Values Cultural Investment Limited
新石文化投資有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 1740

Annual Report 2019

CONTENTS

* The English translation of terms or names in Chinese which are marked with "*" is for identification purpose only.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LIU Naiyue *(Chairman)*
Ms. LIU Peiyao
Ms. WEI Xian
Ms. LI Fang

Non-Executive Directors

Mr. SHAO Hui
Ms. SHEN Yi

Independent Non-Executive Directors

Mr. XIAN Guoming
Mr. ZHONG Mingshan
Mr. XU Zongzheng

BOARD COMMITTEES

Audit Committee

Mr. ZHONG Mingshan *(Chairman)*
Mr. XIAN Guoming
Mr. XU Zongzheng

Remuneration Committee

Mr. XU Zongzheng *(Chairman)*
Mr. ZHONG Mingshan
Mr. XIAN Guoming

Nomination Committee

Mr. XIAN Guoming *(Chairman)*
Mr. XU Zongzheng
Mr. ZHONG Mingshan

JOINT COMPANY SECRETARIES

Mr. AU YEUNG Ming Yin Gordon
Ms. WANG Haiting
(appointed with effect from 9 April 2020)

AUTHORISED REPRESENTATIVES

Mr. LIU Naiyue
Mr. AU YEUNG Ming Yin Gordon

AUDITOR

Ernst & Young *(Certified Public Accountants)*
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
Li & Partners
22/F, World-Wide House
19 Des Voeux Road Central
Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
34th Floor, Tower 3
China Central Place
77 Jianguo Road, Chaoyang District
Beijing, PRC

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 16, 28/F, One Midtown
11 Hoi Shing Road, Tsuen Wan
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKER

Bank of China (Haining Branch)
Hangzhou United Rural Commercial Bank
(Haining Branch)

COMPLIANCE ADVISER

Zhongtai International Capital Limited
19/F, Li Po Chun Chambers
189 Des Voeux Road Central
Central, Hong Kong

STOCK CODE

1740

COMPANY'S WEBSITE

www.yuanshimedia.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of Values Cultural Investment Limited (the "**Company**"), I am pleased to present to you the annual report of the Company, its subsidiaries and the consolidated affiliated entities (collectively, the "**Group**") for the year ended 31 December 2019.

THE LISTING

The shares in our Company were successfully listed on the Main Board (the "**Listing**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 January 2020 (the "**Listing Date**"). The Listing marks an important milestone in our Group's history. The additional capital raised allows us to expand our business. It has also provided our Group an opportunity to strengthen our corporate governance and better equip ourselves to seize future business opportunities.

FINANCIAL RESULTS

For the year ended 31 December 2019, our Group recorded a total revenue of approximately RMB212.6 million, representing an increase of approximately 38.0% as compared to approximately RMB154.1 million for the year ended 31 December 2018. Our gross profit decreased by approximately 23.3% from approximately RMB80.1 million for the year ended 31 December 2018 to approximately RMB61.4 million for the year ended 31 December 2019. Such decrease was primarily due to the low gross profit margin of our self-produced TV series National Spirit* (共和國血脈), which was due to (i) the adjustment of the total number of episodes broadcast by our customer, China Central Television General Channel* (中國中央電視台綜合頻道) ("**CCTV**"), in accordance with its policy and broadcasting schedule and (ii) the high production costs of National Spirit* (共和國血脈) to satisfy the standards of CCTV. This has caused our Group's net profit decreased to approximately RMB24.8 million for the year ended 31 December 2019.

PROSPECTS

The Board is of the view that the general outlook of the industry and the business environment in which the Group operates remain very challenging in the coming year and it is expected that the number of new TV series to be licensed would be very limited. The ongoing epidemic of coronavirus (the "**COVID-19 outbreak**") has halted all productions in mainland China. Nonetheless, our business of acting as distribution agent is expected to be solid, as online video platforms are desperate to purchase new productions to add to their library, in order to satisfy the increase in customers' demands.

Looking ahead, our Group will adhere to prudent financial management in project selection and cost control. Our Group will continue to strengthen and expand our business of licensing and broadcasting rights of TV series, and expand our business by developing business relationship with online video platforms. It is believed that further expanding our in-house team and capacity could in the long run assist in seizing future business opportunities and diversify our source of income, hence enhancing the profitability of our Group as a whole.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express our gratitude to all our valued customers, business partners, associates and shareholders for their constant support. I would also like to deeply thank our employees for their dedication and outstanding performance all along, without which our sustained achievements would not be possible.

Liu Naiyue
Chairman and Executive Director
Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investing in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. As at the date of this annual report, we had produced and licensed more than 20 TV series and our TV series are broadcast on well-known TV stations such as CCTV, Tianjin Radio & Television Station* (天津廣播電視台), Shandong Radio and Television* (山東廣播電視台), Heilongjiang Radio and Television* (黑龍江廣播電視台) and Jilin Radio and Television* (吉林廣播電視台).

On the Listing Date, the shares in the Company (the "**Shares**") were successfully listed on the Stock Exchange. The Listing marks an important milestone in the Group's history as it is a recognition of the Company's past effort in its business development.

Looking forward, the Company expects that the biggest challenge in 2020 will be the COVID-19 outbreak, the impact of which has already been reflected in the following aspects: (1) TV series planned to be filmed are temporarily halted and the completion time of production is expected to be delayed; (2) crew recruitment is forced to be postponed; (3) due to the said halt in new TV series production and the difficulty in obtaining relevant distribution licenses, the contribution of new TV series to the Group's revenue in coming year is expected to be very limited; and (4) the Group's daily operation is interrupted to a certain degree due to the precautionary measures.

Facing these challenges, the Group will adopt the following measures and strategies: (1) revising the scripts so that, if situation allows, immediately starts the filming of the relevant TV series and shorten production time as much as possible; (2) reasonably adjusting labour distribution and recruiting crew where appropriate; (3) optimizing the promotion of TV series to be released, exploring the potential of reselling series that have been broadcast, and selecting suitable copyright transactions of TV series to maximize income as much as possible; and (4) ensuring normal operation of the Group by means of telephone conference, the internet communication and shift work.

Nevertheless, the Group vows to implement the business strategies as set out in the prospectus of the Company dated 30 December 2019 (the "**Prospectus**").

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018 and 2019, all of our revenue was generated from customers located in the PRC. The following table sets forth a breakdown of our revenue by business segments for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Licensing of broadcasting rights of TV series	204,745	138,618
Distribution of broadcasting rights of TV series	—	12,939
Revenue from other sources		
Net license fee received from investment in TV series/film/web series as non-executive producer	7,892	2,528
	212,637	154,085

Our total revenue increased by approximately 38.0% from approximately RMB154.1 million for the year ended 31 December 2018 to RMB212.6 million for the year ended 31 December 2019, primarily due to the increase in revenue from licensing of broadcasting rights of TV series.

Revenue by business segments

(i) Licensing of broadcasting rights of TV series

Revenue generated from licensing of broadcasting rights of TV series increased by 47.7% from approximately RMB138.6 million for the year ended 31 December 2018 to approximately RMB204.7 million for the year ended 31 December 2019, primarily due to (i) the increase in contribution from reruns of TV series, primarily from our purchased TV series Mother Relative Uncle* (娘親舅大), The Thunder* (破冰行動), Wild Roses* (紅薔薇) and Super Father-In-Law & Son-In-Law* (超級翁婿) and (ii) the higher average selling prices of our self-produced TV series, namely National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) which had their first-run and/or rerun broadcast in 2019.

The following table sets forth a breakdown of our revenue from licensing of the broadcasting rights of TV series of which the Group acted as executive producer or purchased copyrights (or broadcasting rights) in absolute amounts and as percentages for the year ended 31 December 2018 and 2019:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Acted as executive producer	**122,653**	**59.9%**	8,862	6.4%
Licensed purchased copyrights (or broadcasting rights)	**82,092**	**40.1%**	129,756	93.6%
	204,745	**100.0%**	138,618	100.0%

(ii) Distribution of broadcasting rights of TV series

Revenue generated from distributing broadcasting rights of TV series decreased by 100% from approximately RMB12.9 million for the year ended 31 December 2018 to nil for the year ended 31 December 2019. The Group did not provide any distribution service for the year ended 31 December 2019.

(iii) Net licence fee received from investment in TV series/film/web series as non-executive producer

Revenue generated from net licence fee received from investment in TV series/film/web series as non-executive producer increased by approximately 212.2% from approximately RMB2.5 million for the year ended 31 December 2018 to approximately RMB7.9 million for the year ended 31 December 2019, primarily due to the net license fee received from the web series Evil Nights* (罪夜無間).

Cost of Sales

The following table sets forth our cost of sales by business segment for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Licensing of broadcasting rights of TV series	**139,287**	71,099
Net license fee received from investment in TV series/film/web series as non-executive producer	**11,927**	2,880
	151,214	73,979

Our cost of sales increased by approximately 104.4% from approximately RMB74.0 million for the year ended 31 December 2018 to approximately RMB151.2 million for the year ended 31 December 2019, primarily due to the increase in cost of licensing of broadcasting rights of TV series.

For the business segment of licensing of broadcasting rights of TV series, the cost of sales increased by approximately 95.9% from approximately RMB71.1 million for the year ended 31 December 2018 to approximately RMB139.3 million for the year ended 31 December 2019, primarily due to (i) the increase in revenue from licensing of broadcasting rights of TV series and (ii) the high production costs in the making of National Spirit* (共和國血脈) in order to satisfy the quality standard of our customer, being CCTV.

For the business segment of investing in TV series/film/web series as non-executive producer, the cost of sales increased by approximately 314.1% from approximately RMB2.9 million for the year ended 31 December 2018 to approximately RMB11.9 million for the year ended 31 December 2019, primarily due to the increase in the revenue.

Gross profit and gross profit margin

Our gross profit decreased by approximately 23.3% from approximately RMB80.1 million for the year ended 31 December 2018 to approximately RMB61.4 million for the year ended 31 December 2019, primarily due to the low gross profit margin of our self-produced TV series National Spirit* (共和國血脈), which was due to (i) the adjustment of the total number of episodes broadcast by our customer, CCTV, in accordance with its policy and broadcasting schedule and (ii) the high production costs of National Spirit* (共和國血脈) to satisfy CCTV's quality standard.

Our gross profit margin decreased from approximately 52.0% for the year ended 31 December 2018 to approximately 28.9% for the year ended 31 December 2019.

The following table sets forth a breakdown of our gross profit and gross profit margin by business segments for the year ended 31 December 2018 and 2019:

	2019		2018	
	RMB'000	Margin %	RMB'000	Margin %
Licensing of broadcasting rights of TV series	65,458	32.0%	67,519	48.7%
Distribution of broadcasting rights of TV series	—	—	12,939	100.0%
Net license fee received from investment in TV series/film/web series as non-executive producer	(4,035)	(51.1%)	(352)	(13.9%)
	61,423	28.9%	80,106	52.0%

(i) Licensing of broadcasting rights of TV series

The gross profit margin for the licensing of broadcasting rights of TV series segment decreased from approximately 48.7% for the year ended 31 December 2018 to approximately 32.0% for the year ended 31 December 2019, primarily due to the low gross profit margin of our self-produced TV series National Spirit* (共和國血脈).

The following table sets forth a breakdown of our gross profit and gross profit margin of TV series of which we acted as executive producer or purchased copyrights (or broadcasting rights) in the business segment of licensing of broadcasting rights of TV series for the year ended 31 December 2018 and 2019:

	2019		2018	
	RMB'000	Margin %	RMB'000	Margin %
Acted as executive producer	26,149	21.3%	4,660	52.6%
Licensed purchased copyrights (or broadcasting rights)	39,309	47.9%	62,859	48.4%
	65,458	32.0%	67,519	48.7%

(ii) Distribution of broadcasting rights of TV series

The gross profit margin for the distribution of broadcasting rights of TV series segment was 100% for the year ended 31 December 2018 because revenue from provision of distribution services was recorded on a net basis. The Group did not distribute any broadcasting rights of TV series for the year ended 31 December 2019.

(iii) Investment in TV series/film/web series as non-executive producer

The gross profit margin for the investing in TV series/film/web series as a non-executive producer segment decreased from approximately negative 13.9% for the year ended 31 December 2018 to approximately negative 51.1% for the year ended 31 December 2019. We recorded negative gross profit in 2019 from one film and one web series in which we co-invested and acted as a non-executive producer. The unsatisfactory performance was mainly due to our lack of prior investment experiences in film and web series.

Other income and gains

The following table sets forth a breakdown of our other income and gain for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Government grants — related to income	**227**	5,113
Bank interest income	**12**	39
Investment income from financial asset at fair value through profit or loss	**—**	32
Interest income from loans receivable	**—**	1,538
Penalty income	**—**	325
Others	**1,096**	—
	1,335	7,047

Our other income and gains decreased by approximately 81.1% from RMB7.0 million for the year ended 31 December 2018 to approximately RMB1.3 million for the year ended 31 December 2019, primarily due to the decrease in government grants.

Selling and distribution expenses

The following table sets forth a breakdown of our selling and distribution expenses for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Advertising and marketing expenses	**3,890**	1,890
Staff costs	**1,054**	615
Entertainment and travelling expenses	**438**	563
Others	**94**	151
	5,476	3,219

Our selling and distribution expenses increased by approximately 70.1% from approximately RMB3.2 million for the year ended 31 December 2018 to approximately RMB5.5 million for the year ended 31 December 2019, mainly attributable to increase in amount of advertising and marketing activities required for promoting our self-produced TV series National Spirit* (共和國血脈) and Yan Yang Chun* (燕陽春) in 2019.

Administrative expenses

The following table sets forth a breakdown of our administrative expenses for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Listing expenses	16,179	—
Staff costs	3,182	2,853
Entertainment and travelling expenses	1,875	1,845
Auditor's remuneration	1,150	—
Professional service fees	648	439
Office related expenses	1,865	1,404
Miscellaneous taxes	563	197
Others	109	94
	25,571	6,832

Our administrative expenses increased by approximately 274.3% from approximately RMB6.8 million for the year ended 31 December 2018 to approximately RMB25.6 million for the year ended 31 December 2019, primarily due to the listing expenses amounting to approximately RMB16.2 million incurred for the Listing.

