such requisition shall be made in writing to the Board or the secretary(ies) of the Company to the principal place of business of the Company in Hong Kong or by email to ir@litian.tv for the attention to the Board or the Joint Company Secretaries.

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

Procedures for Shareholders to put forward proposals at Shareholders' meetings

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles of Association, Shareholders who wish to move a resolution may by means of requisition convene an EGM following the procedures set out above.

Procedures for Shareholders to propose a person for election as a Director

If a Shareholder duly qualified to attend and vote at the general meeting convened to deal with appointment/election of Director(s) wishes to propose another person ("**Candidate**") for election as a Director at a general meeting, he/she should deposit (i) a written notice ("**Proposal Notice**") signed by the Shareholder of his/her intention to propose the Candidate for election as a Director; and (ii) a written notice ("**Consent Notice**") signed by the Candidate of his/her willingness to be elected, at either of the Hong Kong branch share registrar and transfer office or the principal place of business of the Company in Hong Kong during a period, which shall be at least seven days, and if submitted after despatch of the notice of the general meeting appointed for such election, commencing no earlier than the day after the despatch of the notice of the general meeting and ending no later than seven days before the date of such general meeting. To enable the Shareholders to make an informed decision on their election at a general meeting, the Company shall publish an announcement or issue a supplementary circular as soon as practicable after the receipt of the Proposal Notice and the Consent Notice. The Company shall include particulars of the Candidate in the announcement or the supplementary circular. The Company shall assess whether or not it is necessary to adjourn the meeting for the election to give Shareholders at least 10 business days to consider the relevant information disclosed in the announcement or the supplementary circular.

Shareholders' inquires

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividends to the Company's branch share registrar in Hong Kong, details of which are as follows:

Tricor Investor Services Limited

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

HK Tel: (852) 2980 1333

Fax: (852) 2810 8185

Shareholders may, at any time, direct enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email to ir@litian.tv for the attention to the Board and the Joint Company Secretaries.



SHAREHOLDERS COMMUNICATION POLICY

The Company recognises the importance of communications with the Shareholders as well as potential investors. This shareholders communication policy aims to set out the provisions with the objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and potential investors to engage actively with the Company. Via the Company's website at www.litian.tv, Shareholders can obtain updated and key information on the major developments of the Group. Information, such as financial statements, results announcements, circulars, notices of general meetings and all announcements, released by the Company on the Stock Exchange's at www.hkex.com.hk is also posted on the Company's website immediately thereafter.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

MANAGEMENT OF INSIDE INFORMATION

In order to promote transparency, accountability and responsibility in respect of the operation of a listed company, and for the maintenance of good corporate governance, the Company, assisted by legal advisors and financial advisors, would notify the Stock Exchange and make relevant disclosure to the public as soon as practicable of any inside information of the Company pursuant to the Listing Rules and SFO.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association have been amended and restated with effect from the Listing Date, other than that there was no change in the constitutional documents of the Company since the Listing Date and up to 31 December 2020.



Report of the Directors

The Board is pleased to present the report of the directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

GLOBAL OFFERING

The Company is an exempted company incorporated in the Cayman Islands with limited liability on 17 June 2019.

The Company carried out the global offering in 2020 comprising 75,000,000 Shares at HK\$2.56 per Share and the Shares were listed on the Stock Exchange on 22 June 2020. For details of the relevant use of proceeds, please refer to the paragraph headed "Use of Net Proceeds" in the section headed "Management Discussion and Analysis" of this annual report.

PRINCIPAL ACTIVITIES

The Group is primarily engaged in the production, distribution and licensing of broadcasting rights of drama series in the PRC.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 93 of this annual report.

FINAL DIVIDEND

The Board resolved not recommend the payment of final dividends by the Company for the year ended 31 December 2020 (2019: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 and the discussion regarding the future business development of the Group are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

FINANCIAL SUMMARY

The financial summary of the Group for the last four financial years is set out on page 154 of this annual report.

RISKS AND UNCERTAINTIES

An analysis of the Group's financial risk management (including credit risk, interest rate risk and liquidity risk) are provided in note 24 to the consolidated financial statements. Other risks facing the Group are set out in the section headed "Risk Factors" of the Prospectus.



Report of the Directors

ANALYSIS USING FINANCIAL KEY PERFORMANCE INDICATORS

The analysis of the Group's performance for the year ended 31 December 2020 with key financial performance indicators is set out under the paragraphs headed "Key Financial Ratios" in the section headed "Management Discussion and Analysis" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to contributing to the sustainability of the environment and is committed to becoming an environmentally-friendly corporation. Details of our environmental, social and governance policies and performance during the year ended 31 December 2020 is set out in the section headed of "Environmental, Social and Governance Report" of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 80.2% of the total sales for the Year and sales to the largest customer included therein amounted to 34.0%. During the Year, the purchases from the Group's five largest suppliers represented 60.8% of the total purchases for the Year and the purchases from the largest supplier represented 20.5% of the total purchases for the Year. None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the Year.

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise our Directors and senior management members, employees, customers and suppliers.

Employees

Committed to establishing a competitive, fair remuneration and benefits system, we continually refine our remuneration and incentive policies through market research and comparison with our competitors, in order to ensure that our employees receive competitive remuneration packages.

Effective talent management is the foundation for the Group's successful long-term development. The Group greatly values its employees and will continue to attract, cultivate and retain talent through its internal training programs. The Group offers salaries and benefits to its employees that are competitive in the geographic location where the Group conducts business to manage employee attrition.

Customers

Our Group's major customers primarily include TV channels (including satellite TV channels and terrestrial TV channels) and online media platforms.

Suppliers

Our Group's major suppliers primarily include (i) producers or copyrights owners of the drama series, who license the copyrights or broadcasting rights of the drama series to us; and (ii) third-party service providers relating to drama series production and promotional activities.

Our Group generally engage suppliers through a variety of methods, including, but not limited to, television festivals, supplier publicity materials, peer recommendations and referrals from TV channels. We select suppliers based on their reputation, past experience, the scope of the task and the quality of services/products to be provided and their proposed prices.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 31 December 2020 are set out in section headed "Management Discussion and Analysis" of this annual report and note 4 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVE

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity. Please refer to note 23 to the consolidated financial statements of this report for details of the Company's distributable reserve as at 31 December 2020.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended 31 December 2020 and details of the Shares issued during the year ended 31 December 2020 are set out in note 23 to the consolidated financial statements.

DEBENTURE

The Company did not issue any debentures during the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the paragraph headed "Share Option Scheme" below, the Company did not enter into any equity-linked agreements during the year ended 31 December 2020.



Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 11 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year ended 31 December 2020, the Company did not make any charitable and other donations.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2020 are set out in the paragraph headed "Liquidity, Financial Resources" in the section headed "Management Discussion and Analysis" of this annual report and note 20 to the consolidated financial statements.

DIRECTORS

After the year ended 31 December 2020 and up to the date of this annual report is as follows:

Executive Directors

Mr. Yuan Li (*Chairman*)
Ms. Tian Tian (*Chief Executive Officer*)
Ms. Fu Jieyun

Non-Executive Directors

Mr. Yu Yang
Mr. Tang Zhiwei
Mr. Luo Jianxing

Independent Non-Executive Directors

Mr. Teng Bing Sheng
Mr. Liu Hanlin
Mr. Gan Weimin

In accordance with Article 84(1) of the Articles of Association, Mr. Yu Yang, Mr. Tang Zhiwei and Mr. Luo Jianxing shall retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of the non-executive Directors has entered into a letter of appointment with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than one month's notice in writing by served by the non-executive Director to the Company or with immediate effect following the notice in writing served by the Company to the non-executive Director.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than one month's notice in writing by served by the independent non-executive Director to the Company or with immediate effect following the notice in writing served by the Company to the independent non-executive Director.

Relevant appointments shall be in accordance with the requirements on Directors' retirement by rotation under the Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CHANGES TO INFORMATION IN RESPECT OF THE DIRECTORS

Since the Listing Date and up to 31 December 2020, there was no change to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules, where applicable.

PERMITTED INDEMNITY PROVISION

The Articles of Association provides that, amongst others, the Directors and other officers of the Company acting or who have acted in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. Such provision and the Directors and Officers Liability Insurance Policy maintained by the Company which provides insurance coverage for liabilities of the Directors and officers the Group were in force during the year ended 31 December 2020 and remained in force as of the date of this annual report. The insurance coverage will be reviewed on an annual basis.



DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Other than disclosed in the section headed "Material Related Party Transactions" in note 25 to the consolidated financial statements contained in this annual report, no transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2020.

EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND THE FIVE HIGHEST PAID INDIVIDUALS

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are recommended by the Remuneration Committee and determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. No Director, or any of their respective associates, was involved in deciding his/her own remuneration.

Details of the emoluments of the Directors, chief executive and the five highest paid individuals of the Group are set out in notes 8 and 9 to the consolidated financial statements.

During the year ended 31 December 2020, none of the Directors had waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

EMOLUMENT POLICY

The emolument policy of the Group is on the basis of the qualifications and contributions of individuals to the Group. The Company has adopted a share option scheme as an incentive to eligible participants, details of which are set out in the paragraph headed "Share Option Scheme" below. Details of the retirement benefits scheme are set out in the paragraph headed "Retirement Benefits Scheme" below.

RETIREMENT BENEFITS SCHEME

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the Group are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Particulars of the employee retirement benefits of the Group are set out in note 6 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2020, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

DIRECTORS' RIGHT TO ACQUIRE SHARES OF DEBENTURES

Other than the Share Option Scheme, at no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or any of their respective spouses or children under the age of 18 were granted any right to subscribe for the share in, or debentures of, the Company or any other body corporate or had exercised any such right.

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

As of 31 December 2020, the interests and short positions of Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or are deemed to have taken under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interests in the Company

Name	Capacity/Nature of interest	Number of Shares	Long/short position	Approximate percentage of Shareholding in the Company ⁽¹⁾
Mr. Yuan	Interest in a controlled corporation ⁽²⁾	68,282,350	Long position	22.76%
	Spouse interest ⁽³⁾	64,380,501	Long position	21.46%
Ms. Tian	Interest in a controlled corporation ⁽⁴⁾	64,380,501	Long position	21.46%
	Spouse interest ⁽⁵⁾	68,282,350	Long position	22.76%
Ms. Fu Jieyun	Interest in a controlled corporation ⁽⁶⁾	4,389,580	Long position	1.46%



Report of the Directors

Notes:

- (1) As of 31 December 2020, the total number of issued Share of the Company was 300,000,000 Shares.
- (2) Mr. Yuan is the sole shareholder of Litian Century and he is therefore deemed to be interested in the Shares held by Litian Century under the SFO.
- (3) Ms. Tian is the spouse of Mr. Yuan. Therefore, Mr. Yuan is deemed to be interested in the Shares held by Marshal Investment under the SFO.
- (4) Ms. Tian is the sole shareholder of Marshal Investment and she is therefore deemed to be interested in the Shares held by Marshal Investment under the SFO.
- (5) Mr. Yuan is the spouse of Ms. Tian. Therefore, Ms. Tian is deemed to be interested in the Shares held by Litian Century under the SFO.
- (6) Ms. Fu Jieyun is the sole shareholder of Sky Development Investment Co. Ltd. and she is therefore deemed to be interested in the Shares held by Sky Development Investment Co. Ltd. under the SFO.

(ii) Interests in associated corporations of the Company

Name	Name of associated corporation	Capacity/Nature of interest	Long/short position	Registered capital of the associated corporation	Approximate percentage of shareholding in the associated corporation
Mr. Yuan	LiTian TV & Film	Beneficial owner Spouse interest ⁽¹⁾	Long position	14.0 million	30.35%
			Long position	13.2 million	28.61%
Ms. Tian	LiTian TV & Film	Beneficial owner Spouse interest ⁽¹⁾	Long position	14.0 million	30.35%
			Long position	13.2 million	28.61%
Ms. Fu Jieyun	LiTian TV & Film	Beneficial owner	Long position	0.4 million	0.87%

Note:

- (1) Ms. Tian is the spouse of Mr. Yuan. Therefore, Mr. Yuan and Ms. Tian is respectively deemed to be interested in the shares held by Ms. Tian and Mr. Yuan in LiTian TV & Film under the SFO.