Impairment losses on financial assets

We recorded a reversal of impairment loss on financial assets amounting to approximately RMB1.0 million. The reversal in impairment provision was primarily due to the settlement of long outstanding trade receivables by our customers in the year ended 31 December 2019.

Finance costs

The following table sets forth a breakdown of our finance costs for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	1,017	1,231
Interest on other borrowings	1,059	3,062
Interest on borrowings from a director and related parties	—	67
Interest on discounted notes receivable	190	44
Interest on trade receivable factoring	2,335	—
Interest on trade receivable financing	—	23
Interest on lease liabilities	47	54
Less: Interest capitalised	—	(2,103)
	4,648	2,378

Our finance costs increased by approximately 95.5% from approximately RMB2.4 million for the year ended 31 December 2018 to approximately RMB4.6 million for the year ended 31 December 2019, primarily due to our factoring of trade receivables in the year ended 31 December 2019 and the capitalisation of borrowing cost incurred from loans specifically for TV series production in the year ended 31 December 2018, whereas no borrowing cost was capitalised in the year ended 31 December 2019 upon the completion of production of such TV series.

Income tax expense

The following table sets forth the major components of our income tax expense for the year ended 31 December 2018 and 2019:

	2019 RMB'000	2018 RMB'000
Current — Mainland China Charge for the year	15,523	4,089
Deferred	(12,377)	(723)
Total tax charge for the year	3,146	3,366

	2019 RMB'000	2018 RMB'000
Profit before tax	**27,978**	67,849
Tax at the statutory tax rate of 25% in Mainland China	**6,995**	16,963
Tax effect of tax exemption granted to subsidiaries	**(7,949)**	(15,149)
Effect of tax rate differences in other jurisdiction	**2,770**	—
Effect of expenses not deductible for tax	**93**	253
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**349**	583
Tax losses not recognised	**888**	716
Tax charge at the Group's effective tax rate	**3,146**	3,366

Khorgas Values Culture Media Co., Ltd.* (霍爾果斯原石文化傳媒有限公司) ("**Khorgas Values**") and Xinjiang Values Culture Media Co., Ltd.* (新疆原石文化傳媒有限公司) ("**Xinjiang Values**"), the entities controlled by the Group through a series of contractual arrangements, enjoyed the preferential tax treatment under the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang. Khorgas Values and Xinjiang Values obtained the approval from the PRC tax bureau for entitlement of Enterprise Income Tax ("**EIT**") exemption from 1 July 2017 to 31 December 2020 and 1 July 2018 to 31 December 2020, respectively. Our effective tax rate ("**ETR**") were 11.2% for the year 31 December 2019, which increased by 6.2 basis point from 5.0% for the year ended 31 December 2018. Our expected ETR for the year 31 December 2019 is lower than the statutory tax rate of 25% in the PRC mainly due to the EIT exemption on profit generated from Khorgas Values and Xinjiang Values. The increase in ETR was mainly resulted from the listing expense, with certain portion of which was not tax deductible.

Profit for the year and net profit margin

As a result of the foregoing, our profit decreased by approximately 61.5% from approximately RMB64.5 million for the year ended 31 December 2018 to approximately RMB24.8 million for the year ended 31 December 2019. Our net profit margin decreased from approximately 41.8% for the year ended 31 December 2018 to 11.7% for the year ended 31 December 2019.

DIVIDENDS

The Board does not recommend the payment of final dividends by the Company for the year ended 31 December 2019 (2018: Nil). There are no arrangements under which a Shareholder has waived or agreed to waive any dividends.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Shares were successfully listed on the Stock Exchange on 16 January 2020.

On 7 February 2020, the Over-allotment Option described in the Prospectus has been fully exercised by Zhongtai International Securities Limited (for itself and on behalf of the underwriters which entered into the International Underwriting Agreement as described in the Prospectus (the "**International Underwriters**") in respect of an aggregate of 37,500,000 Shares (the "**Over-allotment Shares**"), representing 15% of the total number of the offer Shares initially available under the global offering (before any exercise of the Over-allotment Option). The issued share capital of the Company after the over-allotment was US$5,187.50 representing 1,037,500,000 Shares with a nominal value of US$0.000005 each. There has been no change in the capital structure of the Group since then.

The Group finances its liquidity and capital requirements primarily through bank loans and other borrowings, cash generated from our operations and equity contributions. Particulars of borrowings of the Group as at 31 December 2019 are set out in note 21 to the consolidated financial statements.

As at 31 December 2019, the Group reported net current assets of approximately RMB332.1 million (2018: RMB319.3 million). As at 31 December 2019, the Group's cash and bank balances was approximately RMB5.5 million, representing a decrease of approximately RMB6.2 million as compared to approximately RMB11.7 million as at 31 December 2018.

Key Financial Ratios

Return on Equity

The return on equity decreased from approximately 22.2% for the year ended 31 December 2018 to approximately 7.4% for the year ended 31 December 2019.

Return on Total Assets

The return on total assets decreased from approximately 18.4% for the year ended 31 December 2018 to approximately 6.0% for the year ended 31 December 2019.

Current Ratio

The Group's current ratio increased from approximately 4.8 times as at 31 December 2018 to approximately 5.4 times as at 31 December 2019.

Gearing Ratio

The Group's gearing ratio decreased from approximately 13.3% as at 31 December 2018 to approximately 5.5% as at 31 December 2019, primarily due to the repayment of other borrowings and bank loans.

Capital Expenditure

Our capital expenditures primarily consist of expenditures for purchases of electronic equipment, office equipment and leasehold improvements.

The Group did not have significant capital expenditure during the years ended 31 December 2018 and 2019.

OTHER COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for the co-investment arrangement	**11,003**	40,050

MAJOR ACQUISITIONS AND DISPOSALS

Save for the reorganisation (as defined in the Prospectus), the Group did not have any major acquisitions and disposals during the year ended 31 December 2019.

CONTINGENT LIABILITY

As at 31 December 2019, the Group did not have any material contingent liabilities.

SIGNIFICANT LITIGATION

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

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2019, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group did not have any other immediate plans for material investment and capital assets as at the date of this annual report.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's trade receivables, which had an aggregate net carrying value of approximately RMB19,800,000 (2018: RMB16,674,000), and the pledged deposit amounting to RMB9,000,000 (2018: nil) were pledged to secure the bank loans granted to the Group.

FOREIGN CURRENCY RISK

In the year ended 31 December 2019, all of our revenue were generated from customers located in the PRC, and were denominated in RMB. Therefore, the Group considers the risk exposure to foreign currency fluctuation would be essentially in line with the performance of the exchange rate of RMB. In the year ended 31 December 2019, we did not adopt any long-term contracts, currency borrowings or other means to hedge our foreign currency exposure.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed 22 employees who are all located in the PRC.

The Group offers employees competitive salaries, discretionary bonus and other incentives. Our recruitment policy is based on a number of factors including the level of knowledge and experience we require of our staff. The Group provides introductory training at the time when members of our staff first join us and thereafter regular on-the-job training, depending on his or her role. In addition, it is our policy to provide training to our staff on a needed basis to enhance their technical and industry knowledge. The Group believes such initiatives have contributed to the increased employee productivity. As required by the PRC regulations, we participate in various employee benefit plans that are organised by local governments, including housing, pension and social insurance. The Group is required under PRC laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local governments from time to time. The Group enters into a standard employment contract with all our employees which set out terms such as remuneration and confidentiality requirements. The Group believes that it maintain a positive working relationship with its employees.

USE OF PROCEEDS FROM LISTING

The Shares were listed on the Stock Exchange on 16 January 2020. As at the date of this annual report, the proceeds raised from the global offering of the Company had not been utilized. The Company intends to use such proceeds for the purpose as disclosed in the Prospectus.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Naiyue (劉乃岳), aged 55, was appointed as a Director in June 2019 and was appointed as the chairman of the Board and redesignated as an executive Director in the same month. Mr. Liu is also one of the controlling shareholders of the Company. He is responsible for overseeing the overall management, strategic and business planning of the Group and making decisions in material business operations. Mr. Liu is the father of Ms. Liu Peiyao and the spouse of Ms. Wei Xian. Mr. Liu joined the Group and has been a director of Values Culture Media Co., Ltd.* (海寧原石文化傳媒股份有限公司) ("**Values Culture**") since November 2013 and has been responsible for overseeing the overall management, operations and business development. Mr. Liu is also a director of Haining Fanning Television Planning Company Limited* (海寧泛寧影視策劃有限公司) ("**Haining Fanning**") a wholly-owned subsidiary of the Company.

Mr. Liu has around 17 years of experience in securities industry. From October 1994 to September 1997, he acted as a manager of the Qingdao branch Shandong Securities Co., Ltd.* (山東證券有限責任公司), the principal business of which was trading of securities. His roles and responsibilities were managing daily operations. From September 2000 to September 2004, he acted as a general manager at the Dongbei headquarter of Tiantong Securities Co., Ltd.* (天同證券有限公司), the principal business of which was trading of securities. His roles and responsibilities were managing the company's operations in the northeastern region of the PRC. Mr. Liu was subsequently transferred to Capital Bridge Securities Joint Stock Company Limited* (健橋證券股份有限公司) in September 2004. From September 2004 to June 2007, he acted as a vice president at Capital Bridge Securities Joint Stock Company Limited* (健橋證券股份有限公司), the principal business of which was trading of securities. His roles and responsibilities were in charge of financial asset management and legal department. From November 2007 to August 2011, he acted as an investment consultant at Qingdao Fuhe Investment Company Limited* (青島富和投資有限公司) ("**Qingdao Fuhe**"), the principal business of which was investments business. His roles and responsibilities were evaluate and analyse investment projects. Prior to joining the Group, he worked in Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司) from September 2011 to September 2013, which the principal business of which was production and distribution of film and television series, with the last position as a vice president.

Mr. Liu obtained a bachelor's degree in management engineering from Northeastern University* (東北工學院) in Liaoning, PRC in July 1985. He also obtained a master's degree in corporate management and a doctorial degree in global economics from Nankai University* (南開大學) in June 1991 and June 2002 respectively.

Ms. Liu Peiyao (劉佩瑤), aged 27, was appointed as a Director in March 2019 and was redesignated as an executive Director in June 2019. She is responsible for overseeing the financial affairs and assisting in the overall management and operations of the Group. Ms. Liu is the daughter of Mr. Liu Naiyue and Ms. Wei Xian.

Ms. Liu joined the Group as a director of Values Culture since June 2015, responsible for overseeing the financial affairs and assisting in the overall management. In addition, Ms. Liu has been the director and manager of two wholly-owned subsidiaries of the Company, YS Cultural Investment Limited ("**YS Cultural**") and Fanta Culture Co., Limited (泛泰文化有限公司) since March 2019 and April 2019 respectively.

Ms. Liu obtained a bachelor's degree in finance from Michigan State University in the United States of America in December 2014.

Ms. Wei Xian (魏賢), aged 54, was appointed as a Director in March 2019 and was redesignated as an executive Director in June 2019. She is responsible for overseeing and managing the human resource and administrative matters of the Group. Ms. Wei is the mother of Ms. Liu Peiyao and the spouse of Mr. Liu Naiyue. Ms. Wei joined the Group and has been a director of Values Culture since November 2013, responsible for overseeing the human resources and administrative matters. In addition, Ms. Wei has been a director of YS Cultural since March 2019.

From June 1995 to December 2011, she served as a staff member at Qingdao North Branch, China Construction Bank* (青島建設銀行市北支行), the principal business of which was banking services. Her roles and responsibilities were controlling budgets. From October 2007 to present, she acts as a director in Qingdao Fuhe, which the principal business of which was investment management. Her roles and responsibilities are managing daily operations.

Ms. Wei obtained a bachelor's degree in architectural engineering from Qingdao Institute of Architecture and Engineering* (青島建築工程學院) in Qingdao, PRC in July 1988. She has been registered as an engineer with Qingdao Municipal Bureau of Human Resource and Social Security* (青島市人事局) since October 1994.

Ms. Li Fang (李芳), aged 38, was appointed as a Director in June 2019 and was redesignated as an executive Director in the same month. She is responsible for the Group's production project planning and management.

Ms. Li joined the Group and has been a deputy general manager of Values Culture since February 2014 and has later been appointed as a director in June 2019. Prior to joining the Group, Ms. Li acted as deputy general manager of the project planning centre at Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司) from April 2007 to April 2014, the principal business of which was production and distribution of film and television series, which her roles and responsibilities were project planning for the department.

Ms. Li obtained a bachelor's degree in Chinese language and literature from Nanjing Normal University* (南京師範大學) in Nanjing, PRC in July 2004, and a master's degree in film production from the same school in June 2007. Ms. Li is currently studying a doctoral degree in film and television studies from Nanjing Normal University* (南京師範大學).

NON-EXECUTIVE DIRECTORS

Mr. Shao Hui (邵輝), aged 41, was appointed as a Director in March 2019 and was redesignated as a non-executive Director in June 2019. He is responsible for supervising the overall management and strategic planning of the Group. Mr. Shao joined the Group and has been a director of Values Culture since October 2017, responsible for supervising the overall management. In addition, Mr. Shao has been a director of YS Cultural since March 2019.

From August 1999 to September 2004, Mr. Shao acted as deputy department head at Hangzhou Jihua Chemical Co., Ltd. (杭州吉華化工有限公司), the principal business of which was research and development, production and sales of colour dye. His roles and responsibilities were managing the Company's procurement, production and sales. From November 2004 to December 2011, he acted as a general manager at Hangzhou Jihua Trading Co., Ltd.* (杭州吉華貿易有限公司), the principal business of which was import and export of chemical products. His roles and responsibilities were managing procurement and sales of products. From December 2005 to present, he acts as a director and deputy general manager at Zhejiang Jihua Group Co., Ltd.* (浙江吉華集團股份有限公司) (603980.SS), the shares of which are listed on the Shanghai Stock Exchange and the principal business of which is production and sales of colour dye. His roles and responsibilities are managing house sales and decision making on major corporate affairs.