Save as disclosed above, as of 31 December 2020, no Directors or chief executives of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

As of 31 December 2020, to the knowledge of the Directors, the following persons, other than Directors and chief executives of the Company, had interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein:

Name	Capacity/Nature of interest	Number of Shares	Long/short position	Approximate percentage of Shareholding in the Company ⁽¹⁾
Litian Century	Beneficial owner	68,282,350	Long position	22.76%
Marshal Investment	Beneficial owner	64,380,501	Long position	21.46%
Joint Fortune Huayi Emerging Industry Investment Co. Ltd. ("Joint Fortune")	Beneficial owner ⁽²⁾	19,806,339	Long position	6.60%
Mr. Xie Ailong (謝愛龍)	Interest in a controlled corporation ⁽²⁾	19,806,339	Long position	6.60%
Ms. Li Yiwei (李逸微)	Interest in a controlled corporation ⁽²⁾	19,806,339	Long position	6.60%

Notes:

(1) As of 31 December 2020, the total number of issued Shares of the Company was 300,000,000 Shares.

(2) Joint Fortune is owned by Ms. Li Yiwei and Mr. Xie Ailong as to 40% and 60%. Therefore, Ms. Li and Mr. Xie are deemed to be interested in the Shares held by Joint Fortune under the SFO.

Save as disclosed above, as of 31 December 2020, to the knowledge of the Directors, no other persons (not being Directors or chief executives of the Company) had an interest or a short position in the shares or underlying shares of the Company which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.



CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

Save as disclosed under the section headed "Material Related Party Transactions" stated in note 25 to the consolidated financial statements, there was no contract of significance entered into between the Company, or any of its subsidiaries, and a controlling Shareholder of the Company, or any of its subsidiaries, during the year ended 31 December 2020.

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the then shareholder of the Company passed on 24 May 2020 and adopted by a resolution of the Board on 24 May 2020 (the "**Adoption Date**"). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined 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.

(b) Who may join

The Board may, at its absolute discretion, offer options ("**Options**") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("**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 ("**Employee**");
- (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 (the person referred above are the "Eligible Persons").

(c) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (such 10% limit representing 30,000,000 Shares) excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by the Company (the "**Scheme Mandate Limit**") provided that:

- (a) the Company may at any time as the Board may think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval by the Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to the Shareholders a circular containing the details and information required under the Listing Rules;
- (b) the Company may seek separate approval from the Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained. The Company shall issue a circular to the Shareholders containing the details and information required under the Listing Rules; and
- (c) the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.



(d) Maximum entitlement of each participants

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting. The Company shall send a circular to the Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

(e) Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

(f) Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

(g) Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

(h) Amount payable for Options and offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date (the "**Acceptance Date**"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.



Report of the Directors

(i) Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

(j) Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. As at the date of this report, the remaining life of the Share Option Scheme is 9 years and 1 month.

For further details of the Share Option Scheme, please refer to the section headed "Statutory and General Information – F. Share Option Scheme" in Appendix V to the Prospectus.

No share options have been granted since the Adoption Date and there are no outstanding share options as at 31 December 2020. The total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme was 30,000,000 Shares, representing 10% of the issued Share as at 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association and the laws of Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CONNECTED TRANSACTIONS

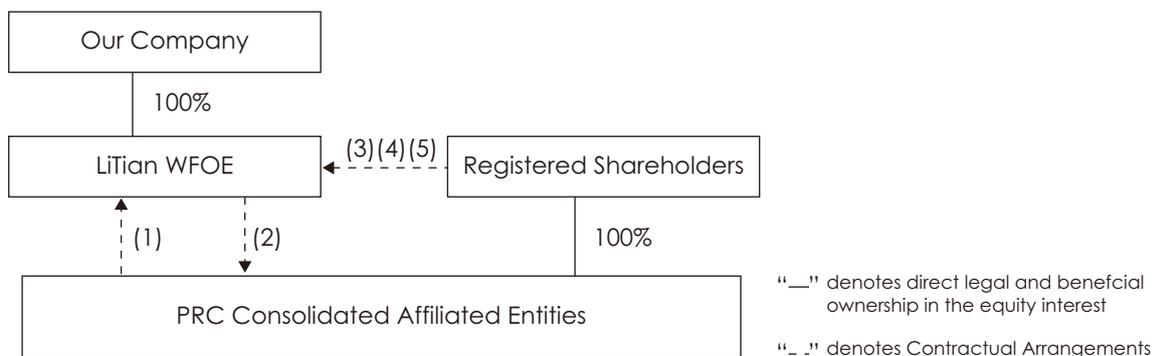
Non-exempt Continuing Connected Transactions Contractual Arrangements

Background

The Group is primarily engaged in the business of licensing the broadcasting rights of self-produced and outright-purchased drama series. In addition, we are also engaged in other businesses which include (i) acting as a distribution agent of the broadcasting rights of TV series; (ii) selling drama series scripts; and (iii) investing in drama series in which we act as a non-executive producer.

The Group conducts its business and investment through its Consolidated Affiliated Entities, which hold the requisite permit and approval required for our business, including the Licence to Produce and Distribute Radio or Television Programmes. Under the applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in any enterprise conducting the production and operation of drama series. As a result, the Company is not able to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations. In order to comply with the PRC laws and regulations as set out above while availing ourselves of international capital markets and maintaining effective control over all of our operations, on 14 October 2019, our wholly-owned subsidiary, LiTian WFOE, entered into various agreements that constitute the Contractual Arrangements with, among others, LiTian TV & Film, under which all economic benefits arising from the business of our Consolidated Affiliated Entities are transferred to LiTian WFOE to the extent permitted under the PRC laws and regulations by means of service fees payable by our Consolidated Affiliated Entities to LiTian WFOE. The Registered Shareholders are parties to certain agreements which constitute the Contractual Arrangements to ensure that the relevant interests of our Consolidated Affiliated Entities are actually controlled by LiTian WFOE.

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



Notes:

- (1) Payment of service fee
- (2) Provision of exclusive technical and management consultancy services.
- (3) Exclusive call option to acquire all or part of the Registered Shareholders' interest in LiTian TV & Film.
- (4) Pledge of equity interest by the Registered Shareholders of their equity interest in LiTian TV & Film.
- (5) Entrustment of Registered Shareholders' right including Registered Shareholders' power of attorney.



Report of the Directors

Summary of the Material Terms of the Contractual Arrangements

(1) Exclusive Consultancy and Service Agreement

Pursuant to the exclusive consultancy and service agreement (the “**Exclusive Consultancy and Service Agreement**”) dated 14 October 2019 entered into between LiTian WFOE and LiTian TV & Film, LiTian TV & Film agreed to engage LiTian WFOE as its exclusive provider of technical support, consultation and other services.

Under the Exclusive Consultation and Service Agreement, the service fee shall consist of 100% of the total consolidated profit of LiTian TV & Film together with dividends received from its subsidiaries, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, LiTian WFOE shall have the right to adjust the amount of service fees based on the service scope. LiTian TV & Film shall make payment to the bank account designated by LiTian WFOE upon the written request of LiTian WFOE, quarterly or annually within the specified time.

In addition, absent the prior written consent of LiTian WFOE, during the term of the Exclusive Consultation and Service Agreement, with respect to the services subject to the Exclusive Consultation and Service Agreement and other matters, LiTian TV & Film shall not, and shall procure the Consolidated Affiliated Entities not to, directly or indirectly accept the same or any similar services provided by any third party, establish cooperation relationships similar to that formed by the Exclusive Consultation and Service Agreement with any third party, or in its own initiative perform any acts which might affect the confidentiality of the technology and secrets involved in the service provided by LiTian WFOE or the effectiveness and efficiency of the technical supports or allow any third party to do the same.

The Exclusive Consultation and Service Agreement also provides that LiTian WFOE has the sole exclusive proprietary rights to and interests in any and all intellectual property rights generated, developed or created by LiTian TV & Film during the performance of the Exclusive Consultation and Service Agreement.

The validity period of the Exclusive Consultation and Service Agreement shall start from the execution date and shall remain effective unless (a) terminated by written agreement between LiTian WFOE and LiTian TV & Film; or (b) all the equity interest of LiTian TV & Film have been legally transferred to LiTian WFOE or nominee(s) designated by LiTian WFOE; or (c) terminated in accordance with the provisions of the Exclusive Consultation and Service Agreement. Additionally, LiTian WFOE shall have the right to terminate the agreement by giving written notice of termination.

(2) *Exclusive Call Option Agreement*

Pursuant to the exclusive call option agreement (the “**Exclusive Call Option Agreement**”) dated 14 October 2019 entered into among LiTian WFOE, the Registered Shareholders and LiTian TV & Film, LiTian WFOE has been granted an irrevocable, unconditional and exclusive right to require the Registered Shareholders to transfer any or all of their equity interests in LiTian TV & Film to LiTian WFOE and/or its designated third party (excluding non-independent persons or persons who may give rise to conflicts of interests), in whole or in part at any time and from time to time (the “**Exclusive Call Option**”).

The validity period of the Exclusive Call Option Agreement shall take effect upon the execution date and shall remain effective unless terminated (a) when the entire equity interests held by the Registered Shareholders or their successors or the transferees in LiTian TV & Film have been transferred to LiTian WFOE or nominee(s) designated by LiTian WFOE; or (b) by written notice from LiTian WFOE or any of the Registered Shareholders.

(3) *Equity Pledge Agreements*

Pursuant to the equity pledge agreements (the “**Equity Pledge Agreements**”) dated 14 October 2019 entered into among LiTian WFOE, each of the Registered Shareholders and LiTian TV & Film, the Registered Shareholders agreed to unconditionally and irrevocably pledge all their respective equity interests in LiTian TV & Film, including any interest or dividend paid arising therefrom, to LiTian WFOE as a security interest to guarantee the performance of contractual obligations and other payment obligations under the Equity Pledge Agreement, including but not limited to liquidated damages, compensations and relevant expense (the “**Secured Indebtedness**”).

Under the Equity Pledge Agreements, the Registered Shareholders represent and warrant to LiTian WFOE that appropriate arrangements have been made to protect LiTian WFOE's interests in the event of death, bankruptcy, divorce or other circumstances relating to the Registered Shareholders which may affect the exercise of its/his/her direct or indirect equity interest in LiTian TV & Film.

If LiTian TV & Film declares any dividend during the term of the pledge, LiTian WFOE is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or LiTian TV & Film breaches or fails to fulfill the obligations under the agreements underlying the Contractual Arrangements (other than the Spouse Undertaking), LiTian WFOE, as the pledgee, has the priority to be indemnified from the proceeds from the disposal of pledged equity interests. In addition, pursuant to the Equity Pledge Agreements, each of the Registered Shareholders and LiTian TV & Film has undertaken to LiTian WFOE, among other things, not to increase or reduce the registered capital of LiTian TV & Film, transfer the interest in his/her/its equity interests in LiTian TV & Film or create or allow any pledge thereon that may affect the rights and interest of LiTian WFOE without its prior written consent.

The equity pledge shall remain valid until all the contractual obligations of LiTian TV & Film and the Registered Shareholders are satisfied and all Secured Indebtedness are settled in full under the Contractual Arrangements, or the nullification or termination of the Contractual Arrangements, whichever is later.



Report of the Directors

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), unless such default is cured within ten business days following the Registered Shareholders or LiTian TV & Film's receipt of the written notice which requests for the cure of such default, LiTian WFOE shall have the right to exercise all such rights as a secured party under the Equity Pledge Agreements and in compliance with applicable PRC law.

The equity pledge is required to be registered under the relevant laws and regulations. The equity pledge registration of LiTian TV & Film with the Haining Administration for Market Regulation was completed on 13 February 2020.

(4) *Shareholders' Voting Rights Entrustment Agreement*

Pursuant to the shareholders' voting rights entrustment agreement (the "**Shareholders' Voting Rights Entrustment Agreement**") dated 14 October 2019, entered into among LiTian WFOE, the Registered Shareholders and LiTian TV & Film, each of the Registered Shareholders irrevocably, unconditionally and exclusively appointed the persons designated by LiTian WFOE as its attorneys-in-fact to exercise on his/her/its behalf, any and all shareholder's right that he/she/it has in respect of its equity interests in LiTian TV & Film.

The Shareholders' Voting Rights Entrustment Agreement has an indefinite term and will only be terminated when (i) all the equity interest or assets have been legally and effectively transferred to LiTian WFOE or its appointed representative in accordance with the Exclusive Option Agreement; (ii) LiTian WFOE terminates this Shareholders' Voting Rights Entrustment Agreement in accordance with the provisions herein; or (iii) this agreement is terminated pursuant to the operation of laws of the PRC. In addition, LiTian WFOE shall have the right to terminate this agreement by giving written notice to the Registered Shareholders and LiTian TV & Film.

(5) *Shareholders' Powers of Attorney*

Pursuant to the Shareholders' Powers of Attorney dated 14 October 2019 and executed by the Registered Shareholder in favor of LiTian WFOE, each of the Registered Shareholder irrevocably authorized and appointed LiTian WFOE, as his/her/its agent to act on his/her/its behalf to exercise or delegate the exercise of all his/her/its rights as shareholders of LiTian TV & Film.

LiTian WFOE shall have the right to further delegate its power to other designated person(s), including but not limited to (i) the director(s) of LiTian WFOE and/or its holding company, and (ii) any person as successor of or liquidator to replace such director(s). Each of the Registered Shareholders irrevocably agreed that the authorization and appointment pursuant to the Shareholders' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her/its loss of or restriction on capacity, death or other similar events.

(6) *Spouse Undertakings*

Pursuant to the Spouse Undertakings, each of the individual Registered Shareholders and the respective spouse has irrevocably undertaken and acknowledged that:

- (a) the respective spouse has full knowledge of the entering into of the Contractual Arrangements by LiTian WFOE, the Registered Shareholders and LiTian TV & Film;

- (b) the Registered Shareholder is the only beneficial owner of the equity interests in LiTian TV & Film; the rights and obligations under the Contractual Arrangements do not apply to the spouse; the performance, amendment or termination of the Contractual Arrangements by the Registered Shareholder does not require consent from the spouse; and at any time, the spouse shall not take any actions against the disposal of any equity interest in LiTian TV & Film and shall not make any claim relating to such equity interest;
- (c) the respective spouse has consented that the equity interest of LiTian TV & Film held and to be held by the Registered Shareholder (together with any other interests therein) do not fall within the scope of communal properties in case of divorce;
- (d) the respective spouse will execute all necessary documents and perform all necessary procedures from time to time to ensure the performance of the Contractual Arrangements; and
- (e) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events.

Significance and financial contributions of the Consolidated Affiliated Entities to the Group

Pursuant to the Contractual Arrangements, the Group obtains control over and derives the economic benefits from the Consolidated Affiliated Entities. The table below sets out the financial contribution of the Consolidated Affiliated Entities to the Group:

	Revenue For the year ended 31 December 2020	Net profit For the year ended 31 December 2020	Total Assets As of 31 December 2020
Significances and financial contribution to the Group	100.0%	105.6%	88.0%



Report of the Directors

Revenue and total assets involved in Contractual Arrangements

The table below sets out (i) revenue and (ii) total assets involved in the Consolidated Affiliated Entities for the reporting period, which would be consolidated into the Group's financial statements pursuant to the Contractual Arrangements:

	Revenue For the year ended 31 December 2020 RMB	Total assets As of 31 December 2020 RMB
Consolidated Affiliated Entities	455,267,000	1,030,616,000

“**Consolidated Affiliated Entities**” means the entities we control through the Contractual Arrangements, namely, LiTian TV & Film and its subsidiaries.

“**Contractual Arrangements**” means a series of contractual arrangements entered into among LiTian WFOE, LiTian TV & Film and the Registered Shareholder of LiTian TV & Film.

“**LiTian WFOE**” means Haining Marshal Films Planning Co., Ltd.* (海寧元帥影視策劃有限公司), a limited liability company established under the laws of the PRC on September 25, 2019 and a wholly-owned subsidiary of the Company.

“**Relevant Shareholders**” means the registered shareholders of LiTian TV & Film consisting of the following persons and entities: Mr. Yuan Li (袁力), Ms. Tian Tian (田甜), Ningbo Meishan Bonded Port District Haohao Xuexi Investment Management Partnership (Limited Partnership)* (寧波梅山保稅港區好好學習投資管理合夥企業(有限合夥)), Hangzhou Zhihui Xinlong Equity Investment Fund Partnership (Limited Partnership)* (杭州智匯欣隆股權投資基金合夥企業(有限合夥)), Ningbo Meishan Bonded Port District Zhihui Lixiang Equity Investment Fund Partnership (Limited Partnership)* (寧波梅山保稅港區智匯力象股權投資基金合夥企業(有限合夥)), Shenzhen Junfeng Huayi Xinxing Industrial Investment Partnership (Limited Partnership)* (深圳市君豐華益新興產業投資合夥企業(有限合夥)), Ms. Fu Jieyun (傅潔雲), Mr. Huang Weishu (黃衛書), Mr. Li Danjun (勵丹駿), Mr. Gong Yueliang (龔越亮), Mr. Zhu Huanghang (朱黃杭) and Ms. Si Houfang (斯厚芳).

No service fee was paid by LiTian TV & Film to LiTian WFOE pursuant to the Exclusive Consultancy and Service Agreement for the year ended 31 December 2020.

Risks associated with the Contractual Arrangements and measures taken to mitigate the risks

The Group conducts our businesses in the PRC through our Consolidated Affiliated Entities, based on the Contractual Arrangements entered into by among others, LiTian WFOE, our Consolidated Affiliated Entities and the Registered Shareholders.

Our PRC legal advisors are of the opinion that (i) the ownership structure of LiTian WFOE and our Consolidated Affiliated Entities does not violate prevailing PRC laws and regulations, (ii) except for certain clauses regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration and liquidation arrangement of our Consolidated Affiliated Entities, the Contractual Arrangements, taken individually or collectively, are valid, legally binding and enforceable against each party of such agreements in accordance with their terms, and (iii) the Contractual Arrangements do not fall within any of the circumstances (including, without limitation, “concealing illegal intentions with a lawful form”) under Article 52 of the Contract Law of the People’s Republic of China (《中華人民共和國合同法》), promulgated by the NPC on 15 March 1999 and implemented on 1 October 1999 (the “**Contract Law**”), pursuant to which the contracts would be determined to be invalid.

However, there can be no assurance that the PRC government authorities will take a view in the future that is not contrary to or otherwise different from the opinion of our PRC Legal Advisors stated above, and there is also the possibility that the PRC government authorities may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements. If the PRC government determines that we are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations or failures, including, but not limited to:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or LiTian WFOE and our Consolidated Affiliated Entities may not be able to comply;
- requiring us or LiTian WFOE and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;



Report of the Directors

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations.

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports to update the Shareholders and potential investors; and
- (d) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of LiTian WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2020, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

Under the Foreign Investment Catalog and the Negative List, foreign investment in radio and television program production and operating business in the PRC is subject to foreign investment prohibition. If the PRC regulatory environment changes and the foreign investment prohibition on radio and television program production and operating business is removed (and assuming there are no other changes in the relevant PRC laws and regulations), LiTian WFOE will exercise the call option in full to hold all of the interest in the Consolidated Affiliated Entities and unwind the contractual arrangements accordingly.

The Company will unwind the Contractual Arrangements as soon as the laws allows the business of the Consolidated Affiliated Entities to be operated without the Contractual Arrangements. However, for the year ended 31 December 2020, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the connected transactions requirements under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements. For details, please refer to the section "Waivers from strict compliance with the Listing Rules" in the Prospectus.

Save as disclosed above, during the year ended 31 December 2020, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

ANNUAL REVIEW BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE AUDITOR

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

- (a) the transactions carried out during the year ended 31 December 2020 had been entered into accordance with the relevant provisions of the Contractual Arrangements, had been operated so that the profit generated by the Consolidated Affiliated Entities had been substantially retained by the Group;
- (b) no dividends or other distributions had been made by the Consolidated Affiliated Entities to the respective holders of equity which were not otherwise subsequently assigned or transferred to the Group;
- (c) no new contracts had been entered into, renewed and/or reproduced between the Group and the Consolidated Affiliated Entities during the Year; and
- (d) the Contractual Arrangements had been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable in the interest of the Group and the Shareholders as a whole.

The Auditors has been reviewed and advised the Board in writing (with a copy provided to the Stock Exchange) that the transactions carried out pursuant to the Contractual Arrangements during the Year has nothing come to their attention that causes them to believe (i) the transactions have not been approved by the Board; (ii) the transactions had not been entered into, in all material respects, in accordance with the relevant Contractual Arrangements; and (iii) that dividends or other distributions had been made by the Consolidated Affiliated Entities to the holders of the equity interests which were not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2020 are set out in note 25 to the consolidated financial statements contained herein. Save as disclosed, none of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.



Report of the Directors

NON-COMPETE UNDERTAKING

The Controlling Shareholders entered into the deed of non-competition dated 24 May 2020 in respect of the non-compete undertaking under the Contractual Arrangements. For details of the non-compete undertakings, please refer to the Prospectus. The Company has received confirmations from the Controlling Shareholders confirming their compliance with the non-compete undertaking under the Contractual Arrangements during the year 31 December 2020.

The independent non-executive Directors have reviewed the compliance with the non-compete undertaking under the Contractual Arrangements during the year ended 31 December 2020 based on the information and confirmation provided by or obtained from the Controlling Shareholders, and were satisfied that the Controlling Shareholders have duly complied with the non-compete undertaking.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year ended 31 December 2020.

TAX RELIEF AND EXEMPTION

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

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 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 in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Monday, 24 May 2021.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued Shares from the Listing Date to 31 December 2020 and as at the date of this annual report.

CORPORATE GOVERNANCE

The details of the Company's corporate governance practices are set out in the section headed "Corporate Government Report" of this annual report.

EVENTS AFTER THE REPORTING PERIOD

From 31 December 2020 and up to the date of this annual report, 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 annual report.

AUDIT COMMITTEE

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.

AUDITOR

The consolidated financial statements have been audited by KPMG, Certified Public Accountants, who will retire and, being eligible, offered themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. A resolution for their re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yuan Li

Chairman and Executive Director

Hong Kong, 29 March 2021



Environmental, Social and Governance Report

1. ABOUT THE REPORT

Introduction to the Report

This report is the annual Environmental, Social and Governance (“**ESG**”) report (the “**Report**”) published by Litian Pictures based on the principles of Materiality, Quantification, Balance and Consistency for the purpose of fully elaborating the Company’s ESG management strategies and performance for the period from 1 January 2020 to 31 December 2020, with a focus on the matters which are to stakeholders’ concern and on how the Company pursues sustainable development in economic, environmental and social terms. Unless otherwise stated, the information presented in the Report represents data performance for 2020.

Scope of Reporting

Upon completion of materiality assessment, the Group has decided that the Report covers the overall performance of Litian Pictures Holdings Limited and all its subsidiaries in two subject areas, namely, Environment and Society.

Basis of the Report

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) under Appendix 27 to the Listing Rules.

Access and Response to the Report

The English and Chinese versions of the Report can be downloaded from the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company’s website. The Report is published in both Chinese and English. In case of any inconsistency, the Chinese version shall prevail. For any comments or suggestions on the environmental, social and governance performance of the Company, please email us at Litian@litian.tv.

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

2.1 **Green Management Concept and Vision**

Sustainable development has become an issue closely relating to each enterprise and individual since this concept was first put forward by World Commission on Environment and Development of United Nations in 1987. Sustainable development requires the change of individual's economic behavior and coordination between human and nature, and development and the environment. Enterprises are the main embodiment and executor of the socio-economic development model with the responsibility and obligation to adopt a new green management concept to realize their long-term development strategy and promote sustainable socio-economic development.

Litian Pictures aspires to ensure sustainable business development and operate in an environment-friendly manner and bring shareholders stable and long-term returns while protecting the environment. Although the film and television industry that the Company operates in is not a highly polluting industry, we strive to integrate environmental, social and governance initiatives into our business strategy and management model. By upholding our commitment to corporate social responsibility, we strive to forge ourselves into an environmentally friendly enterprise that cares about our employees' development and protects their rights and interests. We adhere to the principle of equality and integrity for our operation and comply with business regulations and ethic codes.

The Group always keeps corporate social responsibility in mind and infiltrates the concept of sustainable development into every aspect of corporate governance and operations with commitment to concurrently achieving economic, social and environmental benefits. We always believe that we will definitely create more value and continuously contribute to the society under the guidance of the concept of sustainable development.

2.2 **Communication with Stakeholders**

The Group is committed to maintaining continuous engagement with stakeholders including government and regulatory authorities, investors, shareholders, customers, employees, suppliers and business partners, the community and the environment. The Group maintains close engagement with its stakeholders and collects their feedback through various communication channels to understand and address their concerns. The engagement channels with stakeholders include general meetings, corporate website, community activities, regular communication with employees, performance appraisal interviews and networking with suppliers.



2.3 Identification of Substantive Issues

Under the requirements of the ESG Reporting Guide issued by HKEX and with reference to the procedures for substantive analysis formulated by the Global Reporting Initiative ("GRI"), the Group collects the issues concerned by major stakeholders through multiple channels, and conducts materiality analysis and priority of such issues, to finalise the material issues in the environmental, social and governance aspects and make disclosure thereof in the Report.