Ms. Shen Yi (沈毅), aged 41, appointed as a Director in June 2019 and was redesignated as a non-executive Director in the same month. She is responsible for supervising the overall management and strategic planning of the Group. Ms. Shen joined the Group and has been a director of Values Culture since October 2017, responsible for supervising the overall management.

Ms. Shen has around 15 years of experience in securities and investment management. From January 2005 to April 2015, Ms. Shen acted as a managing director of the investment banking department and the representative of sponsors at Golden Sun Securities Co., Ltd.* (國盛證券有限責任公司), the principal business of which was integrated securities trading services. Her roles and responsibilities were managing the department of risk management. From May 2015 to March 2017, she acted as a general manager of the internal review department and the representative of sponsors at JiuZhou Securities Co., Ltd.* (九州證券股份有限公司), the principal business of which was integrated securities trading services. Her roles and responsibilities were managing internal assessment and risk management matters. From April 2017 to present, she acts as an assistant to the chief executive officer and a general manager of the risk management department at Suiyong Holdings Company Limited, the principal business of which is investment management. Her roles and responsibilities are managing investments, compliance and risk management matters.

Ms. Shen obtained a bachelor's degree in economics from Sichuan University* (四川大學) in Chengdu, PRC in July 2001, and a master's degree in law from East China University of Political Science and Law* (華東政法學院) in Shanghai, PRC in June 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xian Guoming (冼國明), aged 65, was appointed as an independent non-executive Director in December 2019. He is a chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee.

Mr. Xian has around 35 years of experience in the field of economics and finance. From July 1985 to present, Mr. Xian has worked in the Faculty of Economics in Nankai University* (南開大學), during which he acted as a deputy professor in the Faculty of Economics from December 1991 to December 1993 and has been a professor since December 1993; he promoted and acted as a deputy director and subsequently a director of the Institute for International Economics of Nankai University* (南開大學國際經濟研究所) from December 1993 to June 2003, responsible for overall management; from December 1999 to present, he has acted as a director of The Research Center on Multinational Corporations of Nankai University* (南開大學跨國公司研究中心), responsible for overall management; and from November 2006 to present, he has also acted as a vice president of China Society of World Economics (CSWE)* (中國世界經濟學會).

From September 2017 to present, Mr. Xian has served as an independent non-executive director of Jizhong Energy Resources Co., Ltd* (冀中能源股份有限公司) (000937.SZ), the shares of which are listed on the Shenzhen Stock Exchange. From October 2015 to January 2017 and from June 2017 to present, he has served as an independent non-executive director of Tianjin Binhai Energy & Development Co., Ltd* (天津濱海能源發展股份有限公司) (000695.SZ), the shares of which are listed on the Shenzhen Stock Exchange.

Mr. Xian obtained a bachelor's degree in economics from the Nankai University* (南開大學) in Tianjin, PRC in January 1982. He also obtained a master's degree and a doctorate degree in Economics from Nankai University* (南開大學) in July 1985 and December 1991 respectively.

Mr. Zhong Mingshan (鍾明山), aged 68, was appointed as an independent non-executive Director in December 2019. He is a chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee.

Mr. Zhong has around 30 years of experience in the field of accounting and finance. From March 1990 to June 1995, he acted as a deputy head of Shandong Qingdao Certified Public Accountants* (山東青島會計師事務所). His roles and responsibilities were reviewing audit reports. From June 1995 to September 1999, he acted as a deputy head of the management office of the Municipal Finance Bureau of Qingdao* (青島市財政局駐廠員管理處). His roles and responsibilities were managing accountants based in Qingdao and responsible for administrative and operational matters. From September 1999 to October 2007, he acted as a chief accountant in Shandong Desheng Certified Public Accountants Firm Co., Ltd.* (山東德盛會計師事務所). His roles and responsibilities were managing administrative and operational matters of the firm. From October 2007 to June 2014, he acted as a partner in Shinewing Certified Public Accountants LLP* (信永中和會計師事務所 (特殊普通合夥)). His roles and responsibilities were managing administrative and operational matters in the Qingdao office.

Mr. Zhong obtained a professional diploma in finance and accounting from the Qingdao Institute of Architecture and Engineering* (青島建築工程學院) in Qingdao, PRC in June 1987. Mr. Zhong has been registered as a certified public accountant with the Chinese Institute of Certified Public Accountants* (中國註冊會計師協會) since February 1992.

Mr. Xu Zongzheng (徐宗政), aged 46, was appointed as an independent non executive Director in December 2019. He is a chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee.

Mr. Xu has around 16 years of experience in the field of film and television production industry. Mr. Xu has produced and directed over 20 productions since 2004, including the award winning production Where have all the flower gone (那時花開) in 2006, Red Dawn (紅色黎明) in 2011, Ordinary Person Character (凡人的品格) in 2017 and Mr. Nanny (月嫂先生) in 2018.

Mr. Xu obtained a diploma in performing arts from the People's Liberation Army Arts College* (人民解放軍藝術學校) in July 1998. He has been a member of the China Television Director Committee* (中國聯合會電視劇導演委員會) since 2011.

SENIOR MANAGEMENT

Mr. Wu Tao (吳濤), aged 48, is the chief executive officer of the Group. He joined the Group in November 2013 and had been a director and the general manager of Values Culture, responsible for overseeing the daily management and operations of the production projects, and assisting in the business planning.

Before joining the Group, Mr. Wu acted as deputy director at Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司), the principal business of which was production and distribution of film and television series, which his roles and responsibilities were handling publicity, financial and distribution matters.

Mr. Wu obtained a bachelor's degree in law from the University of International Business and Economics* (對外經濟貿易大學) through distance learning in January 2008.

Ms. Wang Haiting (王海婷), aged 31, is the chief financial officer and one of the joint company secretaries of the Group (the "**Joint Company Secretaries**"), responsible for monitoring daily financial operation management of the Group, including internal control and company secretarial affairs of the Group.

Before joining the Group, Ms. Wang acted a deputy head of the finance department at Baili Sifang Smart Grid Technology Co., Ltd.* (百利四方智能電網科技有限公司), which the principal business of which was development, manufacturing and sales of smart electrical equipment. Ms. Wang was responsible for organising and implementing the Company's financial and auditing matters.

Ms. Wang obtained a bachelor's degree in global economy and trade from Hunan University in June 2009, and a master's degree in global economics from Tianjin Normal University* (天津師範大學) in Tianjin, PRC in June 2012.

Ms. Yan Bei (閆蓓), aged 35, is the chief publicity and marketing officer of Values Culture. She joined the Group in February 2014 with the said position and has been responsible for overseeing the sales and managing the publicity and marketing activities of the Group.

Before joining the Group, Ms. Yan acted as deputy general manager of the distribution department at Suzhou Funa Culture Science and Technology Co., Ltd* (蘇州福納文化科技股份有限公司), the principal business of which was production, introduction, distribution of film and television and the development of film and television culture. Her roles and responsibilities were publicity, distribution and marketing matters regarding television series.

Ms. Yan obtained a bachelor degree in media and management from Wuhan Conservatory of Music* (武漢音樂學院) in Wuhan, PRC in June 2007.

JOINT COMPANY SECRETARIES

Mr. Au Yeung Ming Yin Gordon (歐陽銘賢), aged 44, was appointed as one of the Joint Company Secretaries. Mr. Au Yeung has been the company secretary of Cocoon Holdings Limited (stock code: 428) since February 2019 and L&A International Holdings Limited (stock code: 8195) since November 2019. He has been the financial controller and company secretary of China Finance Investment Holdings Limited (stock code: 875) since May 2019. He is an independent non-executive director of Amco United Holding Limited (stock code: 630) since March 2018. He was the company secretary of Success Dragon International Holdings Limited (stock code: 1182) from October 2017 to September 2019. He was the chief financial controller and company secretary of On Real International Holdings Limited (stock code: 8245) from August 2017 to February 2019. He was the chief financial officer and company secretary of Huge China Holdings Limited (stock code: 428) from May 2015 to August 2017. He has over 20 years of experience in the areas of accounting and auditing. Since May 2000, Mr. Au Yeung held management positions in an accounting team in Beijing Sports and Entertainment Industry Group Limited (formerly known as ASR Logistics Holdings Limited) (stock code: 1803) until January 2015.

Mr. Au Yeung is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a degree in Bachelor of Business (Business Administration) from the RMIT University in Australia in September 2006 and a post graduate diploma in Professional Accounting from the Hong Kong Baptist University in November 2009.

Ms. Wang Haiting (王海婷), please refer to the section headed "Directors and Senior Management — Senior Management" for Ms. Wang's biographical details.

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 2019.

CORPORATE GOVERNANCE PRACTICES

The Shares have been listed on the Stock Exchange since the Listing Date. The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

As the Shares were not yet listed on the Stock Exchange until the Listing Date, the CG Code was not applicable to the Company for the year ended 31 December 2019. The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices enabling its shareholders to evaluate, and the CG Code has been applicable to the Company with effect from the Listing Date. The Company has complied with all the applicable code provisions set out in the CG Code throughout the period from the Listing Date up to the date of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code since the Listing Date and up to the date of this annual report.

The Company has also established written guidelines regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

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 "**Committees**"). 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 its 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 four executive Directors, namely Mr. Liu Naiyue, Ms. Liu Peiyao, Ms. Wei Xian and Ms. Li Fang, two non-executive Directors, namely Mr. Shao Hui and Ms. Shen Yi, and three independent non-executive Directors, namely Mr. Xian Guoming, Mr. Zhong Mingshan and Mr. Xu Zongzheng. During the year ended 31 December 2019 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 the Prospectus and 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/her 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. Liu Naiyue currently assumes the role of chairman of the Board while Mr. Wu Tao 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 executive Director has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date which may be terminated by either party giving not less than three months' prior notice in writing and is subject to termination provisions therein and retirement and re-election at the annual general meetings of our Company in accordance with the Memorandum and Articles of Association (the "**Articles of Association**") of the Company or any other applicable laws from time to time whereby he/she shall vacate his office.

Each of our non-executive Director and independent non-executive Director has entered into a letter of appointment with the Company for an initial term of three years. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association and the Listing Rules.

In accordance with 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, then 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 and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any Director appointed 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 statues, laws, rules and regulations. Prior to the Listing, each of Directors has attended the training courses conducted by the Hong Kong legal adviser 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 2019, 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 is responsible for maintaining and updating records for the Directors' training sessions.

Board Meetings and General Meeting

No meeting had been held by the Board during the year ended 31 December 2019 as the Shares were only listed on the Stock Exchange on the Listing Date. From the Listing Date and up to the date of this annual report, one Board meeting was held for reviewing and approving the financial statements for the year ended 31 December 2019 and other matters. All Directors attended the Board meeting.

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.

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 2019.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

The major roles and functions of the Board in respect of the corporate governance are:

— to develop and review the Company's policy and practices on corporate governance; and

— to review and monitor the training and continuous professional development of Directors, the Company's policies and practices on compliance with legal and regulatory requirements, the code of conduct applicable to employees and Directors and the Company's compliance with the CG Code.

The Board had considered the following corporate governance matters for the period from the Listing Date to the date of this annual report:

— review of the policy and practices adopted by the Company and training for Directors, etc.

— review of usage of annual caps on the continuing connected transactions of the Group

— review of compliance with the CG Code and disclosure of Corporate Governance Report

— review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries as set out in Appendix 14 C.2.1

BOARD COMMITTEES

Audit Committee

The audit committee of the Company (the "**Audit Committee**") was established by our Company pursuant to a resolution of the Board on 12 December 2019 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 independent non-executive Directors, namely Mr. Zhong Mingshan, Mr. Xian Guoming and Mr. Xu Zongzheng. Mr. Zhong Mingshan, who holds the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules, serves as the chairman of the Audit Committee.

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 our Company.

No meeting had been held by the Audit Committee during the year ended 31 December 2019 as the Shares were only listed on the Stock Exchange on the Listing Date. From the Listing Date and up to the date of this annual report, one Audit Committee meeting was held to review the annual financial results and report and major internal audit issues, re-appointment of external auditor and relevant scope of works and continuing connected transactions. All members of the Audit Committee attended the meeting.

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 Company and its subsidiaries for the fiscal 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 of the Company (the "**Remuneration Committee**") was established by the Company pursuant to a resolution of the Board on 12 December 2019 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. Xu Zongzheng, Mr. Xian Guoming and Mr. Zhong Mingshan. Mr. Xu Zongzheng is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to make recommendation to our 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. The written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

No meeting had been held by the Remuneration Committee during the year ended 31 December 2019 as the Shares were only listed on the Stock Exchange on the Listing Date. 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. All members of the Remuneration Committee attended the meeting.

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, whose biographies are set out on page 16 to page 22 of this annual report, for the year ended 31 December 2019 are set out on page 104 to page 106 of this annual report.

Nomination Committee

The nomination committee of the Company (the "**Nomination Committee**") was established by our Company pursuant to a resolution of the Board on 12 December 2019 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

The Nomination Committee currently comprises three independent non-executive Directors, namely Mr. Xian Guoming, Mr. Zhong Mingshan and Mr. Xu Zongzheng, all of them are independent non-executive Directors. Mr. Xian Guoming is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of our Board and our board diversity policy (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.

No meeting had been held by the Nomination Committee during the year ended 31 December 2019 as the Shares were only listed on the Stock Exchange on the Listing Date. 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. All members of the Nomination Committee attended the meeting.

The Company has also received from each independent non-executive Director an annual confirmation of his/her 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 Board has adopted the Board Diversity Policy aims to set out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company seeks to achieve the diversity of the Board through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. All Board appointments will be based on merit while taking into account diversity. The Company endeavours to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. The Nomination Committee will review this Board Diversity Policy from time to time to ensure the continued effectiveness of this Board Diversity Policy.