The identification process of substantive issues is divided into four steps:

- Identify relevant ESG issues with reference to the ESG Reporting Guide published by HKEX, GRI Sustainability Reporting Guidelines (GRI Standards version) and those disclosed by our peers at home and abroad;
- Prioritise the substantive issues. The major considerations for materiality assessment by internal stakeholders include the impacts on our corporate strategies, policies, procedures and commitments, impacts on the Company's competitive edges and management excellence, and current and future financial impacts on the Company; and major considerations for such assessment by external stakeholders include the impacts on the Company's evaluation and decision-making, and on their own interests;
- Verification. The Company's management reviews and approves the identified issues and their priorities;
- Review. After this reporting period, the Company will seek feedback from internal and external stakeholders on the contents of the Report for current period to prepare for the report for the next period.

We have fully considered the importance of each key performance indicator to the operation and the stakeholders. After comprehensive evaluation, we have selected the following indicators as the major influential aspects of the Group's sustainable development. While taking all environmental and social responsibilities into consideration, the Group has paid more attention to the following areas: The Environment and Natural Resources, Employment, Health and Safety, Labor Practices, Supply Chain Management.

3. ENVIRONMENTAL RESPONSIBILITY

Compliance with laws and regulations in relation to environmental protection is an essential requirement for a socially responsible corporation. Active participation in green and environment-friendly initiatives represents the top priority for an environmentally and socially responsible corporation at present and in the future.

Litian Pictures emphasizes environmental friendliness, energy-saving and emission reduction. While the Group is engaged in the film and television industry, which does not involve significant energy and resource consumption, waste generation and pollutant emission, we always attach great importance to environmental protection in the course of daily operation and development. We are eager to integrate the concepts of green and low carbon development into our management strategy to minimize the negative impact of our operation activity on the environment, thereby enhancing the Group's efficiency in environmental protection.

3.1 Emission management

Since the Group does not operate any factory, we are therefore not expected to be exposed to significant risks in relation to environmental protection in the course of our operation. In our daily operation activity, the Group is not involved in any waste gas emission and its greenhouse gas emissions solely arise from purchased electricity. Wastes generated primarily include daily office supplies, such as used toner cartridges, waste paper, etc.

The Company strictly complies with laws and regulations in relation to prevention of environmental pollution, such as the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution", "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" and "Law of the People's Republic of China on the Prevention and Control of Water Pollution". During the reporting year, the Company did not experience any incident of material environmental pollution and ecological damage.

3.2 Resource utilization management

A socially responsible corporation spares no effort in developing a resource-preserving and environment-friendly society. Energy-saving and improved energy efficiency may lower operating costs and facilitate long-term corporate development. The Group strictly abides by laws and regulations such as the "Environmental Protection Law of the People's Republic of China", "Water Law of the People's Republic of China" and "Energy Conservation Law of the People's Republic of China" to achieve balanced and sustainable development between the people, resources and environment. Since the Group does not operate any factory, we are therefore not expected to be exposed to significant risks in relation to water or raw material waste in the course of our operation.



3.2.1 Energy management

The Group meets the energy requirement in the course of operation with purchased electricity. Electricity consumption primarily arises from equipment, lightings, cooling and heating systems within the scope of our daily management. In addition, the Company's regular office operation also involves use of toner cartridge and paper consumption.

During the reporting year, the Group consumed 44,405 units of purchased electricity, which were solely used by the Company's internal office. We purchased approximately 10–15 toner cartridges every four months and consumed approximately 2.6 kg of that for the year. We purchased approximately 5–8 boxes of paper every four months and consumed approximately 408 kg, 70 kg and 158 kg of 70g A4 paper, 80g A4 paper and A5 paper, respectively, for the year, with the total weight of purchased paper for the year amounting to 706 kg.

3.2.2 Water management

The Group's water consumption principally arises from domestic water consumption at the Company's internal office. During the reporting year, the Company consumed in total 51 tons of water.

3.2.3 Energy-saving measures and planning

To achieve energy-saving and energy efficiency, the Group is eager to adopt energy-saving measures. We promote the use of DingTalk paperless office throughout the Group and actively encourage the staff to print on both sides in the course of operation.

Looking forward, we intend to make further progress in respect of a significant reduction in internal energy consumption, such as reasonable use of natural lighting and ventilation at venues, strict control over electricity consumption at our office building, timely turning on and off the air conditioners according to weather condition, closure of windows when air conditioners are switched on. We will also enhance education on energy-saving awareness for the staff to minimize energy consumption and promote carbon emission reduction effectively.

3.3 Environment and natural resources

As a socially responsible corporate citizen, we strive for our own development, as well as endeavor to minimize the impact of our operating activity on the environment and natural resources, thus achieving environmentally and ecologically friendly development. Our crew cares about environmental resource protection in the course of shooting and prohibits stepping on or damaging plants and trees to avoid causing harm to the natural environment. For indoor shooting, we also implement proper floor protection to eliminate damage and unnecessary dismantlement of fixtures and properties, avoid excess wear and tear and prevent resource waste.

4. SOCIAL RESPONSIBILITY

On top of profit generation, enterprises should also undertake their corresponding legal liability to the shareholders and employees and should be held accountable to consumers, the community and the environment. The social responsibility of enterprises requires them to go above and beyond the traditional concept of “earning profits as the only purpose”, rather, it emphasizes that enterprises need to pay attention to human values during production process and make contribution to the environment, consumers and society. Litian Pictures always sees employees as one of the core competitiveness of enterprises. We uphold the principle of “being people-oriented” as the first priority in our corporate development and operation strategy to ensure sustainability of the Company.

4.1 Employment and Staff Benefits

The Group has formulated a standardized recruitment management system, where the Group and its subsidiaries provide employees with reasonable remuneration packages, a discrimination-free working environment as well as fair and impartial promotional opportunities in strict accordance with relevant national laws and regulations, such as the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, the Law on the Protection of Minors and the Regulations on the Prohibition of Child Labour, so as to protect the legal rights and interests of employees and lay a stable talent foundation for our Company's future development.

4.1.1 Recruitment Process

In order to standardize our recruitment process, stringently control the staffing and recruitment criteria and procure eligible and appropriate talents for the Company to enhance our talent echelon formation and ensure smooth proceeding of every task within the Company, the Group has put in place the Recruitment Management System which is applicable to the Company's internal and external staff recruitment.

The Group prioritizes internal recruitment and adheres to a fair and open principle during recruitment process, which means suitable candidates within the Company who meet the requirement of vacant position with outstanding performances will be given priority in being selected for promotion, while public recruitment is considered as a second choice. During the recruitment assessment process, we insist on the principles of “transparent recruitment scheme and vacant position”, “transparent assessment process and position requirement” and “impartial assessment standard and assessment process” to recruit candidates in possession of relevant knowledge, experience and skills for the position on a merit basis according to their education background, working experiences and comprehensive qualities.



The Group's employees are classified as contract staff and employed staff. Contract staff are required to sign a labour contract, a confidentiality agreement and a letter of guarantee for the integrity of corporate employees; while employed staff are required to sign an employment contract, a confidentiality agreement and a letter of guarantee for the integrity of corporate employees. Labour contract, employment contract, confidentiality agreement and letter of guarantee for the integrity of corporate employees are entered into between the Company and employees voluntarily after arm's length negotiation, which is legal binding and the terms thereof should be observed by both the Company and the employees. For renewal, dismissal and resignation of employees, the Group has established the Management System for the Renewal, Dismissal and Resignation of Employees and relevant incidents are handled in strict compliance with the system.

At the end of the reporting year, the Group and its subsidiaries had a total of 51 employees, of which, 48 were full-time employees under labour contract and 3 was a trainee. Among the employees, 16 were male and 35 were female.

4.1.2 Rights and Interests of Employees

We understand that protecting the rights and interests of employees is the primary social responsibility an enterprise needs to fulfil, whose sustainability is directly affected by employees and in turn determine the development and stability of our society. Therefore, Litian Pictures has established a series of rights and interests protection systems to offer employees reasonable remuneration packages, protect their basic right to take leaves and create an discrimination-free, diverse and equal career development platform for them, so as to actualize their rights and interests.

In order to objectively and fairly evaluate the performance and contribution of employees, so as to better motivate and explore the potential of employees as well as to strengthen their sense of competition and responsibility, the Company has developed the Performance Evaluation System (《績效評估制度》), pursuant to which, the Company will conduct an annual performance evaluation at the end of each December. Performance Evaluation Form will be completed in an organized manner and the results of which will be kept and reviewed by the Financial Department who, upon review will submit them to the President for examination. Relevant results will serve as a reference for salary adjustment, performance commission and task bonus of employees. We aim to motivate our employees and improve their working efficiency by fair, healthy and reasonable measures, thereby enhancing the overall effectiveness of the Company. At the same time, we also fully protect employees' right to take leaves and have established a comprehensive Attendance and Leave Management System.

In addition, the Company timely contributes to the "six pensions" (retirement pension, unemployment pension, medical pension, provident fund, work injury insurance and maternity insurance) or foreign labour insurance (if required) for employees in accordance with national regulations, and the proportion of contributions made by the Company and the individual is determined according to national regulations. Besides, the Company has also set up a welfare committee to handle various staff activities and welfare initiatives for directors, employees and their dependants. The specific welfare programmes include birthday cakes for employees, the Company's annual dinner, staff travels and many other staff welfare initiatives.

4.2 Health and Safety

The Group is obliged to take care of its employees' health and safety. As a responsible employer, the Group is committed to minimizing accidents, illnesses and risks in the workplace and promoting the health of its employees, thereby reducing the absence and staff turnover rate. The Group strives to ensure that offices and other workplaces are well-equipped with safety facilities to create a healthy and safe working environment for the employees and constantly provide them with guidance on health and safety, so as to enhance their awareness on maintaining their own health and safety. In addition, the Group concerns for the physical and mental health of employees, and thus organizes regular staff medical check-ups.

During the reporting period, there was no non-compliance of the Group related to the provision of a safe working environment and protection of employees from occupational hazards, no work-related fatalities of staff and the number of day lost due to work-related injuries was zero.

4.3 Development and Training

The competition between modern enterprises is a competition for "talent". With the rapid evolution of knowledge and technology, enterprises need to constantly innovate and introduce new technologies and ideas, which requires continuous training of employees. Through training, we can enhance staff's understanding of and ability to implement corporate decisions, enable them to master corporate management concepts and advanced management methods, and continuously improve their personal quality as well as the Company's competitiveness in the market.



Environmental, Social and Governance Report

In order to standardize and promote staff training work in the Company and improve their job skills and quality so that the Company and employees can grow together, Litian Pictures has established the Staff Training Management System, which is applicable to all employees of the Company. The Company's training categories include new employee training, job skills training, and transfer training, etc., as shown in the table below.

Category of Training	Target Trainee	Purpose of Training	Subject of Training	Method of Training
New employee training	New staff	To help new employees gain understanding of the Company and fit into the corporate environment and their role as soon as possible	<ol style="list-style-type: none"> 1. Company profile, corporate culture and organizational structure, management composition 2. Company development strategies and directions 3. Various company rules and policies 4. Trade knowledge and skills of the job position 	Lecture, tour, practical guidance
Job skills training	On-the-job staff	To enhance employees' skills and improve working quality and efficiency as well as minimize errors	<ol style="list-style-type: none"> 1. Job skills 2. Relevant knowledge and skill enhancement 	Lecture, practical guidance
Transfer training	Transfer staff	To prepare for job position rotation, horizontal transfer and promotion	<ol style="list-style-type: none"> 1. Basic information about new job positions 2. Skill training of new job positions 	Lecture, practical guidance
Continuing education training	Professional and technical staff	To improve professional skills and the overall technical expertise of the Company	Professional and technical technique trainings provided by external professional agencies outside the Company	Lecture, practical guidance

Environmental, Social and Governance Report

Category of Training	Target Trainee	Purpose of Training	Subject of Training	Method of Training
Departmental internal training	Department staff	To conduct small-scale, flexible and practical trainings to staff based on actual working needs	Trainings for various works and procedures within the department	Lecture, practical guidance
Employee's self training	Individual staff	To enhance personal quality and working capabilities	Knowledge and skills related to individual employees	Self-training

In addition, for the financial personnel of the Company, the Group has specifically developed the Training Management System for Financial Personnel. The finance department is responsible for organizing business trainings for financial staff, and the target trainees include all financial personnel. The training covers accounting standards, finance and tax policies, financial analysis, financial systems and business procedures, work operations and guidance, and solutions to various difficult issues, etc., with an aim to continuously promote professionalism and improve ethics of our current staff, update and expand their knowledge and skills, and cultivate financial, technical and management talents.

4.4 Supply Chain Management

For improving accuracy and manageability of the Group's purchasing operations, it has set up the Purchasing Management System and established Rules on Project Initiation and Budget Report and Approval Process in accordance with relevant laws and regulations of the PRC, so as to regulate and monitor purchasing activities, thereby reducing operation risks.

Currently, the Group is primarily engaged in the business of licensing the broadcasting rights of self-produced and outright-purchased drama series. Purchases made by the Company consist of three main categories, namely, raw materials (i.e., outright-purchased scripts), fixed assets (including those used in production and office equipment) and office supplies (including those for department use and individual use). In particular, the Planning Department is responsible for purchasing scripts with the assistance of the Literary Creation Department; while the Administration and Human Resources Department is responsible for purchasing fixed assets and office supplies; and the production crew is responsible for purchasing office supplies for its own use.

The Group encourages suppliers to use environmentally friendly products and services when making purchases. The Group adheres to fair operation practices and has a well-established supplier selection procedure in place that clearly sets out the supplier selection criteria, which enables the Group to identify underlying risks in the supply chain. We also encourage suppliers to hold on to a high standard of business integrity and behaviour and strive for ideal environmental and social performance. In selecting and evaluating suppliers, we take into account various factors, such as quality system and environmental and social performance results, with the ultimate goal of building a long-term purchase-supply relationship.



4.5 Product Responsibility

4.5.1 Product Quality Management

Devotion to creating high-quality drama series

The Group has always adhered to the business philosophy of “creating a better future for Chinese cinema and television”. We strive for professionalism, with a view to reaching the younger generation and market. We keep abreast with the industry trend to create high-quality drama series for the Chinese audience. Since our establishment, the Company has invested in and produced numerous drama series, including Female Bodyguard of Song Dynasty, a large-scale historical action drama series, and Guerilla Heroes, a historical drama series of the War of Resistance against Japanese Aggression. These two drama series have achieved great distributing results in well-known domestic TV festivals in Shanghai, Beijing and Shenzhen. Meanwhile, Guerilla Heroes, Double Guns, The Brothers, and A Gallant Army, drama series in which the Group has invested, have been distributed in multiple TV channels. In particular, in 2019, A Gallant Army was premiered in CCTV-8 during the golden hours. Regarding outright-purchased drama series, we have distributed a considerable number of drama series that are well-received in the market, including The Chinese Dream, Bright Star, Road to Rebirth, Under Cover etc..

The Group has established great relationships with mainstream TV stations in the PRC, and has also received attention and recognition from authorities such as the Department of Radio and Television and China Film Association at the provincial level. We have a rich pipeline of drama series distribution and maintain business ties with more than 90 provincial and municipal mainstream TV channels and online platforms. The drama series distributed by us have been successfully broadcast on CCTV-8, satellite channel of Zhejiang Television Station, Anhui Television Station, Shenzhen Television Station, Tencent Video, iQIYI, Youku and other TV and new media platforms.

We have received many awards for our commitment to providing high quality drama series and related services. The following table lists some of the major awards and honors we have received.

Year of Award	Awards/Honours	Issuing Institute
2020	A Gallant Army – Outstanding Contribution to the 2020 Golden Hours TV Drama Ratings of Guangxi Satellite TV (《老虎隊》2020年度廣西衛視年度黃檔電視劇收視突出貢獻獎)	Guangxi Satellite TV (廣西衛視)
2020	Awakening of Insects – Special Contribution to the 2020 Drama Ratings of Guangxi Satellite TV (《諜戰深海之驚蟄》2020年度廣西衛視電視劇收視特別貢獻獎)	Guangxi Satellite TV

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Year of Award	Awards/Honours	Issuing Institute
2020	2020 Cooperative Company (Drama) of the Year with Guangxi Satellite TV (2020廣西衛視年度電視劇最佳合作公司)	Guangxi Satellite TV
2020	Our chairman, Mr. Yuan Li was named the 2020TV Drama Producer of the Year by Guangxi Satellite (2020廣西衛視年度電視劇最佳製片人)	Guangxi Satellite TV
2019	2018 Cooperative Company of the Year (Drama Series Distribution) (2018年度最佳合作影視發行公司獎)	Guangxi Satellite TV
2018	Bright Star – 2017 Rating Contribution Gold Award (《星光燦爛》2017年度收視貢獻金獎)	Tianjin Satellite TV (天津衛視)
2018	The Brothers – Television Series Rating Contribution Company Award (《義海》電視劇收視貢獻公司獎)	Guangdong Radio and Television (廣東廣播電視台)
2018	The Brothers – Sichuan Province Network Rating Contribution Award) (《義海》四川省網收視貢獻獎)	Sichuan Radio and television film and art channel (四川廣播電視臺影視劇中心影視文藝頻道)
2018	Guerrilla Heroes – 2016–2017 Rating Contribution Award (《游擊英雄》2016年度–2017年度收視貢獻獎)	ShanXi Radio Television (山西廣播電視台)
2018	2017 First Prize of Excellent Enterprise by Comprehensive Assessment (2017年度綜合考核優秀企業一等獎)	Haining Base Management Committee (海寧基地管理委員會)
2017	Double Guns – Excellent Television Series Award-Seventh Place (《雙槍》優秀電視劇獎第七名)	Shanghai East Movie Channel (上海東方電影頻道)



Environmental, Social and Governance Report

In the future, we will continue to strengthen our drama series production and distribution capabilities with the focus on producing more high-quality drama series and distributing them to leading satellite TV channels. In the mean time, more resources will be invested to actively develop and produce more web series of different genre to meet the various preferences of audiences of different age groups. Committed and professional, we will continue to improve our overall competitiveness to consolidate and enhance our position in the PRC drama series market.

Contributing to the dissemination of outstanding culture

As a popular art form, drama series provide a good artistic vehicle for audiences to gain understand of outstanding culture and receive positive social values. film and television workers should spread positivity by telling a good Chinese story; focus on cultural nourishment to enhance the content of their works; learn from well-proven experiences to broaden communication channels; and respect cultural differences to accommodate cultural diversity.

Litian Pictures takes the responsibility of promoting excellent culture and shoulders the burden of cultural confidence by strictly censoring the drama series involved in the Company's business. Based on the circular of the National Radio and Television Administration on the censorship procedures for drama series, the Company has formulated the Group's drama series Censorship Procedures system for the production team, clarifying the requirements for the submission and censorship of domestic drama series, co-productions and imported drama series, as well as the requirements for the submission and censorship of textual information and sample tapes of various types of drama series, and strictly enforces the system. We are committed to improving the quality of our drama series at source, enriching their content and expanding their influence. For example, *A Gallant Army*, a drama series produced by our Company, was first broadcast on CCTV-8 during prime time and achieved remarkable ratings. During and after its airtime, the show has sparked heated discussions both online and offline, facilitating a deeper understanding of Huaihai campaign, the background of the drama series, among the public.

In the future, Litian Pictures will, in addition to producing and broadcasting drama series, cooperate with more renowned directors and A-list actors and actresses to introduce the sub-sectors of drama series to the mainstream public, actively participate in the exploration and construction of the cultural industry of drama series, and make the outstanding culture embedded in drama series accessible to more people.

4.5.2 Intellectual Property Rights Protection

To regulate the work related to intellectual property rights of different departments and the Company, and to improve the reporting, management and incentive of intellectual property rights, the Group has formulated the Intellectual Property Rights Reporting Procedures and Incentive System Management Regulations, with an aim to stipulate and regulate the reporting procedures of the intellectual property rights of different departments and encourage department staff to partake in knowledge innovation and technology R&D.

The reporting procedures consist of four main parts, namely, conception application, review meeting, finalization, patent application or paper publication. Meanwhile, the Group has established the Intellectual Property Rights Reporting Incentive system pursuant to which, patent application and paper publication can be applied for awards in various stages including the final draft and the final reporting results.

Privacy Protection

We believe that proper maintenance and management of customer privacy is the key to building long-term trust and benign cooperation between the Company and our customers. The Group strictly complies with the relevant laws and regulations on the protection of personal information and privacy, and requires its staff to enhance their professional sensitivity and fulfil their due confidentiality responsibilities. A project manager in each department is responsible for protecting the privacy of its customers to ensure effective protection of customer information.

During the Reporting Period, the Group did not record any incidents of non-compliance in relation to products, intellectual property rights or privacy protection that had a significant impact on the Company.

4.6 Anti-corruption

4.6.1 Systematic safeguard

Improper conducts in business activities such as corruption, accepting bribes and offering bribes will seriously disrupt an enterprise's normal management order, impair its brand image, drastically reduce its social credibility, and hinder its sustainable and healthy development. Therefore, the Group is determined to stand against and expressly prohibits these improper practices.

In accordance with the PRC Anti-Unfair Competition Law, the Group has formulated anti-fraud policy, anti-money laundering policy, procedures and policy of fraud prevention and reporting mechanism and whistleblowing policy. The Group implements such policies based on the standard of "no forbidden zone, complete coverage and zero tolerance", strictly opposes to corruption and bribery behaviors of employees with an emphasis on the internal integrity and the construction of democratic supervision mechanism of the Group.



4.6.2 Multi-faceted measures

In order to raise the awareness of anti-corruption among the Group's employees, the Company's management has actively promoted the anti-fraud policy and related measures, and provides training for employees on laws and regulations, which mainly include: 1. strict compliance with laws and regulations and related requirements of the Company by directors, supervisors and management of the Company; 2. promoting anti-fraud policy through employee manual, promotion or networking to ensure all employees receive training on laws and regulations as well as standards of occupational ethics.

In the meantime, the Group establishes internal complaints and whistle-blowing system and implementation procedure. Staff can report information about actual or suspicious cases in respect of the Company and its personnel on violation of occupational ethics and others by means of reporting hotline, emails, letters etc. Internal audit personnel appointed by the Company takes on the collection, investigation, filing of reported cases and provision of advice under the supervision of the Board, the Supervisory Committee and the Audit Committee. In the course of relevant investigation, the Audit Committee may form a dedicated investigation taskforce comprised of internal audit personnel and managerial staff from related department for joint investigation. Besides, it may also engage external experts to involve in or assist with the investigation depends on circumstances. Cases in violation of local laws will be transferred to competent authorities to be dealt with in accordance with the law. We ensure that both the complainant and whistleblower are protected in the course of providing assistance in the investigation. The Company forbids any illegal discrimination or retaliation or hostile actions towards the staff involved in investigation. Any person who leaks information about the whistleblower against our regulations or makes reprisals against the whistleblower will be subject to disciplinary action.

During the Reporting period, there has been no case of non-compliance with respect to corruption in the Group that had a significant impact on the Company.

4.7 **Community Investment**

The Group is actively committed to corporate social responsibilities with a priority placed on charity activities. Employees are encouraged to participate in charity activities to make contribution to society. Amid the pandemic in 2020, the Group organized employees to make donations of different amounts (such as RMB50 and RMB100) to the party branch of the community where relevant employees locate as support for the anti-pandemic measures in China.

Independent Auditor's Report



To the Shareholders of Litian Pictures Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Litian Pictures Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 93 to 151, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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



KEY AUDIT MATTERS

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

Expected credit loss allowance for trade receivables	
Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(h)(i).	
The Key Audit Matter	How the matter was addressed in our audit
<p>At 31 December 2020, the Group's gross trade receivables totalled RMB525,367,000. Loss allowance of RMB58,213,000 was recorded.</p> <p>Management measured loss allowance at an amount equal to expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). The Group measures ECLs by taking into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, customer-specific conditions, and the Group's view of economic conditions over the expected lives of the trade receivables.</p>	<p>Our audit procedures to assess the ECL allowance for trade receivables included the following:</p> <ul style="list-style-type: none"> • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the credit control, the trade receivables collection process and estimating the ECLs for trade receivables; • obtaining an understanding of the Group's policy for estimating the loss allowance with reference to the requirements of the applicable accounting standard; • obtaining an understanding of the key parameters and assumptions that management uses in its implementation of the ECL model, including the historical credit loss data used in management's estimated loss rates;

Independent Auditor's Report

Expected credit loss allowance for trade receivables	
<i>Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(h)(i).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>We identified ECL allowance for trade receivables as a key audit matter because determining the level of loss allowance requires the exercise of significant management judgement which is inherently subjective.</p>	<ul style="list-style-type: none"> • assessing the appropriateness of management's assessment on whether ECLs derived from provision matrix have reflected the current economic conditions and forward-looking information on reporting date; • assessing whether items in the trade receivables ageing report were categorised in the appropriate ageing bracket by comparing individual items with the relevant underlying documentation, including the relevant sales agreement or licensing contract, the customer's acknowledgement of acceptance of the master tapes and distribution licenses for broadcasting of the drama series on a sample basis; • re-performing the calculation of the loss allowance as at 31 December 2020 based on the Group's credit loss allowance policies; and • assessing the reasonableness of the disclosures in the consolidated financial statements in relation to the loss allowances for trade receivables with reference to the requirements of the applicable accounting standards.