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

During the year ended 31 December 2019, the Company has appointed Mr. Au Yeung Ming Yin Gordon ("**Mr. Au Yeung**") who is a representative from an external secretarial services provider as one of the Joint Company Secretaries. The primary contact person of the Company in relation to company secretarial matters is Ms. Wang Haiting ("**Ms. Wang**"), the chief financial officer of the Group. The role of the company secretary is to ensure effective information flows and communication among Directors, as well as between shareholders and management of the Company. The company secretary is also responsible for advising the Board on governance matters. All Directors have access to the advice and services of the company secretary. For the year ended 31 December 2019, Mr. Au Yeung has taken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

In order to enhance effective communications among the Directors, Shareholders and management of the Company and uphold good corporate governance, the Company intends to appoint Ms. Wang as one of the Joint Company Secretaries to assist Mr. Au Yeung to discharge his duties as Joint Company Secretaries. The Company appoints Ms. Wang as one of the Joint Company Secretaries on 9 April 2020.

AUDITOR'S REMUNERATION

The Group's consolidated financial statements for the year ended 31 December 2019 have been audited by Ernst & Young, Certified Public Accountants. Service fees which shall be paid by the Company to Ernst & Young for the year ended 31 December 2019 amounted to RMB1,150,000.

Service rendered	**Fees Payable** (RMB)
Audit service	1,150,000
Non-audit services	—
Total	1,150,000

DIRECTORS'S RESPONSIBILITY ON FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company and its subsidiaries for the financial year ended 31 December 2019.

The Directors are responsible for overseeing the preparation of financial statements of the Company and its subsidiaries 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 Company and its subsidiaries for the year ended 31 December 2019 have been audited by Ernst & Young 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 63 to 68. The financial statements of the Company and its subsidiaries for the year ended 31 December 2019 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 the 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 2019. 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 ("**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 valuescultural@163.com for the attention of 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
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 valuescultural@163.com for the attention of 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 http://www.yuanshimedia.com, 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 advisers and financial advisers, 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 the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association of the Company have been amended and restated with effect from the Listing Date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report (the "ESG Report") discloses for the first time the relevant environmental, social and corporate governance initiatives adopted by and performance of Values Cultural Investment Limited (the "Company", together with its subsidiaries, the "Group") during the business operation for the period from 1 January 2019 to 31 December 2019 (the "Reporting Period") in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" to the Listing Rules issued by the Stock Exchange.

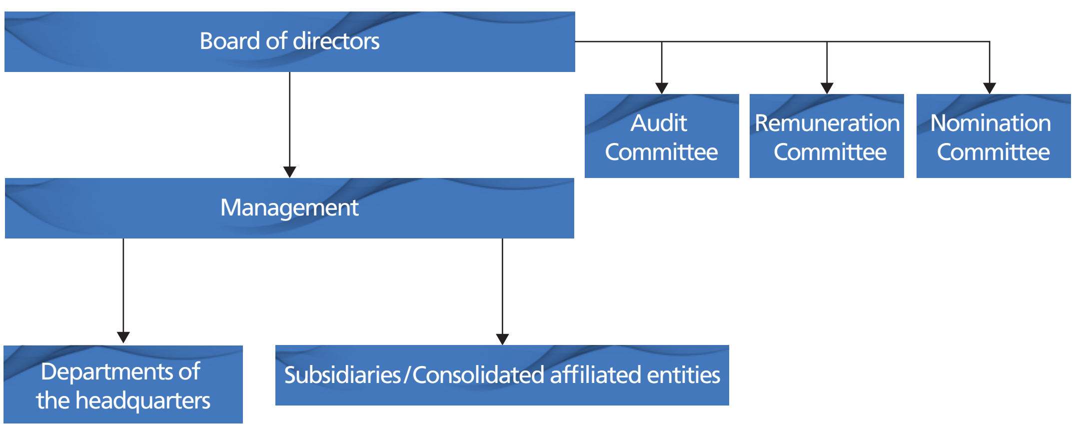
The Group's business scope mainly covers (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series.

The data and information of the Report are derived from the archived documents, records and statistics of the Group. The contents and data disclosed in the Report have been considered and approved by the board of directors of the Company.

The Report is published in PDF electronic format at the HKEXnews website of the Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company's website (www.yuanshimedia.com).

1. ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE MANAGEMENT SYSTEM

On the Listing Date, the Shares were successfully listed on the Stock Exchange. Subject to the requirements of the Stock Exchange on compliant disclosure of environmental, social and corporate governance information, the Group continues to deepen its environmental, social and corporate governance management philosophy and actively promotes its performance in this regard taking into account its own business development strategy. In the process of fulfilling its corporate social responsibility, the Group strives to move towards the goal of achieving sustainable development of the film and TV series investment industry. In order to actively strengthen the overall environmental, social and corporate governance management of the Group and effectively implement the principal responsibilities of each department, the Group has established relevant departments such as the board of directors, management and functional departments.



Organizational structure of the Group for environmental, social and corporate governance

In the process of formulating the environmental, social and corporate governance management system and fulfilling environmental, social and corporate governance responsibilities, the Group realises the necessity of maintaining good communication with its stakeholders. To this end, the Group has determined the communication channels for six groups of stakeholders to ensure the effective conveyance of expectations and demands between the Group and its stakeholders. In addition, the Group has also evaluated the concerns of various stakeholders of environmental, social and corporate governance during actual business operations.

Stakeholder	Communication channel and action	Requirement and expectation
Government and regulatory authorities	Major meetings, policy consultations, incident reports, official correspondence and information disclosure	Compliant operation Corporate governance
Shareholders and investors	Shareholders' meetings, the Company's annual reports, information disclosure, investor visits and other exchange activities	Profitability Operation strategy Environmental protection Transparency of information disclosure
Employees	Employee satisfaction survey, employee training	Employee remuneration and benefits Development and training opportunities Healthy work environment
Suppliers	Supplier inspection, conference communication, tendering and bidding	Cooperation on fair terms Integrity and performance
Customers	Customer visits, visits to relevant TV and film festivals	Quality of service Privacy protection Co-development
Community and the public	Charitable activities, pairing assistance, corporate recruitment promotion, internship opportunities	Corporate social responsibilities Community relations Community investment and charitable activities Promotion of employment

2. ENVIRONMENT

The Group operates in the film and TV series investment industry with low energy consumption and insignificant pollution. The main impacts on the environment in the ordinary course of business of the Group are the consumption of paper, electricity, etc.

A1 Emissions

In the daily operations, the Group strictly abides by relevant state environmental protection laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and the Air Pollution and Control Law of Atmospheric Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》). The Group actively promotes environmental protection concepts and puts them into action. During the Reporting Period, there was no environmental protection issue and related litigation.

The Group's emissions are mainly greenhouse gases generated from energy consumption as well as non-hazardous wastes generated from daily office operation. Among which, greenhouse gas emissions are primarily the result of carbon dioxide emissions from (i) gasoline combustion by business cars, and (ii) use of purchased electricity.

The Group's vehicles emitted approximately 25.54 kg of nitrogen oxides (NOx), approximately 42.42g of sulfur oxides (SOx) and 2,447.33g of particulate matter.

Total greenhouse gas emissions amounted to 11.77 tons carbon dioxide equivalent, including 6.81 tons carbon dioxide equivalent of direct greenhouse gas emissions, 4.96 tons carbon dioxide equivalent of indirect greenhouse gas emissions and 0.55 kg of carbon dioxide equivalent/RMB10,000 of revenue.

Direct greenhouse gas emissions are calculated as greenhouse gas emissions directly generated by the combustion of fuel by mobile sources controlled by the Group (e.g. vehicles), while indirect greenhouse gas emissions are calculated as greenhouse gas emissions indirectly generated by purchasing power from power companies.

Hazardous waste discharged by the Company primarily included 2.88kg of waste toner cartridge generated during office operations, and non-hazardous waste primarily included 174.6kg of waste paper generated by the Group.

As the Group is mainly engaged in the business of films and TV series, relevant emissions are all consumed and discharged by normal office operations, with no excessive emission. The Group promotes energy conservation and emission reduction. For example, the Group reduces direct greenhouse gas emissions by managing business vehicles. The Group generally adopts double-sided printing for internal documents and requires staff to recycle used paper to minimize paper waste. The Group implements an OA system to create a paperless office environment to reduce paper consumption. The Group minimizes the use of disposable cups. For hazardous waste and non-hazardous waste, the Company will strengthen its management in the future through centralized treatment by waste collecting stations in relevant regions, so as to reduce environmental pollution and improve recycling of materials.

A2 Resource Consumption

Unlike traditional manufacturing enterprises, the Group is mainly engaged in the business of film and TV series investment services. Therefore, relevant regulations and key performance indicators for packaging materials used in finished products are not applicable to the Group.

The Group publicizes the concept of environmental-friendly office to employees from time to time. Specifically, employees are required to print on both sides, recycle paper and turn off unnecessary lightings.

The Company sourced water solely from the municipal pipe network, therefore, in 2019, the Company had no difficulty in water use. As the Company's business involves films and TV series, its water consumption is relatively small. However, the Company actively advocates water conservation. As water charges have been included in the management fees charged by the landlord, the relevant consumption data is not accessible. Meanwhile, the Group does not encounter a shortage of water supply, and the Group encourages its employees to turn off unnecessary lightings, computers and air conditioners. The Group also makes good use of teleconferencing and videoconferencing facilities, so as to reduce unnecessary business trips.

During the Reporting Period, the Group consumed 5,124 kWh of electricity and 2,886 litres of gasoline in total. Due to the nature of the Group's business, the Group's core business does not use packaging materials.

A3 Environment and Natural Resources

The Group actively advocates and practices environmental protection and green development concepts. During the Reporting Period, the Group actively created a paperless office environment and implemented an office automation management system to reduce operating costs and avoid printing numerous office documents. It is the requirements of the Group to choose nationally certified energy efficient appliances; reduce lighting as much as possible; fully promote a system for air-conditioner use where the temperature is set at 26 °C in summer and 24 °C in winter; and replace paper cups with glass cups as much as possible.

During the Reporting Period, the Company did not have any environmental service incidents and did not receive any complaints, penalties and sanctions due to environmental pollution.

Although the Group's impact on the environment is negligible and the Group seldom uses natural resources directly, the Group encourages employees to reduce the use of natural resources and recycle them as much as possible.

3. SOCIAL

B1 Employment

The Group handles termination of employment in compliance with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the relevant provisions of labor contract and applicable labor regulations. The Group has established standardized employee recruitment and resignation procedures. The Group adheres to the principle of "equal opportunities, fair competition, comprehensive assessment and merit-based hiring" during the recruitment procedures, and has established a comprehensive internal assessment and performance appraisal mechanism to ensure fair promotion opportunities for employees. The Group is committed to maintaining a fair, trusting and respectful relationship with its employees and establishing an inclusive and diverse working environment. The Group has formulated policies on remuneration and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity, anti-discrimination and other benefits and welfare. Employees enter into a labor contract with the Group upon induction, and the working hours and rest periods of the Group's employees are in compliance with relevant requirements. The Group prohibits child labor and forced labor. In the event of resignation due to personal reason, employees may submit an application of resignation and are allowed to leave the Group upon completion of the resignation procedures. In the event that the Group takes the initiative to terminate or suspend labor relationship with employees, the Group fulfills the obligation of prior notice in accordance with the requirements of relevant laws and regulations.

1. Composition of employees

	Indicator	Unit	2019
Total number of employees			22
By gender	Male	person	11
	Female	person	11
By employment type	Contract employees	person	20
	Other types	person	2
By age group	Under 30 years	person	4
	31–35 years	person	6
	36–40 years	person	4
	41–45 years	person	0
	Over 45 years	person	8

2. *Remuneration and benefits*

Employee remuneration of the Group comprises basic salary, position-based salary, tenure-based (seniority-based) salary, bonus, special rewards and insurance benefits. In particular, basic salary is determined based on a combination of factors such as job duties, responsibilities, operation scale, salary offered by peers, the area where the business of the Group is located, as well as knowledge and experience of the employee. Position-based salary is determined based on the grade of post. Tenure-based (seniority-based) salary is determined based on the length of service for the Group and time commitment of work. Bonus is determined based on the Group's annual operating performance, employees' performance and contribution.

The Group and its employees made contributions to various social insurance plans and housing provident funds in accordance with relevant provisions of the PRC. The relevant social insurance plans and housing provident fund are managed in accordance with local regulations. In particular, the social insurance plans shall cover all five types of insurance and shall be paid in full according to the actual wage base of employees in the previous year and the proportion stipulated by the State. Housing provident fund shall be paid in full in an amount representing 12% of the actual wage base of employees.

The Group adopts a five-day work week arrangement. Employees are entitled to annual leaves and other paid leaves, such as maternity leave, paternity leave, compensatory leave, marriage leave and examination leave. According to the Group's policies, employees enjoy medical benefits, provident fund schemes and other benefits.

3. *Actively nurtures and attracts industry talents*

The Company emphasizes the introduction of talents, and explores a variety of recruitment cooperation methods to boost the introduction. The Company recruited one employee during the Reporting Period. However, the Company actively communicated with intermediaries such as 51job.com and deepened the cooperation with universities. During the Reporting Period, it participated in the campus recruitment organized by the Municipal Talent Service Bureaus of Haining and Beijing. According to the social needs of combining production, studies and research, the Company, together with certain universities, actively admitted tertiary institution students for training and internship to enhance their practical ability and strengthen their competitiveness for employment. During the Reporting Period, the Company admitted 2 tertiary institution students for training and internship, which had a positive impact on the nurturing of film and TV industry talents.

B2 Health and safety

The Group adheres to a people-oriented approach and demonstrates its care for employees' health and safety by optimizing employee health protection mechanisms and earnestly implementing safety drills and educational training.

1. Caring for employees

The Group arranges annual medical examinations in Grade III Class A hospitals for its employees, providing supplementary medical protection for all employees and ensuring the health of employees. The Group strictly implements the provisions of relevant laws and regulations and maintains various social insurance for employees, including basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance, etc. At the same time, the Group maintains housing provident funds for employees. The Group fully protects the legitimate rights and interests of employees and strictly abides by the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and relevant laws and regulations in respect of statutory holidays and vacations, including paid annual leave, leave of absence, sick leave, work injury leave, marriage leave, bereavement leave, maternity leave and paternity leave.