Impairment assessment of drama series copyrights	
Refer to Note 14 to the consolidated financial statements and the accounting policies in Note 2(h)(ii).	
The Key Audit Matter	How the matter was addressed in our audit
<p>At 31 December 2020, the book value of the Group's drama series copyrights amounted to RMB396,937,000. Impairment losses of RMB11,489,000 was recorded.</p> <p>Impairment assessment of drama series copyrights is assessed annually or whenever events or changes in circumstances indicate that the recoverable amount of a drama series copyright may be below the carrying amount at the end of the reporting period.</p> <p>The recoverable amount is determined based on the value-in-use calculation, using a discounted cash flow forecast.</p> <p>The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, in particular in assessing expected revenue and forecasted costs/expenses. In making such assessment, management considered factors such as current market condition, latest regulatory changes, whether the Group has sufficient financial ability and internal resources to complete the production of the self-produced drama series under production and the script copyrights, and whether there is any adverse change on the expected performance and distribution plans, which may affect the future production and distribution plans, and exercised judgement in developing its expectation for the future cash flows from these drama series copyrights.</p>	<p>Our audit procedures to assess the impairment of drama series copyrights included the following:</p> <ul style="list-style-type: none"> • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to impairment assessment of drama series copyrights; • evaluating the appropriateness of the methodology used by management to determine the recoverable amounts of drama series copyrights with reference to the requirements of the applicable accounting standards;

Impairment assessment of drama series copyrights	
Refer to Note 14 to the consolidated financial statements and the accounting policies in Note 2(h)(ii).	
The Key Audit Matter	How the matter was addressed in our audit
<p>We identified impairment assessment of drama series copyrights as a key audit matter because the assessment requires the exercise of significant management judgement which is inherently subjective.</p>	<ul style="list-style-type: none"> • assessing the appropriateness of the key assumptions made and inputs used in the discounted cash flow forecasts, including: <ul style="list-style-type: none"> – comparing the expected revenue to be generated by the drama series copyrights through checking the preliminary agreements or related business communications with potential customers, such as television channels, or the available revenue of similar drama series copyrights; – comparing the forecasted costs/ expenses during the production and promotion of drama series copyrights with historical information; – on a sample basis, examining the relevant correspondences with suppliers, progress reports and other documents to check the status and progress of the self-produced drama series under production and the script copyrights used by management in the forecasts; and • inspecting relevant documents on the further production of the self-produced drama series under production and the script copyrights, actual promotion expenses settlement, broadcasting situation or revenue confirmation subsequent to the reporting date.



Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Independent Auditor's Report

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wan Chi Yau, Charles.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

(Expressed in Renminbi (“RMB”))

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



Consolidated Statement of Financial Position

At 31 December 2020

(Expressed in Renminbi ("RMB"))

	Note	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property and equipment	11	6,408	3,787
Other financial assets	13	3,000	–
Deferred tax assets	22(b)	17,768	10,454
		27,176	14,241
Current assets			
Drama series copyrights	14	385,448	179,013
Trade and bills receivables	15	474,935	530,944
Prepayments, deposits and other receivables	16	97,974	35,688
Cash at bank and on hand	17	185,686	89,701
		1,144,043	835,346
Current liabilities			
Trade payables	18	379,480	294,975
Other payables and accrued expenses	19	149,380	150,236
Bank and other loans	20	79,151	56,661
Lease liabilities	21	863	650
Current taxation	22(a)	4,121	13,688
		612,995	516,210
Net current assets		531,048	319,136
Total assets less current liabilities		558,224	333,377
Non-current liabilities			
Lease liabilities	21	3,320	115
NET ASSETS		554,904	333,262

Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Renminbi (“RMB”))

	Note	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
CAPITAL AND RESERVES	23		
Share capital		2,742	90
Reserves		552,162	333,172
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		554,904	333,262

Approved and authorised for issue by the board of directors on 29 March 2021.

Yuan Li
Chairman

Fu Jieyun
Director



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in Renminbi (“RMB”))

	Attributable to equity shareholders of the Company					Total equity RMB'000
	Share capital	Share premium	Other reserve	Exchange reserve	Retained profits	
	RMB'000 (Note 23(b))	RMB'000 (Note 23(d))	RMB'000 (Note 23(e))	RMB'000 (Note 23(f))	RMB'000	
At 1 January 2019	–	–	165,870	–	90,268	256,138
Changes in equity for 2019:						
Profit and total comprehensive income for the year	–	–	–	–	77,034	77,034
Issuance of shares	90	–	–	–	–	90
At 31 December 2019 and 1 January 2020	90	–	165,870	–	167,302	333,262
Changes in equity for 2020:						
Profit for the year	–	–	–	–	70,080	70,080
Other comprehensive income for the year	–	–	–	(11,479)	–	(11,479)
Total comprehensive income	–	–	–	(11,479)	70,080	58,601
Capitalisation issue (Note 23(b)(ii))	1,966	(1,966)	–	–	–	–
Issuance of shares by initial public offering (Note 23(b)(iii))	686	162,355	–	–	–	163,041
	2,652	160,389	–	–	–	163,041
At 31 December 2020	2,742	160,389	165,870	(11,479)	237,382	554,904

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in Renminbi ("RMB"))

	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before taxation		71,381	79,369
Adjustments for:			
Depreciation expenses	6(c)	1,999	2,008
Finance costs	6(a)	5,067	4,769
Interest income	5	(102)	(886)
Changes in working capital:			
Increase in drama series copyrights		(206,435)	(9,615)
Decrease/(increase) in trade and bills receivables		56,009	(154,700)
Increase in prepayments, deposits and other receivables		(62,250)	(1,613)
Increase in restricted deposits		(44,221)	(7,961)
Increase in trade payables		84,505	116,708
(Decrease)/increase in other payables and accrued expenses		(2,367)	83,173
Cash (used in)/generated from operations		(96,414)	111,252
Income tax paid	22(a)	(18,182)	(3,041)
Net cash (used in)/generated from operating activities		(114,596)	108,211
Cash flows from investing activities			
Payments for purchase of property and equipment		(552)	(280)
Payment for purchase of equity securities		(3,000)	–
Settlements received from loans to third parties		–	20,000
Interest received		102	4,058
Net cash (used in)/generated from investing activities		(3,450)	23,778



Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in Renminbi (“RMB”))

	Note	2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from issuance of shares by initial public offering, net of share issuance expenses	23(b)(iii)	167,117	–
Proceeds from bank and other loans	17(b)	65,000	101,891
Repayment of bank and other loans	17(b)	(42,510)	(152,230)
Prepayments for costs incurred in connection with the listing of the Company's shares	17(b)	–	(3,926)
Capital element of lease rentals paid	17(b)	(650)	(1,091)
Interest element of lease rentals paid	17(b)	(31)	(62)
Interest paid	17(b)	(7,637)	(9,818)
Net cash generated from/(used in) financing activities		181,289	(65,236)
Net increase in cash and cash equivalents		63,243	66,753
Cash and cash equivalents at the beginning of the year	17(a)	81,740	14,987
Effect of foreign exchange rate changes		(11,479)	–
Cash and cash equivalents at the end of the year	17(a)	133,504	81,740

Notes to the 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**

These financial statements 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. These 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 below.

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 these 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 Note 2(e).

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.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

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.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)).



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 24(d).

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at fair value through other comprehensive income ("FVOCI") (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

(f) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Office equipment and others	2–5 years
Right-of-use assets	Over the term of lease

Where parts of an item of property and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(f) and 2(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets (continued)

As a lessee (continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of IFRS 16, *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of IFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets in 'property and equipment' and presents lease liabilities separately in the statement of financial position.

(h) Credit losses and impairment of assets

(i) Credit loss from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses ("**ECLs**") on financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). Equity securities measured at FVPL are not subject to ECL assessment.

The expected cash shortfalls of fixed-rate financial assets, trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (continued)

(i) Credit loss from financial instruments and contract assets (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligation to the Group in full, without resource by the Group to action such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (continued)

(i) Credit loss from financial instruments and contract assets (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- drama series copyrights;
- property and equipment, including right-of-use assets; and
- investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(h)(i) and 2(h)(ii)).

(i) Drama series copyrights

Drama series copyrights comprise the (i) distribution rights and copyrights of drama series and (ii) script copyrights, either acquired or produced by the Group. Drama series copyrights are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)(ii)). Costs of drama series copyrights comprise consideration payable upon acquisition of drama series and/or costs/expenses incurred during the production of drama series. Script copyrights are stated at cost less impairment losses (see Note 2(h)(ii)).

The amortisation of drama series copyrights is determined using the drama series forecast computation method. Under this method, the amount of amortisation is determined based on the proportion of the revenue recognised in the reporting period for each individual drama series to the estimated total revenue expected to be recognised throughout the life cycle of the drama series.

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(r)).

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(h)(i).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits

(i) *Short-term employee benefits and contributions to defined contribution retirement plans*
Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Share-based payments*

The fair value of shares granted to employees is recognised as an employee cost with a corresponding increase in equity. The fair value is measured at grant date.

(iii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) **Income tax (continued)**

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income tax levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) **Provisions and contingent liabilities**

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

- (i) *Revenue from distribution and licensing of broadcasting rights of drama series*
Revenue from distribution and licensing of broadcasting right of drama series to the customer is recognised when the drama series materials are made available to the customer.
- (ii) *Sale of script copyrights*
Revenue from the sale of script copyright is recognised when the title and copy of script copyright are transferred to the customer.
- (iii) *Revenue from distribution agency services*
Revenue from distribution agency service is recognised when the service is rendered.
- (iv) *Revenue from distribution and licensing of broadcasting rights under co-financing arrangements*
Revenue from distribution and licensing of broadcasting right under co-financing arrangement relates to investment in drama series as non-executive producer. Revenue under such arrangement is recognised when the drama series materials are made available to the customer of the executive producer.
- (v) *Interest income*
Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).
- (vi) *Government grants*
Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss on a systematic basis over the useful life of the asset.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) **Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB, the Group's presentation currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) **Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) **Related parties (continued)**

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(Expressed in RMB unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Significant sources of estimation uncertainty are as follows:

(a) Expected credit losses for receivables

The credit losses for trade and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 24(a). Changes in these assumptions and estimates could materially affect the result of the assessment and the Group may make additional loss allowances in future periods.

(b) Amortisation of drama series copyrights

Drama series copyrights are amortised by using the drama series forecast computation method, of which the amount is determined based on the proportion of the revenue recognised in the reporting period for each individual drama series to the estimated total revenue expected to be recognised throughout the life cycle of the drama series.

The management of the Group reviews the estimated total revenue throughout the life cycle of the drama series regularly in order to determine the amount of amortisation expenses to be recorded during any reporting period. The determination of the estimated total revenue is based on historical experience with similar drama series. The amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Impairment of drama series copyrights

If circumstances indicated that the carrying amount of a drama series copyright may not be recoverable, the drama series copyright may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of drama series copyrights as described in Note 2(h)(ii). Drama series copyrights are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the drama series copyright are discounted to their present value, which requires significant judgement relating to the level of revenue to be generated over the life cycle of the drama series copyright. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue to be generated over the life cycle of the drama series copyright. Changes in these estimates could have a significant impact on the recoverable amount of drama series copyrights and could result in additional impairment charge or reversal of impairment in future periods.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(d) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future periods.

4 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 4(b).

Disaggregation of revenue

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

	2020	2019
	RMB'000	RMB'000
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
	455,267	390,996

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

Disaggregation of revenue (continued)

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

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

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

Details of concentration of credit risks of the Group are set out in Note 24(a).

(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.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

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.

	2020			
	Self-produced drama series RMB'000	Outright- purchased drama series RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	10,174	442,267	2,826	455,267
Reportable segment gross profit	(6,655)	131,467	1,070	125,882
	2019			
	Self-produced drama series RMB'000	Outright- purchased drama series RMB'000	Others RMB'000	Total RMB'000
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.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5 OTHER INCOME

	2020 RMB'000	2019 RMB'000
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
	10,651	4,069

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

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

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



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs

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

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 RMB'000	2019 RMB'000
Depreciation expenses (Note 11):		
– owned property and equipment	1,006	1,049
– right-of-use assets	993	959
Impairment losses on:		
– drama series copyrights (Note 14)	11,489	–
– trade and other receivables (Notes 15(b) and 16)	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 (Note 14)	190,762	186,320

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2020 RMB'000	2019 RMB'000
Current taxation (Note 22(a))		
Provision for the year	8,615	9,590
Deferred taxation (Note 22(b))		
Origination and reversal of temporary differences	(7,314)	(7,255)
	1,301	2,335

(b) Reconciliations between tax expenses and accounting profits at applicable tax rates:

	2020 RMB'000	2019 RMB'000
Profit before taxation	71,381	79,369
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	17,845	19,842
Tax effect of non-deductible expenses	4,444	3,607
Tax effect of preferential tax rate (Note (iv))	(21,277)	(21,190)
Tax effect of unused tax losses not recognised	289	76
	1,301	2,335

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.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2020				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	
Executive directors					
Mr Yuan Li	-	841	36	4	881
Ms Tian Tian	-	686	36	5	727
Ms Fu Jieyun	-	520	30	3	553
Non-executive directors					
Mr Yu Yang	-	-	-	-	-
Mr Tang Zhiwei	-	-	-	-	-
Mr Luo Jianxing	-	-	-	-	-
Independent non-executive directors					
Mr Teng Bing Sheng	100	-	-	-	100
Mr Liu Hanlin	75	-	-	-	75
Mr Gan Weimin	75	-	-	-	75
	250	2,047	102	12	2,411

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Yuan Li	–	841	50	52	943
Ms Tian Tian	–	221	41	24	286
Ms Fu Jieyun	–	354	50	37	441
Non-executive directors					
Mr Yu Yang	–	–	–	–	–
Mr Tang Zhiwei	–	–	–	–	–
Mr Luo Jianxing	–	–	–	–	–
	–	1,416	141	113	1,670

On 17 June 2019, Mr Yuan Li was appointed as an executive director of the Company. On 27 September 2019, Ms Tian Tian and Ms Fu Jieyun were appointed as executive directors of the Company, and Mr Yu Yang, Mr Tang Zhiwei and Mr Luo Jianxing were appointed as non-executive directors of the Company. On 24 May 2020, Mr Teng Bing Sheng, Mr Liu Hanlin and Mr Gan Weimin were appointed as independent non-executive directors of the Company.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2019: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other two (2019: two) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	765	534
Discretionary bonuses	60	90
Retirement scheme contributions	7	91
	832	715

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2020 Number of individuals	2019 Number of individuals
Hong Kong dollar ("HK\$") Nil to HK\$1,000,000	2	2

(Expressed in RMB unless otherwise indicated)

10 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 (Note 23(b)(ii))	215,000,000	215,000,000
Effect of shares issued by initial public offering on the Listing Date (Note 23(b)(iii))	39,549,000	–
	264,549,000	225,000,000

(b) Diluted earnings per share

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



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

11 PROPERTY AND EQUIPMENT

	Office equipment and others RMB'000	Right-of-use assets RMB'000	Total RMB'000
Cost:			
At 1 January 2019	5,163	3,956	9,119
Additions	280	441	721
Disposals	–	(351)	(351)
At 31 December 2019	5,443	4,046	9,489
Additions	552	–	552
Lease modification (Note (iii))	–	4,068	4,068
At 31 December 2020	5,995	8,114	14,109
Accumulated depreciation:			
At 1 January 2019	(1,766)	(2,279)	(4,045)
Charge for the year	(1,049)	(959)	(2,008)
Written back on disposals	–	351	351
At 31 December 2019	(2,815)	(2,887)	(5,702)
Charge for the year	(1,006)	(993)	(1,999)
At 31 December 2020	(3,821)	(3,880)	(7,701)
Carrying amount:			
At 31 December 2020	2,174	4,234	6,408
At 31 December 2019	2,628	1,159	3,787

- (i) Property and equipment of the Group are located in the PRC.
- (ii) The carrying amounts of the Group's right-of-use assets represented leases entered into by the Group for office premises for its own use, where the lease terms are ranged from two to five years. Further details on lease liabilities are set out in Note 21.
- (iii) On 29 December 2020, the Group signed a new agreement with the lessor to renew the office rent contract of LiTian TV & Film. The change in future lease payments is considered as a lease modification. Accordingly, the Group has remeasured the related lease liabilities, and recognised the difference between the carrying amount of the lease liabilities before and after the modification of RMB4,068,000 as an adjustment to the right-of-use assets.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by a subsidiary	
LiTian TV & Film 浙江力天影視有限公司 (Notes (i) and (ii))	The PRC 2 August 2013	RMB46,131,980	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Zhejiang LiTian Media Co., Ltd. 浙江力天傳媒有限公司 (Notes (i) and (ii))	The PRC 9 July 2014	RMB10,000,000	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Horgos Tiantian Meimei Film Co., Ltd. 霍爾果斯甜甜美美影業有限公司 (Notes (i) and (ii))	The PRC 24 January 2017	RMB30,000,000	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Horgos Haohao Xuexi Film Co., Ltd. 霍爾果斯好好學習影業有限公司 (Notes (i) and (ii))	The PRC 26 May 2017	RMB30,000,000	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Horgos Tiantian Xiangshang Film Co., Ltd. 霍爾果斯天天向上影業有限公司 (Notes (i) and (ii))	The PRC 15 June 2017	RMB30,000,000	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Xinjiang Qingchun LiTian Film Co., Ltd. 新疆青春力天影業有限公司 (Notes (i) and (ii))	The PRC 22 June 2018	RMB10,000,000	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Beijing Litian Zhenzhi Film Co., Ltd. 北京力天臻至影業有限公司 (Notes (i) and (ii))	The PRC 9 May 2019	RMB10,000,000	100%	-	100%	Licensing of broadcasting rights of drama series
Horgos Baima Film Co., Ltd. 霍爾果斯白馬影業有限公司 (Notes (i) and (ii))	The PRC 7 September 2020	Registered capital of RMB3,000,000 and paid-up capital of RMBNil	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
Horgos Yuema Film Co., Ltd. 霍爾果斯躍馬影業有限公司 (Notes (i) and (ii))	The PRC 7 September 2020	Registered capital of RMB3,000,000 and paid-up capital of RMBNil	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by a subsidiary	
Horgos Zhizhen Film Co., Ltd. 霍爾果斯至臻影視有限公司 (Notes (i) and (ii))	The PRC 7 September 2020	Registered capital of RMB3,000,000 and paid-up capital of RMBNil (Note (iii))	100%	-	100%	Production, distribution and licensing of broadcasting rights of drama series
LiTian WFOE 海寧元帥影視策劃有限公司 (Note (i))	The PRC 25 September 2019		100%	-	100%	Investment holding

Notes:

- (i) The official name of these entities are in Chinese. The English translations are for identification only.
- (ii) These entities were registered as limited liability companies under the laws and regulations in the PRC.
- (iii) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. At 31 December 2020, the registered capital is HK\$200,000,000 and paid-up capital is HK\$60,000,000.

13 OTHER FINANCIAL ASSETS

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Unlisted equity securities measured at FVPL	3,000	-

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

14 DRAMA SERIES COPYRIGHTS

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

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:

	2020 RMB'000	2019 RMB'000
At 1 January	179,013	169,398
Additions	408,686	195,935
Recognised in cost of sales (Note 6(c))	(190,762)	(186,320)
Impairment losses (Note 6(c))	(11,489)	–
At 31 December	385,448	179,013



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

15 TRADE AND BILLS RECEIVABLES

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables	525,367	552,462
Less: loss allowance (Note 15(b))	(58,213)	(39,713)
	467,154	512,749
Bills receivables	7,781	18,195
	474,935	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 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	154,818	141,613
3 to 6 months	48,338	14,427
6 to 12 months	65,467	167,570
1 to 2 years	106,846	148,129
2 to 3 years	55,164	59,205
Over 3 years	44,302	–
	474,935	530,944

Further details on the Group's credit policy and credit risk are set out in Note 24(a).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

15 TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Impairment of trade and bills receivables

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

	2020 RMB'000	2019 RMB'000
At 1 January	39,713	11,481
Impairment losses recognised during the year	18,500	28,232
At 31 December	58,213	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).

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Prepayments for productions of drama series	53,739	13,654
VAT recoverable	43,688	17,523
Prepayments for costs incurred in connection with the listing of the Company's shares (Note (i))	–	4,076
Others	623	492
	98,050	35,745
Less: loss allowance	(76)	(57)
	97,974	35,688

All of the prepayments, deposits and other receivables are expected to be recovered, recognised as expenses or recognised in equity within one year.

Note:

(i) The balance was transferred to the share premium account within equity upon the listing of the Company's shares on the Stock Exchange.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

17 CASH AT BANK AND ON HAND

(a) Cash at bank and on hand comprise

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank	185,594	89,677
Cash on hand	92	24
Cash at bank and on hand included in the consolidated statement of financial position	185,686	89,701
Less: restricted deposits (Note (i))	(52,182)	(7,961)
Cash and cash equivalents included in the consolidated cash flow statement	133,504	81,740

The Group's operations in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

Note:

- (i) Restricted deposits represent deposits placed at banks as collaterals for the Group's bank and other loans (see Note 20).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

17 CASH AT BANK AND ON HAND (CONTINUED)

(b) Reconciliation of liabilities/(assets) arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities/(assets) arising from financing activities are liabilities/(assets) for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other loans RMB'000 (Note 20)	Interests payable RMB'000 (Note 19)	Lease liabilities RMB'000 (Note 21)	Prepayments for costs incurred in connection with the listing of the Company's shares RMB'000 (Note 16)	Total RMB'000
At 1 January 2019	107,000	7,451	1,415	(150)	115,716
Changes from financing cash flows:					
Proceeds from bank and other loans	101,891	-	-	-	101,891
Repayment of bank and other loans	(152,230)	-	-	-	(152,230)
Prepayments for costs incurred in connection with the listing of the Company's shares	-	-	-	(3,926)	(3,926)
Capital element of lease rentals paid	-	-	(1,091)	-	(1,091)
Interest element of lease rentals paid	-	-	(62)	-	(62)
Interest paid	-	(9,818)	-	-	(9,818)
Total changes from financing cash flows	(50,339)	(9,818)	(1,153)	(3,926)	(65,236)
Other changes:					
Net increase in lease liabilities	-	-	441	-	441
Interest expenses (Note 6(a))	-	7,761	62	-	7,823
Total other changes	-	7,761	503	-	8,264
At 31 December 2019 and 1 January 2020	56,661	5,394	765	(4,076)	58,744
Changes from financing cash flows:					
Proceeds from bank and other loans	65,000	-	-	-	65,000
Repayment of bank and other loans	(42,510)	-	-	-	(42,510)
Capital element of lease rentals paid	-	-	(650)	-	(650)
Interest element of lease rentals paid	-	-	(31)	-	(31)
Interest paid	-	(7,637)	-	-	(7,637)
Total changes from financing cash flows	22,490	(7,637)	(681)	-	14,172
Other changes:					
Net increase in lease liabilities	-	-	4,068	-	4,068
Share issuance expenses debited to share premium	-	-	-	4,076	4,076
Interest expenses (Note 6(a))	-	5,271	31	-	5,302
Total other changes	-	5,271	4,099	4,076	13,446
At 31 December 2020	79,151	3,028	4,183	-	86,362



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

17 CASH AT BANK AND ON HAND (CONTINUED)

(c) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows – lease rentals paid	215	377
Within financing cash flows – lease rentals paid	681	1,153
	896	1,530

18 TRADE PAYABLES

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

19 OTHER PAYABLES AND ACCRUED EXPENSES

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Payables to co-investors of drama series under co-financing arrangements	129,476	122,558
Interest payables	3,028	5,394
Payables for staff related costs	3,093	2,473
Payables for other taxes	10,761	19,566
Payables for costs incurred in connection with the listing of the Company's shares	–	245
Others	3,022	–
Financial liabilities measured at amortised cost	149,380	150,236

All of the other payables and accrued expenses are expected to be settled or are repayable on demand.

20 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 (Note (i))	50,000	27,793
– Guaranteed by a subsidiary of the Group and related parties	15,000	–
	65,000	27,793
Other loans from third parties:		
– Unsecured and unguaranteed (Note (ii))	14,151	28,868
	79,151	56,661

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%).