2. Safeguarding the health and safety of employees

The Group earnestly implements the legal instructions of safety production regulations and fully implements the Group's principal responsibilities of safety production. It has strengthened internal enterprise management and carried out safety and stability maintenance work to provide employees with a safe and healthy working environment, and protect employees from occupational hazards. It adheres to the principle of "precaution comes first with active prevention", and has established a sound system and improved measures in order to fulfill its responsibilities. It has earnestly implemented the work approach on fire-fighting of "precaution comes first with a combination of prevention and fighting", and strengthened training to all staff on fire-fighting knowledge and management of internal fire-fighting facilities and equipment. It has also enhanced security and fire safety awareness of employees through means of organizing staff safety training and assessment. During the Reporting Period, the Group did not experience any incidents involving information technology systems, security and protection, and health and safety responsibilities.

3. Organizing various cultural and sports activities

The Company attaches great importance to employees' cultural activities and leisure lives and hopes to organize a variety of cultural activities to strengthen team cohesion. During the reporting period, the Company organized one team-building and outreach activity and one annual gathering. The Company organized four film premiere watching activities for employees. During our daily operation, the Company organizes fitness activities with employees, such as planks and yoga, and encourages employees to exercise at a nearby gym through jogging and weight lifting.

B3 Development and training

The Group attaches great importance to employees' training, and actively promotes employees' diversified development. The Group pays attention to the training of leadership and management capability for senior employees, enhances their ability of strategic analysis, comprehensive management and comprehensive cultural quality, in order to train high-quality corporate operation managers. The Group emphasizes the training of executive ability and professional skills for middle-level employees, striving to enhance their ability of business execution and business exploration. The Group pays attention to training for professional development of entry level employees, strengthening their industrial knowledge and enhancing basic skills. During the Reporting Period, the Company held more than 20 internal trainings, including production of TV series, client maintenance, supplier selection, capital market and new employee training. The training centered on the work requirements of employees and the needs for business development. Certain staff were selected by the Company to participate in more than 20 external trainings organized by industry associations, the television and film base in Haining, Zhejiang Province, etc. The training mainly focused on the following aspects: TV series and film production, film and television festival, current development and trend of short videos, "Belt and Road Initiative" film and television co-operation, capital market and film and television enterprises, analysis on new policies by radio and television administration, seminar with TV screenwriters, etc.

	Classification	%/hour
Percentage of trained employees by gender	Male	50%
	Female	50%
Percentage of trained employees by employee category	Senior management	40%
	Middle management	30%
	Entry level employees	30%
Average training hours per employees by gender	Male	35 hours/person
	Female	30 hours/person
Average training hours per employees by employee category	Senior management	40 hours/person
	Middle management	30 hours/person
	Entry level employees	25 hours/person

Participation of some employees in Summit Forum of China (Haining) Short Video Industry & 2019 International Film and Television Summit

B4 Labor standards

The Group is in strict compliance with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and relevant labor regulatory requirements. The Group prohibits child labor and forced labor, and provides employees with reasonable holidays. During the Reporting Period, the Group was not aware of any incidents of non-compliance with labor standards such as hiring child labor and forced labor.

B5 Supply chain management

Due to its business nature, the Group has no fixed supplier in respect of its business. In the selection of partners, the Group would fully consider the business reputation of suppliers and whether they had any illegal acts, non-compliance and significant legal disputes in the past, and at the same time, conduct effective qualification assessment on suppliers against specific standards such as their ability, experience, qualification, reputation, financial condition and quality assurance system.

During the Reporting Period, the Group was not aware of any significant actual or potential negative impact of suppliers in respect of business ethics, environmental protection, etc.

The Group encourages and expects business partners to adhere to the same ethical standards shared by the Group. Before the formal start of cooperation, the Group makes a comprehensive evaluation of business partners according to various criteria.

B6 Product responsibility

The Group has actively fulfilled its social responsibility, especially with regards to the maintenance of product quality and customer satisfaction. The Group respects and protects intellectual property rights and uses authorized products, such as scripts, within the stipulated scope of the contract. The Group strictly abides by the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and the Trademark Law of the People's Republic of China (《中華人民共和國商標法》). The product promotion and publicity of the Group are in compliance with relevant regulations. The Group also takes advantage of relevant laws to safeguard its legitimate rights and interests.

The Group is engaged in investment in TV series and other related business, and thus highly values the maintenance and protection of intellectual property, including confidentiality and information sharing management. The Group includes certain terms in media investment agreements and other relevant cooperation agreements to protect the Group's rights in the films and/or web series in which we invest, including the income right, distribution right and copyrights in the relevant works.

The Group insists on meeting customers' demands, improving the construction of customer service system and enhancing customer service ability. Having customer demand as the direction of film and television investment and production, the Group increases innovation efforts to provide customers with diversified TV series products.

In 2019, the Company proactively addressed customers' problems in a timely manner by carrying out major daily works, such as customer consultation, customer response, customer complaint etc. Meanwhile, through communication with customers, we timely discovered problems in the service process and system and reflected them to the relevant departments. In 2019, the Company responded to customers for 30 times, and the satisfaction rate of customers was almost 100%. As to minor matters with which customers are not satisfied, the Company carried out follow-up inspection, timely corrected the problems occurred during the services provided for customers and prevented the reoccurrence of such problems. Meanwhile, based on the problems raised by customers, the Company analyzed the behavioral habits of customers, sorted out the common problems among customers and serviced our customers even before they need.

Promotional photo of TV series Yan Yang Chun* (燕陽春)

B7 Anti-corruption

Pursuant to relevant provisions on bribery, blackmail, fraud and money laundering under the Interim Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), the Company has established a specific anti-corruption policy with systemic anti-corruption documents such as the application form of conflict of interests. The Group focuses on enhancing supervision and improves system construction.

In particular, the Group has continued to enhance the regulations on management personnel, strictly implemented the responsibility for building Party's moral integrity, and strengthened clean and honest operation and management for all levels of employees. The Group has particularly strengthened the supervision and inspection on key areas such as fees and expenditure. The Company has strengthened the moral integrity supervision mechanism, developed and improved the series of work systems for party's integrity, improved the work process of supervision and discipline, and expanded the channels for receiving letters and visits.

During the Reporting Period, the Group's anti-corruption work was in good condition, and there was no negative incident.

B8 Community investment

The Group has been actively fulfilling our social responsibility, sparing no effort to participate in various communal activities. We fulfilled our social responsibility by bringing industry characteristics into play and continuously making a positive influence on the community. Going forward, the Group will continue to perform its social responsibility and constantly step up investments in communal public welfare undertakings, giving back to society through diversified channels.

In 2019, to follow the "Belt and Road Initiative" in the cultural industry, the Group broadcasted *The Furtherest Distance** (遙遠的距離) and *Jade** (女管家) in countries along the Belt and Road, including Uzbekistan and Malaysia, through the overseas broadcasting rights in the said countries offered freely by Haining television and film industry base.

Promotional photo of The Furtherest Distance* (遙遠的距離) and Jade* (女管家), freely broadcasted in countries along the Belt and Road Initiative

4. REGULATORY COMPLIANCE

The Group observes closely the laws and regulations relevant to our businesses and makes efforts to meeting regulatory compliance. Regulatory frameworks within which the Group operates are analysed and monitored, internal policies are prepared and updated accordingly. Tailor-made workshops are also conducted where necessary so as to strengthen the awareness and understanding of the internal controls and compliance procedures of the Group. During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to areas including environmental protection, employment and labour practices and operating practices.

5. CONCLUSION

The Group has conducted the ESG report in accordance with the Environmental, Social, Governmental Reporting Guide (Appendix 27 of the Listing Rules), all the information available for the reporting period are included in this ESG report. The Group strives to continue the ESG reporting on an annual basis and to improve on policies and procedures to the management, measurement and monitoring system of the ESG related strategies that will facilitate a more sustainable business growth.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

GLOBAL OFFERING

The Company is an exempted company incorporated in the Cayman Islands with limited liability on 11 March 2019. The Company carried out the global offering, comprising 250,000,000 Shares at HK$0.50 per Share and the Shares were listed on the Stock Exchange on the Listing Date. For details of the relevant use of proceeds, please see the section headed "Use of Proceeds from Listing" in this annual report.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, and the Group is principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series.

RESULTS

The consolidated results of the Group for the year ended 31 December 2019 are set out on pages 69 to 75 of this annual report.

DIVIDENDS

As set out under the paragraph headed "Dividends" in the section headed "Management Discussion and Analysis" of this annual report, the Board does not recommend the payment of final dividends by the Company for the year ended 31 December 2019 (2018: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 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 summary of the results and the assets and liabilities of the Group for the last four financial years, as extracted from our Company's audited consolidated financial statements and the Prospectus, is set out on page 136 of this annual report. This summary does not form part of the audited consolidated financial statements.

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 31 to the consolidated financial statements. Other risks facing the Group are set out in the section headed "Risk Factors" of the Prospectus.

ANALYSIS USING FINANCIAL KEY PERFORMANCE INDICATORS

The analysis of the Group's performance for the year ended 31 December 2019 with key financial performance indicators is set out under the paragraphs headed "Financial Review" and "Capital Structure, Liquidity and Financial Resources" 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 2019 is set out in the section of "Environmental, Social and Governance Report" on pages 34 to 46 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, sales to the Group's five largest customers accounted for 84.3% of the total sales for the year and sales to the largest customer included therein amounted to 36.0%. During the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for 71.7% of the total purchases for the year and purchase from the largest supplier included therein amounted to 22.3%. 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 and suppliers during the year ended 31 December 2019.

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.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 31 December 2019 are set out in note 4 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVE

Distributable reserves of the Group amounted to RMB128.0 million for the year ended 31 December 2019 (for the year ended 31 December 2018: distributable reserves of RMB104.5 million).

Details of the movements in reserves during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended 31 December 2019 and details of the shares issued during the year ended 31 December 2019 are set out in note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the paragraph headed "Share Option Scheme" on page 56 of this annual report, the Company has not entered into any equity-linked agreement for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the consolidated financial statements.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2019 are set out in note 21 to the consolidated financial statements.

DIRECTORS

The composition of the Board since the Listing Date and up to the date of this annual report is as follows:

Executive Directors

Mr. LIU Naiyue *(Chairman)*
Ms. LIU Peiyao
Ms. WEI Xian
Ms. LI Fang

Non-Executive Directors

Mr. SHAO Hui
Ms. SHEN Yi

Independent Non-Executive Directors

Mr. XIAN Guoming
Mr. ZHONG Mingshan
Mr. XU Zongzheng

According to article 84(1) of the Articles of Association of the Company, 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 (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. In addition, according to article 83(3) of the Articles of Association of the Company, any Director so appointed by the Board shall hold office until the next following annual general meeting of the Company. All retiring Directors shall then be eligible for re-election at the annual general meeting.

Accordingly, all Directors would be subject to re-election at the forthcoming annual general meeting in accordance with the article 83(3) of the Articles of Association of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 16 to 22 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service agreement with the Company with an initial term of three years effective from the Listing Date. Any executive Directors or the Company may terminate the contract by a prior written notice of at least three months. The appointment of an executive Director shall be in accordance with the requirements on directors' retirement by rotation under the Articles of Association of the Company. Each of the independent non-executive Directors has signed a letter of appointment with the Company with an initial term of three years commencing from the Listing Date. In accordance with their respective letters of appointment, the independent non-executive Directors are entitled to receive a fixed amount of director's emoluments. Relevant appointment shall be in accordance with the requirements on directors' retirement by rotation under the Articles of Association of the Company and applicable Listing Rules. Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting 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, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") where applicable.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company 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 of the Company and its subsidiaries were in force during the year ended 31 December 2019 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 "Related Party Transactions" in Note 28 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 2019.

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

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.

EMOLUMENT POLICY

The Directors' fees are subject to shareholders' approval general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group.

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 above in the section headed "Share Option Scheme".

Details of the retirement benefits scheme are set out below in the section headed "Retirement Benefits Scheme".

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year under review, 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.

ARRANGEMENT 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 of the Company to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

The Shares were listed on the Stock Exchange on the Listing Date and therefore, Divisions 7 and 8 of Part XV of the SFO, Section 352 of the SFO and the Model Code as set out in Appendix 10 to the Listing Rules were not applicable as at 31 December 2019.

As at the date of this annual report, the interests or short positions of the Directors and 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 (a) 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 he was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

		As at the date of this annual report	
Name of Director	**Nature of interest/Capacity**	**Number of shares held (L) (Note 1)**	**Approximate percentage of shareholding**
Mr. Liu Naiyue	Interest of a controlled corporation (Note 2)	239,002,500	23.04%
Ms. Liu Peiyao	Interest of a controlled corporation (Note 2)	239,002,500	23.04%
Ms. Wei Xian	Interest of a controlled corporation (Note 2)	239,002,500	23.04%
Mr. Shao Hui	Interest of a controlled corporation (Note 3)	90,622,500	8.74%

		As at the date of this annual report	
Name of chief executive	**Nature of interest/Capacity**	**Number of shares held (L) (Note 1)**	**Approximate percentage of shareholding**
Mr. Wu Tao	Interest of a controlled corporation (Note 2)	239,002,500	23.04%

Notes:

1. The letter "L" denotes long position in our Shares.

2. The issued shares of BLW Investment Limited are owned as to approximately 43.44%, 23.17%, 15.44%, 9.65% and 8.30% by Mr. Bai Yang, Ms. Liu Peiyao, Mr. Wu Tao, Mr. Liu Naiyue and Ms. Wei Xian (the "**Core Shareholders**") respectively. On 18 April 2016, the Core Shareholders entered into the acting in concert agreement, pursuant to which each of the Core Shareholders confirmed, among others, the existence of their acting in concert arrangements regarding their control over Values Culture since its establishment and further undertook that they would maintain the acting-in-concert relationship for five years from the date of this agreement. The Core Shareholders have also decided to restrict their ability to exercise direct control over our Company by holding their interest through BLW Investment Limited. Accordingly, each of Mr. Bai Yang, Ms. Liu Peiyao, Mr. Wu Tao, Mr. Liu Naiyue and Ms. Wei Xian is deemed, or taken to be interested in the Shares beneficially owned by BLW Investment Limited.

3. The issued shares of SDJZ Investment Limited are owned as to approximately 91.00%, 2.02%, 3.88% and 3.10% by Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan respectively. Under the SFO, each of Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan is deemed, or taken to be interested in the Shares beneficially owned by SDJZ Investment Limited.

Save as disclosed above and to the best knowledge of the Directors, as at the date of this annual report, none of the Directors or the chief executive of the Company had any interests and/or short positions 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 (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2019, the Shares were not listed on the Stock Exchange. Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable to our Company as of 31 December 2019.

As of the date of this annual report, so far as the Board are aware, the following persons/entities (other than the Directors or chief executive) had an interest or a short position in the Shares or the underlying Shares as recorded in the register required to be kept under section 336 of the SFO:

		As at the date of this annual report	
Name	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**
BLW Investment Limited (Note 1)	Beneficial owner	239,002,500	23.04%
Mr. Bai Yang (Note 1)	Interest of a controlled corporation	239,002,500	23.04%
Ms. Xie Jinhong (Note 2)	Interest of spouse	239,002,500	23.04%
Ms. Liu Peiyao (Note 1)	Interest of a controlled corporation	239,002,500	23.04%
Mr. Wu Tao (Note 1)	Interest of a controlled corporation	239,002,500	23.04%
Ms. Chen Ying (Note 3)	Interest of spouse	239,002,500	23.04%
Mr. Liu Naiyue (Note 1) (Note 4)	Interest of a controlled corporation, interest of spouse	239,002,500	23.04%
Ms. Wei Xian (Note 1) (Note 5)	Interest of a controlled corporation, interest of spouse	239,002,500	23.04%
Suiyong Int'l Co., Limited (Note 6)	Beneficial owner	110,010,000	10.60%
Suiyong Holdings Company Limited (穗甬控股有限公司) (Note 6)	Interest of a controlled corporation	110,010,000	10.60%
SDJZ Investment Limited (Note 7)	Beneficial owner	90,622,500	8.74%
Hangzhou Baihuiquan Equity Investment Fund Partnership (Limited Partnership) (杭州百會全股權投資基金合夥企業(有限合夥)) (Note 7)	Interest of a party to an agreement regarding interest in the Company	90,622,500	8.74%

Name	Capacity/Nature of interest	As at the date of this annual report Number of Shares	Approximate percentage of shareholding
Tibet Langrun Investment Management Co., Ltd. (西藏朗潤投資管理有限公司) (Note 7)	Interest of a party to an agreement regarding interest in the Company	90,622,500	8.74%
Mr. Shao Hui (Note 7)	Interest of a controlled corporation	90,622,500	8.74%
Ms. Lu Min (Note 8)	Interest of spouse	90,622,500	8.74%
JMJ Group Limited (Note 9)	Beneficial owner	86,872,500	8.37%
Mr. Xu Jun (Note 9) (Note 10)	Interest of a controlled corporation, interest of spouse	86,872,500	8.37%
Ms. Zhang Hui (Note 9) (Note 11)	Interest of a controlled corporation, interest of spouse	86,872,500	8.37%
SYYT Investment Limited (Note 12)	Beneficial owner	80,002,500	7.71%
Mr. Sun Xianliang (Note 12)	Interest of a controlled corporation	80,002,500	7.71%
Ms. Yu Jinmei (Note 13)	Interest of spouse	80,002,500	7.71%
Jinping Holding Limited (Note 14)	Beneficial owner	54,997,500	5.30%
Ms. Jin Ping (Note 14)	Interest of a controlled corporation	54,997,500	5.30%
Mr. Yao Changhui (Note 15)	Interest of spouse	54,997,500	5.30%

Notes:

(1) The issued shares of BLW Investment Limited are owned as to approximately 43.44%, 23.17%, 15.44%, 9.65% and 8.30% by Mr. Bai Yang, Ms. Liu Peiyao, Mr. Wu Tao, Mr. Liu Naiyue and Ms. Wei Xian (the "Core Shareholders") respectively. On 18 April 2016, the Core Shareholders entered into the acting in concert agreement, pursuant to which each of the Core Shareholders confirmed, among others, the existence of their acting in concert arrangements regarding their control over Values Culture since its establishment and further undertook that they would maintain the acting-in-concert relationship for five years from the date of this agreement. The Core Shareholders have also decided to restrict their ability to exercise direct control over our Company by holding their interest through BLW Investment Limited. Accordingly, each of Mr. Bai Yang, Ms. Liu Peiyao, Mr. Wu Tao, Mr. Liu Naiyue and Ms. Wei Xian is deemed, or taken to be interested in the Shares beneficially owned by BLW Investment Limited.

(2) Ms. Xie Jinhong is the spouse of Mr. Bai Yang. Under the SFO, she is taken to be interested in the Shares in which Mr. Bai Yang is interested.

(3) Ms. Chen Ying is the spouse of Mr. Wu Tao. Under the SFO, she is taken to be interested in the Shares in which Mr. Wu Tao is interested.

(4) Mr. Liu Naiyue is the spouse of Ms. Wei Xian. Under the SFO, he is taken to be interested in the Shares in which Ms. Wei Xian is interested.

(5) Ms. Wei Xian is the spouse of Mr. Liu Naiyue. Under the SFO, she is taken to be interested in the Shares in which Mr. Liu Naiyue is interested.

(6) The issued shares of Suiyong Int'l Co., Limited are wholly owned by Suiyong Holdings Company Limited (穗甬控股有限公司). Under the SFO, Suiyong Holdings Company Limited (穗甬控股有限公司) is deemed, or taken to be interested in the Shares beneficially owned by Suiyong Int'l Co., Limited.

(7) The issued shares of SDJZ Investment Limited are owned as to approximately 91.00%, 2.02%, 3.88% and 3.10% by Mr. Shao Hui, Mr. Dai Honggang, Mr. Jin Huiguang and Ms. Zhao Lijuan respectively. SDJZ Investment Limited was incorporated by Mr. Shao Hui, our non-executive Director, Mr. Jin Huiguang, Ms. Zhao Lijuan and Mr. Dai Honggang (the "Selected Partners"), each of them is the limited partner of Hangzhou Baihuiquan Equity Investment Fund Partnership (Limited Partnership) (杭州百會全股權投資基金合夥企業(有限合夥)) ("Hangzhou Baihuiquan"). Pursuant to an agreement dated 21 May 2019 between Hangzhou Baihuiquan and the Selected Partners, Hangzhou Baihuiquan made entrustment arrangements with the Selected Partners regarding the distribution of the earnings generated from SDJZ Investment Limited's holding of the issued share capital in our Company. Furthermore, Hangzhou Baihuiquan is a limited equity investment fund partnership established in the PRC, the general partner of which is Tibet Langrun Investment Management Co., Ltd. (西藏朗潤投資管理有限公司). Accordingly, each of Mr. Shao Hui, Hangzhou Baihuiquan and Tibet Langrun Investment Management Co., Ltd. (西藏朗潤投資管理有限公司) is deemed to be interested in such number of Shares held by SDJZ Investment Limited.

(8) Ms. Lu Min is the spouse of Mr. Shao Hui. Under the SFO, she is taken to be interested in the Shares in which Mr. Shao Hui is interested.

(9) The issued shares of JMJ Group Limited are owned as to approximately 97.84% and 2.16% by Mr. Xu Jun and Ms. Zhang Hui respectively. Under the SFO, each of Mr. Xu Jun and Ms. Zhang Hui is deemed, or taken to be interested in the Shares beneficially owned by JMJ Group Limited.

(10) Mr. Xu Jun is the spouse of Ms. Zhang Hui. Under the SFO, he is taken to be interested in the Shares in which Ms. Zhang Hui is interested.

(11) Ms. Zhang Hui is the spouse of Mr. Xu Jun. Under the SFO, she is taken to be interested in the Shares in which Mr. Xu Jun is interested.

(12) The issued shares of SYYT Investment Limited are owned as to approximately 40.62%, 31.25%, 18.75% and 9.38% by Mr. Sun Xianliang, Ms. Yang Yanli, Ms. Yu Fenghui and Mr. Tan Xu respectively. Under the SFO, Mr. Sun Xianliang is deemed, or taken to be interested in the Shares beneficially owned by SYYT Investment Limited.

(13) Ms. Yu Jinmei is the spouse of Mr. Sun Xianliang. Under the SFO, she is taken to be interested in the Shares in which Mr. Sun Xianliang is interested.

(14) Jinping Holding Limited is wholly owned by Ms. Jin Ping. Under the SFO, Ms. Jin Ping is deemed, or taken to be interested in the Shares beneficially owned by Jinping Holding Limited.

(15) Mr. Yao Changhui is the spouse of Ms. Jin Ping. Under the SFO, he is taken to be interested in the Shares in which Ms. Jin Ping is interested.

Save as disclosed herein, as at the date of this annual report, the Board is not aware of any persons (other than the Directors or chief executive) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

Save as disclosed under the section headed "Related Party Transactions" stated in Note 28 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 2019.

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 12 December 2019 (the "**Share Option Scheme**"), which became effective on the Listing Date. The Share Option Scheme is a share incentive scheme and is established to reward the contributions that the eligible participants (as defined in the Prospectus) (including but not limited to any employee, director, supplier, customer, adviser, consultant, shareholder, partner or joint-venture partner of the Group or any entity in which any member of the Group holds an equity interest) had or may have made to the Group. Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (i.e. 100,000,000 Shares) unless approved by the Shareholders and the total number of the Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being unless approved by the Shareholders. Subject to early termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption. An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share. Further details of the Share Option Scheme are set out in the section headed "4. Share Option Scheme" in Appendix IV to the Prospectus.

No share options had been granted agreed to be granted, exercised, cancelled, expired or lapsed under the Share Option Scheme as at the date of this annual report. The Company did not have any outstanding share options, warrants and convertible instruments into shares as at the date of this annual report. The total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme was 100,000,000 Shares, representing 10% of the issued share capital of the Company as at the date of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from the Listing Date up to the date of this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 of the Company 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 principally engaged in the business of (i) licensing of broadcasting rights of TV series; (ii) investment in TV series as non-executive producer; and (iii) acting as distribution agent of TV series. The Group also make Fixed Return Investment in TV series and engage in the business of investment in and production of films. The Group conducts its business and investment through its Consolidated Affiliated Entities (as defined below), 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 (including distribution of TV series) of TV series or any enterprise conducting the film production business. 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. As a result of the foregoing, on 26 June 2019, the Company entered into a series of Contractual Arrangements (as defined below) with Values Culture and the Relevant Shareholders through WFOE (as defined below) to conduct the business of production and distribution of and investment in TV series and films in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of, the Consolidated Affiliated Entities. The agreements underlying such Contractual Arrangements which were in place during the year ended 31 December 2019 include:

(a) the exclusive business co-operation agreement (獨家業務合作協議) dated 26 June 2019 entered into between WFOE and Values Culture, pursuant to which Values Culture agreed to engage WFOE as its exclusive provider of technical support, consultation and other services. The details of the agreement is described in the paragraph headed "Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement" in the Prospectus;

(b) the exclusive option agreement (獨家購買權協議) dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders, pursuant to which the Relevant Shareholders and Values Culture jointly and severally granted irrevocably to WFOE the rights to require the Relevant Shareholders to transfer any or all their equity interests and/or assets in Values Culture to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The details of the agreement is described in the paragraph headed "Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Option Agreement" in the Prospectus;

(c) the equity pledge agreement (股權質押協議) dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders, pursuant to which each of the Relevant Shareholders agreed to pledge all of their respective equity interests in Values Culture to WFOE as a security interest to guarantee (i) the payment of service fee and interest under the Contractual Arrangements; (ii) performance of all other obligations under the Contractual Arrangements; and (iii) other payment obligations arising from or in connection with the Contractual Arrangements, including but not limited to liquidated damages, compensations and each expense for the realisation of the pledge. The details of the agreement is described in the paragraph headed "Contractual Arrangements — Details of the Contractual Arrangements — Equity Pledge Agreement" in the Prospectus;

(d) the shareholders' rights proxy agreement (股東權利委託協議) dated 26 June 2019 entered into among WFOE, Values Culture and the Relevant Shareholders, pursuant to which each Relevant Shareholder irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder's rights in Values Culture. The details of the agreement is described in the paragraph headed "Contractual Arrangements — Details of the Contractual Arrangements — Shareholders' Rights Proxy Agreement" in the Prospectus;

"Consolidated Affiliated Entities" means the entities we control through the Contractual Arrangements, namely Values Culture and its subsidiaries. "Contractual Arrangements" means a series of contractual arrangements entered into among Values Culture, WFOE and the registered shareholders of Values Culture. "WFOE" means Haining Fanning, a company established in the PRC with limited liability on 27 May 2019 and an indirect wholly-owned subsidiary of our Company. The registered shareholders of Values Culture consisting of the following persons and entities: Bai Yang (白陽), Suiyong Holdings Company Limited* (穗甬控股有限公司), Xu Jun (許軍), Hangzhou Baihuiquan Equity Investment Fund Partnership (Limited Partnership)* (杭州百會全股權投資基金合夥企業(有限合夥), Liu Peiyao (劉佩瑤), Jin Ping (金萍), Wu Tao (吳濤), Sun Xianliang (孫賢亮), Liu Naiyue (劉乃岳), Yang Yanli (楊豔麗), Wei Xian (魏賢), Liu Wenqing (劉文清), Xie Ting (謝婷), Yu Fenghui (于鳳輝), Lin Xin (林欣), Hu Wangdong (胡望東), Wang Jianlin (王建林), Zhang Dongying (張東影), Tan Xu (譚栩), Li Yan (李岩), Sun Fuqiu (孫福秋), Liu Jinglei (劉驚雷), Li Zhongyin (李忠銀), Zhu Hui (朱卉), Lu Ying (魯瑩), Zhang Hui (張輝) and Wang Haiting (王海婷).

No service fee was paid by Values Culture to WFOE pursuant to the exclusive business co-operation agreement for the year ended 31 December 2019.