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

21 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year	863	650
After 1 year but within 2 years	831	115
After 2 years but within 5 years	2,489	–
	3,320	115
	4,183	765

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) *Current taxation in the consolidated statement of financial position represents*

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Income tax payable at 1 January	13,688	7,139
Provision for the year (Note 7(a))	8,615	9,590
Income tax paid	(18,182)	(3,041)
Income tax payable at 31 December	4,121	13,688

(Expressed in RMB unless otherwise indicated)

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets recognised

The deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Credit loss allowance RMB'000	Impairment losses on drama series copyrights RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2019	2,872	–	327	3,199
Credited to the consolidated statement of profit or loss (Note 7(a))	7,072	–	183	7,255
At 31 December 2019	9,944	–	510	10,454
Credited to the consolidated statement of profit or loss (Note 7(a))	4,630	2,872	(188)	7,314
At 31 December 2020	14,574	2,872	322	17,768

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), certain subsidiaries of the Group have not recognised deferred tax assets in respect of cumulative tax losses of RMB3,481,000 at 31 December 2020 (2019: RMB3,120,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant entities. The cumulative tax losses comprised tax losses arose from various years, and each year's tax loss can only be carried forward for five years.

(d) Deferred tax liabilities not recognised

At 31 December 2020, taxable temporary differences relating to the retained profits of the Group's subsidiaries established in the PRC (excluding Hong Kong) amounted to RMB245,569,000 (2019: RMB172,282,000), where no deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits were recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 23(b))	Share premium RMB'000 (Note 23(d))	Exchange reserve RMB'000 (Note 23(f))	Accumulated losses RMB'000	Total equity RMB'000
At 17 June 2019 (date of incorporation)	-	-	-	-	-
Changes in equity for 2019:					
Issuance of shares	90	-	-	-	90
At 31 December 2019 and 1 January 2020	90	-	-	-	90
Changes in equity for 2020:					
Loss for the year	-	-	-	(3,892)	(3,892)
Other comprehensive income for the year	-	-	(12,735)	-	(12,735)
Total comprehensive income	-	-	(12,735)	(3,892)	(16,627)
Capitalisation issue (Note 23(b)(iii))	1,966	(1,966)	-	-	-
Issuance of shares by initial public offering (Note 23(b)(iii))	686	162,355	-	-	163,041
	2,652	160,389	-	-	163,041
At 31 December 2020	2,742	160,389	(12,735)	(3,892)	146,504

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) 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 (Note (i))	500,000	5,000	38,000	380

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



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Dividends

The directors of the Company do not recommend the payment of a final dividend attributable to the current year (2019: RMBNil).

(d) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(e) Other reserve

Other reserve mainly comprised (i) the paid-in capital and other reserves of a PRC subsidiary of the Group, LiTian TV & Film, and (ii) the portion of the grant date fair value of equity interests in LiTian TV & Film granted to employees of the Group in excess of the proportion of paid-in capital of LiTian TV & Film these employees entitled to which had been recognised in 2015.

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(s).

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash at bank and bills receivables is limited because the counterparties are banks and financial institutions with good credit standing, for which the Group considers to have low credit risk. The Group does not provide any other guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2020, 17% (2019: 20%) and 58% (2019: 64%) of the total trade receivables was due from the Group's largest trade debtor and five largest trade debtors respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Payment terms varies under the Group's contracts with each customer, and are negotiated on an individual contract basis. For the distribution and licensing of the broadcasting rights of drama series, the total consideration of each contract is settled by instalments with reference to the point in time when the drama series materials are delivered and/or the commencement of the broadcasting of the drama series. Generally, the full payment cycle will span over a period of six months to two years. For the Group's other sources of revenue, credit term of 60 days is generally granted to customers. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	At 31 December 2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.0%	203,015	2,030
Less than 3 months past due	1.0%	43,205	432
More than 3 months but less than 6 months past due	2.0%	17,083	341
More than 6 months but less than 9 months past due	3.0%	35,615	1,068
More than 9 months but less than 12 months past due	4.0%	8,941	357
More than 12 months but less than 24 months past due	14.2%	92,740	13,169
More than 24 months but less than 36 months past due	25.8%	113,142	29,190
More than 36 months past due	100.0%	11,626	11,626
		525,367	58,213

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Trade receivables (continued)

	At 31 December 2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.0%	141,157	1,369
Less than 3 months past due	1.2%	35,155	428
More than 3 months but less than 6 months past due	1.6%	104,374	1,634
More than 6 months but less than 9 months past due	2.4%	32,098	778
More than 9 months but less than 12 months past due	4.4%	62,595	2,770
More than 12 months but less than 24 months past due	12.0%	157,727	18,974
More than 24 months but less than 36 months past due	40.0%	9,331	3,735
More than 36 months past due	100.0%	10,025	10,025
		552,462	39,713

Expected loss rates are based on actual loss experience over the recent past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	At 31 December 2020				Carrying amount RMB'000
	Contractual undiscounted cash outflow			Total RMB'000	
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years but within 5 years RMB'000		
Trade payables	379,480	-	-	379,480	379,480
Other payables and accrued expenses measured at amortised cost	149,380	-	-	149,380	149,380
Bank and other loans	86,832	-	-	86,832	79,151
Lease liabilities	1,026	955	2,608	4,589	4,183
	616,718	955	2,608	620,281	612,194
	At 31 December 2019				Carrying amount RMB'000
	Contractual undiscounted cash outflow			Total RMB'000	
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years but within 5 years RMB'000		
Trade payables	294,975	-	-	294,975	294,975
Other payables and accrued expenses measured at amortised cost	150,236	-	-	150,236	150,236
Bank and other loans	65,154	-	-	65,154	56,661
Lease liabilities	681	117	-	798	765
	511,046	117	-	511,163	502,637

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

	At 31 December 2020		At 31 December 2019	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
– Bank and other loans	3.70% – 15.00%	79,151	4.05% – 15.00%	56,661
– Lease liabilities	4.75%	4,183	4.75%	765
		83,334		57,426
Fixed rate borrowings as a percentage of total borrowings		100%		100%

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

During the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

	Fair value at 31 December 2020 RMB'000	Fair value measurements at 1 December 2020 categorised into Level 3 RMB'000
Recurring fair value measurements		
Unlisted equity securities measured at FVPL (Note 13)	3,000	3,000

The unlisted equity securities represent the Group's investment in an investment fund which may invest in listed and/or unlisted equity and/or debt securities. The fair value of the Group's unlisted equity securities is determined based on the fair values of the underlying investments at the Group's share of the unlisted equity securities. At 31 December 2020, the unlisted equity securities have yet to make any investments with the funds contributed from the Group and other limited partners, where the underlying assets represent the cash contributions from these limited partners, and hence their fair values.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2020 and 2019.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS

- (a) **Names and relationships of the related parties that had material transactions with the Group during the year and balances with the Group at the end of the reporting period**

Name of related party	Relationship
Mr Yuan Li (袁力)	Controlling shareholder and director of the Company
Ms Tian Tian (田甜)	Controlling shareholder and director of the Company
Ms Fu Jieyun (傅潔雲)	Shareholder and director of the Company

- (b) **Transactions with related parties during the year**

	2020 RMB'000	2019 RMB'000
Loans received from Mr Yuan Li	-	4,000
Loans repaid to Mr Yuan Li	-	4,000
Loans received from Ms Fu Jieyun	-	13,230
Loans repaid to Ms Fu Jieyun	-	13,230
Loans received from Ms Tian Tian	-	5,000
Loans repaid to Ms Tian Tian	-	5,000
Interest expenses on loans from Mr Yuan Li	-	219
Interest expenses on loans from Ms Fu Jieyun	-	384
Interest expenses on loans from Ms Tian Tian	-	268

- (c) **Balances with related parties at the end of the reporting period**

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Included in other payables and accrued expenses (Note 19):	-	4,000
Interests payable to:	-	4,000
– Mr Yuan Li	-	1,087
– Ms Fu Jieyun	-	416
– Ms Tian Tian	-	268
	-	1,771



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9 is as follows:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	2,399	1,557
Contributions to defined contribution retirement plans	12	113
	2,411	1,670

Total remuneration is included in "staff costs" (see Note 6(b)).

(e) Applicability of the Listing Rules relating to connected transactions

The Contractual Arrangements entered into by the Group as mentioned in Note 2(b) constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section Connected Transactions and Continuing Connected Transactions of the Directors' Report.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Interest in a subsidiary	12	109,824	*
Current assets			
Prepayments and other receivables		322	90
Cash at bank and on hand		39,091	—
		39,413	90
Current liabilities			
Amount due to a subsidiary		—	*
Other payables and accrued expenses		2,733	—
		2,733	*
Net current assets			
		36,680	90
NET ASSETS			
		146,504	90
Capital and reserves			
Share capital	23	2,742	90
Reserves		143,762	—
TOTAL EQUITY			
		146,504	90

* Amount less than RMB1,000.

Approved and authorised for issue by the board of directors on 29 March 2021.

Yuan Li
Chairman

Fu Jieyun
Director



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

27 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.

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors of the Company consider the immediate holding companies of the Company at 31 December 2020 to be Litian Century Media Co., Ltd., a company wholly-owned by Mr Yuan Li, and Marshal Investment Co. Ltd., a company wholly-owned by Ms Tian Tian, and the ultimate controlling parties to be Mr Yuan Li and Ms Tian Tian.

(Expressed in RMB unless otherwise indicated)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, <i>Interest Rate Benchmark Reform – Phase 2</i>	1 January 2021
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Amendment to IFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendment to IAS 16, <i>Property, Plant and Equipment:</i> <i>Proceeds before Intended Use</i>	1 January 2022
Amendment to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2023
Amendments to IAS 1, <i>Classification of liabilities as current or non-current</i>	1 January 2023
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Basis for conclusions on IFRS 17	
Illustrative examples on IFRS 17	
Amendments to IFRS 17	
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined at a future date
Amendments to IFRS 4, <i>Extension of the temporary exemption from applying IFRS 9</i>	To be determined at a future date

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.



Definition

“Articles of Association”	the articles of association of the Company, as may be amended from time to time
“Audit Committee”	the audit committee of the Company
“Board”	the board of directors of the Company
“Board Committees”	collectively, the Audit Committee, the Nomination Committee and the Remuneration Committee
“CG Code”	the corporate governance code contained in Appendix 14 to the Listing Rules
“China” or “PRC”	the People's Republic of China, excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company” or “Litan Pictures”	Litan 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)
“Controlling Shareholders”	has the meaning ascribed to it in the Listing Rules and unless the context otherwise requires, refers to the controlling shareholders of the Company, namely Mr. Yuan, Litan Century, Ms. Tian and Marshal Investment
“COVID-19”	the 2019 Coronavirus disease
“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
“Litan Century”	Litan Century Media Co. Ltd. (力天世紀傳媒有限公司), a company incorporated under the laws of the British Virgin Islands on 20 May 2019, which is 100% owned by Mr. Yuan, and a Controlling Shareholder of the Company

“LiTian TV & Film”	Zhejiang LiTian TV & Film Co., Ltd.* (浙江力天影視有限公司), a limited liability company established under the laws of the PRC on 2 August 2013, which is a consolidated affiliated entity of the Company
“Marshal Investment”	Marshal Investment Co. Ltd. (元帥投資有限公司), a company incorporated under the laws of the British Virgin Islands on 20 May 2019, which is 100% owned by Ms. Tian, and a Controlling Shareholder of the Company
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules
“Mr. Yuan”	Mr. Yuan Li (袁力), the chairman of the Board, an executive Director, a Controlling Shareholder and the spouse of Ms. Tian
“Ms. Tian”	Ms. Tian Tian (田甜), an executive Director, the chief executive officer of the Company, a Controlling Shareholder and the spouse of Mr. Yuan
“Nomination Committee”	the nomination committee of the Company
“Prospectus”	the prospectus of the Company dated 10 June 2020
“Remuneration Committee”	the remuneration committee of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“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
“Share Option Scheme”	the share option scheme approved by the Company on 24 May 2020
“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)
“Year”	the year ended 31 December 2020
“%”	per cent.



Four-Year Financial Summary

	For the year ended 31 December			
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	455,267	390,996	385,867	378,738
Gross profit	125,882	141,134	99,505	75,985
Profit attributable to equity shareholders of the Company for the year	70,080	77,034	67,606	56,760

	At 31 December			
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	1,171,219	849,587	622,084	373,978
Total liabilities	616,315	516,325	365,946	203,446
Net assets	554,904	333,262	256,138	170,532