The revenue and net profit of the Consolidated Affiliated Entities subject to the Contractual Arrangements amounted to approximately RMB212.6 million and RMB36.3 million for the year ended 31 December 2019, respectively. The total assets and total liabilities of the Consolidated Affiliated Entities subject to the Contractual Arrangements amounted to approximately RMB429.6 million and RMB69.9 million as at 31 December 2019, respectively.

Risks associated with the Contractual Arrangements

For risks associated with the Contractual Arrangements, please see the section headed "Risk Factors — Risks Relating to the Contractual Arrangements" in the Prospectus for details.

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2019, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

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 2019, 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 2019, 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 2019 had been entered into accordance with the relevant provisions of the Contractual Arrangements;

(b) no dividends or other distributions had been made by the Consolidated Affiliated Entities to the holders of its equity interests 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 Reporting Period; 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 Reporting Period 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 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 2019 are set out in note 28 to the consolidated financial statements contained herein.

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.

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.

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.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming annual general meeting to be held on 29 May 2020, the register of members of the Company will be closed from 26 May 2020 to 29 May 2020 (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 are lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 25 May 2020.

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 share as at the latest practicable date prior to the issue 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" on pages 23 to 33 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

The Over-allotment Option

On 7 February 2020, the Over-allotment Option described in the Prospectus has been fully exercised by the Zhongtai International Securities Limited (for itself and on behalf of the International Underwriters) in respect of the Over-allotment Shares, representing 15% of the total number of the offer Shares initially available under the global offering (before any exercise of the Over-allotment Option) to facilitate the return to BLW Investment Limited of the borrowed Shares under the stock borrowing agreement dated 9 January 2020 which were used to cover over-allocations under the placing by the International Underwriters. Such Over-allotment Shares are subject to a lock-up of six months from the Listing Date pursuant to the respective agreements, undertaking letter and rules as disclosed in the Prospectus. The Over-allotment Shares has been allotted and issued by the Company at HK$0.50 per Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), being the Offer Price per Share under the global offering.

The over-allotment shares were listed and traded on the Stock Exchange on 10 February 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank were approximately HK$17.2 million (after deducting underwriting commissions, brokerage, transaction levy and transaction fee).

Save as disclosed above and in the section headed "Management Discussion and Analysis" and "Report of Directors" of this annual report, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2019 and up to the date of this annual report.

Appointment of Joint Company Secretary

The Company appoints Ms. Wang Haiting as one of the Joint Company Secretaries for a term of three years with effect from 9 April 2020, Mr. Au Yeung Ming Yin Gordon, the existing company secretary of the Company, will continue to act as the other joint company secretary of the Company.

The biographical details of Ms. Wang are set out in the section headed "Directors and Senior Management" on page 21 of this annual report.

AUDIT COMMITTEE

The Audit Committee assists the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time. The annual results of the Company for the year ended 31 December 2019 had been reviewed by the Audit Committee, which consists of three independent non-executive Directors of the Company, namely Mr. Zhong Mingshan, Mr. Xian Guoming and Mr. Xu Zongzheng, with Mr. Zhong Mingshan as the chairman of the Audit Committee.

AUDITOR

The consolidated financial statements have been audited by Ernst & Young, 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
Liu Naiyue
Chairman and Executive Director
Hong Kong, 27 March 2020

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Values Cultural Investment Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Values Cultural Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 69 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group's revenue mainly comes from granting the broadcasting right licenses of TV series to various television stations. Operating revenue is a key performance indicator of the Group which gives rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations. The contracts entered into by the Group and television stations for the transfer of broadcasting rights of TV series are not identical and there are various special terms in the contract which may have an impact on timing of revenue recognition. For co-investment arrangement, management is required to examine the terms and conditions of the contract carefully to determine whether the Group acts as executive or non-executive producer. The Group generates investment income by sharing the net license fee according to the proportion of its investment if it acts as non-executive producer. The Group's disclosures regarding revenue recognition are included in Note 2.4 *Summary of significant accounting policies* and Note 5 *Revenue, Other income and Gains* to the financial statements.	Our audit procedures to assess revenue recognition included the following: — assessing and testing management's internal controls over the revenue recognition process; — discussing with management in respect to the recognition basis on licensing of broadcasting rights of TV series; — obtaining an understanding of the sale transaction through inspection of the underlying contractual agreements; — interviewing with certain customers to assess the existence of the sales contracts and to inspect the contract terms; — inspecting the licenses for distribution of TV series issued by the relevant authorities to evaluate the intellectual right of the TV series; — examining the relevant sale contracts, proof of delivery of TV series and broadcasting records (if any) on a sample basis; and — obtaining external confirmations from certain customers to assess the sales amount and outstanding trade receivables.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Amortisation of inventories	
During the year ended 31 December 2019, the amortisation of inventories recognised as costs of sales amounted to RMB151,214,000. The recognition of cost of sales is determined by using the television forecast computation method which involves management's estimation of the total revenue to be generated by each TV series throughout its life cycle (the "Total Estimated Revenue"). In estimating the Total Estimated Revenue, the management takes into account the genre of the TV series, the production costs, the ranges of prices of similar TV series in the market and the historical purchase prices of similar TV services of potential customers. The Group's disclosures about inventories and amortisation of inventories are included in Note 2.4 *Summary of significant accounting policies*, and Note 3 *Significant accounting judgements and estimates* to the financial statements.	Our audit procedures to assess amortisation of inventories included the following: — Obtain and understanding of, evaluating and testing management's internal controls over the amortisation of inventories process; — assessing the accounting policy of the Group in respect of the amortisation of inventories including benchmarking the policy against industry practice; — checking the total number of episodes of each TV series in the estimated revenue calculation lists provided by management to the licenses for distribution of TV series issued by the relevant authorities; — evaluating the Group's assessment of the estimated selling price of each TV series by reference to past experience and historical selling price for similar types of TV series, and checking to the subsequent selling price, if any; and — reviewing management's estimated revenue calculation list for the completed TV series as at 31 December 2019 and performing the recalculation of the management's estimated revenue for each TV series.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises Chairman's Statement, Management Discussion and Analysis, Report of the Directors and Corporate Governance Report included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to report that fact.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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.

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

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

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

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

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 Shun Lung Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**212,637**	154,085
Cost of sales	6	**(151,214)**	(73,979)
Gross profit		**61,423**	80,106
Other income and gains	5	**1,335**	7,047
Selling and distribution expenses		**(5,476)**	(3,219)
Administrative expenses		**(25,571)**	(6,832)
Reversal of impairment losses/(impairment losses) on financial assets		**1,000**	(6,843)
Finance costs	7	**(4,648)**	(2,378)
Other expenses		**(85)**	(32)
PROFIT BEFORE TAX	6	**27,978**	67,849
Income tax expense	10	**(3,146)**	(3,366)
PROFIT FOR THE YEAR		**24,832**	64,483
Attributable to:			
Owners of the parent		**24,832**	64,483
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit for the year	12	**RMB3.31 cents**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**24,832**	64,483
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	**(192)**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(192)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**24,640**	64,483
Attributable to:		
Owners of the parent	**24,640**	64,483

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**103**	209
Right-of-use assets	*14(a)*	**77**	542
Deferred tax assets	*22*	**16,212**	3,486
Total non-current assets		**16,392**	4,237
CURRENT ASSETS			
Inventories	*15*	**98,580**	203,918
Trade receivables	*16*	**191,594**	99,291
Prepayments, other receivables and other assets	*17*	**103,288**	88,619
Pledged deposit	*18*	**9,000**	—
Cash and cash equivalents	*18*	**5,466**	11,665
Total current assets		**407,928**	403,493
CURRENT LIABILITIES			
Trade payables	*19*	**28,501**	34,865
Other payables and accruals	*20*	**14,242**	5,846
Lease liabilities	*14(b)*	**79**	444
Interest-bearing bank loans and other borrowings	*21*	**19,000**	43,000
Tax payable		**14,036**	—
Total current liabilities		**75,858**	84,155
NET CURRENT ASSETS		**332,070**	319,338
TOTAL ASSETS LESS CURRENT LIABILITIES		**348,462**	323,575
NON-CURRENT LIABILITIES			
Lease liabilities	*14(b)*	**—**	102
Deferred tax liabilities	*22*	**1,405**	1,056
Total non-current liabilities		**1,405**	1,158
Net assets		**347,057**	322,417

31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Net assets		**347,057**	322,417
EQUITY			
Equity attributable to owners of the parent			
Share capital	*23*	**—**	—
Reserves	*24*	**347,057**	322,417
Total equity		**347,057**	322,417

Liu Naiyue
Director

Liu Peiyao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent					
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2018	—	205,684	5,403	—	46,847	257,934
Total comprehensive income for the year	—	—	—	—	64,483	64,483
Transfer from retained profits	—	—	6,806	—	(6,806)	—
At 31 December 2018	—	205,684*	12,209*	—	104,524*	322,417
At 1 January 2019	—	205,684	12,209	—	104,524	322,417
Profit for the year	—	—	—	—	24,832	24,832
Other comprehensive income for the year:						
Exchange differences on translation of the Company's financial statements	—	—	—	(192)	—	(192)
Total comprehensive income for the year	—	—	—	(192)	24,832	24,640
Transfer from retained profits	—	—	1,345	—	(1,345)	—
At 31 December 2019	**—**	**205,684***	**13,554***	**(192)***	**128,011***	**347,057**

* These reserve accounts comprise the consolidated reserves of RMB347,057,000 (2018: RMB322,417,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**27,978**	67,849
Adjustments for:			
Depreciation	13	**106**	381
Depreciation of right-of-use assets	14(a)	**465**	465
Finance costs	7	**4,648**	2,378
Interest income from loans receivable	5	**—**	(1,538)
Penalty income	5	**—**	(325)
Investment income from financial assets at fair value through profit or loss	5	**—**	(32)
Write-down of inventories to net realisable value	6	**6,351**	4,087
Impairment/(reversal of impairment) of trade receivables	16	**(5,569)**	4,694
Impairment of other receivables	17	**4,569**	2,149
		38,548	80,108
Decrease/(increase) in inventories		**98,987**	(75,535)
Increase in trade receivables		**(88,207)**	(35,732)
Increase in prepayments, other receivables and other assets		**(19,955)**	(56,875)
(Decrease)/increase in trade payables		**(6,364)**	6,351
Increase/(decrease) in other payables and accruals		**9,570**	(2,368)
Cash generated from/(used in) operations		**32,579**	(84,051)
Income tax paid		**(770)**	(1,495)
Interest paid on trade receivable factoring		**(2,335)**	—
Net cash flows from/(used in) operating activities		**29,474**	(85,546)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**—**	(8)
Advances of loans to third parties			(5,291)
Purchase of financial assets at fair value through profit or loss		**—**	(11,500)
Disposal of financial asset at fair value through profit or loss		**—**	11,500
Investment income received from financial assets at fair value through profit or loss		**—**	32
Interest received from loans receivable and penalty income		**—**	2,977
Repayment of advances of loans to third parties		**—**	30,217
Net cash flows from investing activities		**—**	27,927

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans		**19,000**	35,000
Proceeds from other borrowings		**—**	30,868
Repayment of bank loans		**(25,000)**	(10,000)
Repayment of other borrowings		**(16,526)**	(12,868)
Interest paid on bank loans		**(1,017)**	(1,298)
Interest paid on discounted notes receivable		**(190)**	—
Interest paid on other borrowings		**(2,234)**	(1,954)
Interest paid on lease liabilities		**(47)**	(54)
Borrowings from related parties		**10,000**	10,000
Repayment of borrowings from related parties		**(10,000)**	(10,000)
Repayment of principal portion of lease liabilities		**(467)**	(465)
Net cash flows from/(used in) financing activities		**(26,481)**	39,229
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,993**	(18,390)
Cash and cash equivalents at beginning of year		**11,665**	30,055
Effect of foreign exchange rate changes, net		**(192)**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,466**	11,665
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**5,466**	11,665
Pledged deposits as security for short-term bank loans	18	**9,000**	—
Cash and cash equivalents as stated in the consolidated statement of cash flows		**14,466**	11,665

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2019

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 11 March 2019. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 January 2020.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
YS Cultural Investment Limited	British Virgin Islands 20 March 2019	US$1	100%	—	Investment holding
Fanta Culture Co., Limited (泛泰文化有限公司)	Hong Kong 17 April 2019	HK$1	—	100%	Investment holding
Haining Fanning Television Planning Company Limited* ("WFOE") (海寧泛寧影視策劃有限公司) *(notes (a), (b))*	People's Republic of China ("PRC")/ Mainland China 27 May 2019	HK$150,000,000	—	100%	Investment holding
Values Culture Media Co., Ltd.*^ ("Values Culture") (海寧原石文化傳媒股份有限公司) *(note (a))*	PRC/Mainland China 14 November 2013	RMB150,000,000	—	100%	Investments in, production, distribution and licensing of TV series
Beijing Values Culture Media Co., Ltd.*^ ("Beijing Values") (北京原石文化傳媒有限公司) *(note (a))*	PRC/Mainland China 3 April 2014	RMB3,000,000	—	100%	Investments in, production, distribution and licensing of TV series

1. CORPORATE INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Khorgas Values Culture Media Co., Ltd.*^ ("Khorgas Values") (霍爾果斯原石文化傳媒有限公司) *(note (a))*	PRC/Mainland China 29 December 2016	RMB6,000,000	—	100%	Investments in, production, distribution and licensing of TV series
Xinjiang Values Culture Media Co., Ltd.*^ ("Xinjiang Values") (新疆原石文化傳媒有限公司) *(note (a))*	PRC/Mainland China 22 June 2018	RMB10,000,000	—	100%	Investments in, production, distribution and licensing of TV series
Haining Values Television Culture Co., Ltd.* ("Haining Values Television") (海寧原石影視文化有限公司)* *(note (c))*	PRC/Mainland China 29 December 2017	RMB1,000,000	—	100%	Dormant

Notes:

(a) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(b) This entity is registered as a wholly-foreign-owned enterprise under PRC law.

(c) Haining Values Television was voluntarily dissolved by deregistration on 20 May 2019.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2019 have been early adopted by the Group in the preparation of these financial statements for the years ended 31 December 2019 and 2018. These financial statements have been prepared under the historical cost convention, except for financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but is available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Electronic equipment	3 years
Office equipment	5 years
Leasehold improvements	2 years

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

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

Leases

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(a) *Right-of-use assets*

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

Office buildings	3 years

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

(b) *Lease liabilities*

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(c) *Short term lease and lease of low-value assets*

The Group applies the short-term lease recognition exemption (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

(a) Licensing of broadcasting rights of TV series

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

(b) Distribution of broadcasting rights of TV series

Revenue from the distribution of broadcasting rights of TV series is recognised at the point in time when the services are rendered.

Revenue from other sources

Net license fee received from investment in TV series, films and web series as non-executive producer is recognised when the investors' right to receive payment has been established, it is probable that the economic benefits associated with the investment income will flow to the Group and the amount can be measured reliably.

Other income

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

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary operating in Mainland China is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Investments and other financial assets

Initial recognition and measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing bank loans and other borrowings and lease liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Borrowing costs

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

Dividends

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

Inventories

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for the co-investment arrangement

The co-investment arrangement is the sale of an interest in a TV series to an investor. The amounts received for the sale of an interest as a reduction of the costs of the TV series upon receipt of the license for distribution of TV series from NRTA, as the investor assumes full risk for that share of the TV series asset. The substance of these arrangements is that the third-party investors own an interest in the TV series and, therefore, the Group recognised either a charge or benefit to cost of sales to reflect the estimate of the third-party investor's interest in the profit or loss incurred on the TV series.

The amount paid under the co-investment arrangement to the third-party investors by the Group was recognised as prepayments under co-investment arrangement and reclassified to inventory upon receipt of the license for distribution of TV series from NRTA.

Cash and cash equivalents

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

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

The functional currencies of the Company and an overseas subsidiary are currencies other than the RMB. As at the end of the year, the assets and liabilities of the Company and an overseas subsidiary are translated into RMB at the exchange rates prevailing at the end of the year and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Contractual Arrangements

Values Culture, Beijing Values, Khorgas Values and Xinjiang Values (the "Consolidated Affiliated Entities") are engaged in the production, distribution and licensing of TV series business. Under the scope of "Catalogue for Guidance of Foreign Investment Industries (2017 version)", foreign investors are prohibited to invest in such businesses.

The Group exercises control over the Consolidated Affiliated Entities and enjoys substantially all economic benefits of the Consolidated Affiliated Entities through the Contractual Arrangements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Contractual Arrangements (continued)

The Group does not have any equity interests in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Company has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is therefore considered to have control over them. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the financial positions and results of the Consolidated Affiliated Entities in the financial statement during the reporting period.

Principal versus agent

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal that obtains control of any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group's management performs the assessment based on the above-mentioned factors and reaches the conclusion that the Group acts as a principal in the licensing of broadcasting rights of TV series since the Group controls the broadcasting rights of TV series before they are granted to the customers and acts as an agent in the distribution of broadcasting rights of TV series since the Group's performance obligation is to arrange for the provision of broadcasting rights of TV series by another party and was only subject to the commission income from distribution of broadcasting rights of TV series. Accordingly, the Group recognises revenue from the licensing of broadcasting rights of self-developed TV series and purchased TV series on a gross basis and the revenue of distribution of broadcasting rights of TV series on a net basis.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision and write-down of inventories to net realisable value

The Group's management reviews the conditions of inventories of the Group and make provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a project-by-project basis at the end of each reporting period and makes provision for obsolete projects. Net realisable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of producing and distributing TV series of a similar nature. The Group's management reassesses the estimation at the end of each reporting period.

Impairment of non-financial assets (other than goodwill)

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

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing period and days past due for groups of various customer segments that have similar loss patterns.

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

The assessment of the correlation between historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on other receivables

The Group has applied the general approach to provide for expected credit losses for other receivables and considered the default event, historical loss rate and adjusted for forward looking macroeconomic data in calculating the expected credit loss rate, details of which are set out in note 17 to the financial statement.

The amortisation of inventories

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

Management regularly reviews the basis of the amortisation and will adjust the amortisation method when the expected changes in the TV series' estimated revenues arise.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

During the year, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in Mainland China. All of the non-current assets of the Group were located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2019 RMB'000	2018 RMB'000
Customer 1	**76,597**	22,182
Customer 2	**54,340**	N/A*
Customer 3	**26,233**	60,858
Customer 4	**N/A***	27,295

* The revenue of the corresponding customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the reporting periods.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**204,745**	151,557
Revenue from other sources		
Net license fee received from investment in TV series, web series and films as non-executive producer	**7,892**	2,528
	212,637	154,085

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000
Type of goods or service		
Licensing of broadcasting rights of TV series	**204,745**	138,618
Distribution of broadcasting rights of TV series	**—**	12,939
Total revenue from contract with customers	**204,745**	151,557

Geographical markets

All of the Group's revenue was generated from customers located in Mainland China during the year.

Timing of revenue recognition

All of the Group's revenue was recognised at a point in time during the year.

(ii) Performance obligations

Licensing of broadcasting rights of TV series

The performance obligation of licensing of broadcasting rights of TV series is satisfied upon granting of the broadcasting rights of TV series to customers after the approval from NRTA or receipt of the license for distribution of TV series from provincial counterpart of NRTA.

Distribution of broadcasting rights of TV series

The performance obligation of distribution of broadcasting rights of TV series is satisfied upon services are rendered.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

Distribution of broadcasting rights of TV series (continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 RMB'000	2018 RMB'000
Amounts expected to be recognised as revenue		
Within one year	**5,162**	1,439

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

An analysis of other income and gains is as follows:

	2019 RMB'000	2018 RMB'000
Other income and gains		
Government grants		
— related to income (a)	**227**	5,113
Bank interest income	**12**	39
Investment income from financial asset at fair value through profit or loss	**—**	32
Interest income from loans receivable	**—**	1,538
Penalty income	**—**	325
Others	**1,096**	—
	1,335	7,047

Note:

(a) The government grants mainly represent incentives awarded by the local governments to support the Group's operation. There were no unfulfilled conditions or contingencies attached to these government grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**151,214**	73,979
Listing expense		**16,179**	—
Depreciation of property, plant and equipment	*13*	**106**	381
Depreciation of right-of-use assets	*14*	**465**	465
Auditor's remuneration		**1,150**	—
Minimum lease payments under leases exemption	*14*	**1,086**	324
Government grants	*5*	**(227)**	(5,113)
Interest income from loans receivable	*5*	**—**	(1,538)
Bank interest income	*5*	**(12)**	(39)
Investment income from financial assets at fair value through profit or loss	*5*	**—**	(32)
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**3,006**	2,301
Pension scheme contributions		**209**	270
Staff welfare expenses		**141**	214
		3,356	2,785
Write-down of inventories to net realisable value*		**6,351**	4,087
Impairment/(reversal of impairment) of trade receivables	*16*	**(5,569)**	4,694
Impairment of other receivables	*17*	**4,569**	2,149

* Write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	**1,017**	1,231
Interest on other borrowings	**1,059**	3,062
Interest on borrowings from a director and related parties	**—**	67
Interest on discounted notes receivable	**190**	44
Interest on trade receivable factoring	**2,335**	—
Interest on trade receivable financing	**—**	23
Interest on lease liabilities	**47**	54
Total interest expense on financial liabilities not at fair value through profit or loss		
Less: Interest capitalised	**—**	(2,103)
	4,648	2,378

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Group

	2019 RMB'000	2018 RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, bonuses, allowances and benefit in kind	**792**	606
Pension scheme contributions	**88**	77
	880	683

(a) Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Group (continued)

(b) Executive directors and the chief executive

Year ended 31 December 2019	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Liu Naiyue*	**401**	**46**	**447**
Ms. Li Fang	**277**	**30**	**307**
Ms. Liu Peiyao	**114**	**12**	**126**
Ms. Wei Xian	**—**	**—**	**—**
	792	**88**	**880**

Year ended 31 December 2018	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Liu Naiyue*	319	44	363
Ms. Li Fang	202	21	223
Ms. Liu Peiyao	85	12	97
Ms. Wei Xian	—	—	—
	606	77	683

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

* Mr. Liu Naiyue was also the chief executive of the Company during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included the chief executive (2018: a director and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining four (2018: three) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,595**	896
Pension scheme contributions	**158**	114
	1,753	1,010

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
Nil to HK$1,000,000	**4**	3

During the year, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The major components of the income tax expense of the Group during the year are analysed as follows:

	2019 RMB'000	2018 RMB'000
Current — Mainland China		
Charge for the year	**15,523**	4,089
Deferred tax *(note 22)*	**(12,377)**	(723)
Total tax charge for the year	**3,146**	3,366

10. INCOME TAX (continued)

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the year.

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

As stipulated in Cai Shui [2011] No. 112, enterprises newly established in Xin Jiang Kashgar/Khorgas special economic areas during the period from 2010 to 2020 could enjoy Enterprise Income Tax ("EIT") exemption for five years starting from the year under which the first revenue was generated. Khorgas Values and Xinjiang Values enjoyed the benefit under the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang《新疆困難地區重點鼓勵發展產業企業所得税優惠目錄》, which were entitled to such EIT exemption for the years ended 31 December 2019 and 2018. According to Preferential Filing Record of EIT《企業所得税優惠事項備案表》, Khorgas Values obtained the approval from the PRC tax bureau for entitlement of EIT exemption from 1 January 2017 to 31 December 2020, and Xinjiang Values registered with the PRC tax bureau for entitlement of EIT exemption from 1 July 2018 to 31 December 2020.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**27,978**	67,849
Tax at the statutory tax rate of 25% in Mainland China	**6,995**	16,963
Tax effect of tax exemption granted to subsidiaries	**(7,949)**	(15,149)
Effect of tax rate differences in other jurisdiction	**2,770**	—
Effect of expenses not deductible for tax	**93**	253
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries *(note 22)*	**349**	583
Tax losses not recognised	**888**	716
Tax charge at the Group's effective tax rate	**3,146**	3,366

11. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2018: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2019 RMB cents
Earnings	
Profit attributable to ordinary equity holders of the parent,	
Basic and diluted earnings per share*	3.31

* The Company was incorporated on 11 March 2019. Therefore, directors are of the opinion that the earnings per share for the year ended 31 December 2018 was not applicable in this annual consolidated financial information.

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB24,832,000 (2018: 64,483,000), and the weighted average number of ordinary shares of 749,411,740 (2018: Nil) in issue during the year, as adjusted to reflect the rights issue during the year as follows:

The calculation of basic earnings per share is based on:

	2019 RMB'000
Profit attributable to ordinary equity holders of the parent	24,832

The weighted average number of ordinary shares of approximately 749,411,740 comprises the weighted average number of shares issued during the year ended 31 December 2019 and 748,000,000 ordinary shares issued pursuant to the capitalisation issue (note 23) after the reporting period as if these additional shares issued under the share subdivision and capitalisation issue had been completed throughout the year ended 31 December 2019.

	Number of shares	
	2019 approximately	2018 approximately
Issue of shares on 11 March 2019	8,665	—
Issue of shares on 14 June 2019	91,335	—
Effect of share subdivision on 11 December 2019	1,900,000	—
Effect of capitalisation issue	748,000,000	—
Weighted average number of ordinary shares	749,411,740	—

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2019 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2019

	Electronic equipment RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2019:				
Cost	177	136	654	967
Accumulated depreciation	(123)	(35)	(600)	(758)
Net carrying amount	54	101	54	209
At 1 January 2019, net of accumulated depreciation	54	101	54	209
Depreciation provided during the year *(note 6)*	(28)	(24)	(54)	(106)
At 31 December 2019, net of accumulated depreciation	26	77	—	103
At 31 December 2019:				
Cost	177	136	654	967
Accumulated depreciation	(151)	(59)	(654)	(864)
Net carrying amount	26	77	—	103

13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2018

	Electronic equipment RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2018:				
Cost	169	136	654	959
Accumulated depreciation	(94)	(11)	(272)	(377)
Net carrying amount	75	125	382	582
At 1 January 2018, net of accumulated depreciation	75	125	382	582
Additions	8	—	—	8
Depreciation provided during the year *(note 6)*	(29)	(24)	(328)	(381)
At 31 December 2018, net of accumulated depreciation	54	101	54	209
At 31 December 2018:				
Cost	177	136	654	967
Accumulated depreciation	(123)	(35)	(600)	(758)
Net carrying amount	54	101	54	209

14. LEASES

The Group as a lessee

The Group has lease contracts for office buildings used in its operations. Leases of office buildings generally have lease terms of 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets:

	Office buildings RMB'000
As at 1 January 2018	1,007
Depreciation provided during the year *(note 6)*	(465)
As at 31 December 2018 and 1 January 2019	542
Depreciation provided during the year *(note 6)*	(465)
At 31 December 2019	**77**

(b) Lease liabilities:

The carrying amounts of lease liabilities and the movement during the year are as follows:

	Office buildings RMB'000
As at 1 January 2018	1,011
Interest expenses	54
Payment during the year	(519)
As at 31 December 2018 and 1 January 2019	546
Interest expenses	47
Payment during the year	(514)
At 31 December 2019	**79**

14. LEASES (continued)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	47	54
Depreciation charge of right-of-use assets	465	465
Expenses relating to short-term lease	1,086	324
Total amount recognised in profit or loss	1,598	843

(d) The total cash outflow for leases is disclosed in note 26 to the financial statements.

15. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	16,927	9,810
Work in progress	—	87,131
Finished goods	81,653	106,977
	98,580	203,918

16. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	199,438	112,704
Impairment	(7,844)	(13,413)
	191,594	99,291

16. TRADE RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 365 days, depending on the specific payment terms in each contract. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The Group's trade receivables amounting to RMB19,800,000 were pledged to secure the bank loans granted to the Group as at 31 December 2019 (31 December 2018: RMB16,674,000) (note 21).

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
within 3 months	**41,983**	58,735
3 to 6 months	**18,465**	1,322
6 to 12 months	**96,458**	—
1 to 2 years	**27,102**	17,932
2 to 3 years	**7,586**	21,302
	191,594	99,291

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**13,413**	8,719
Impairment losses *(note 6)*	**(5,569)**	4,694
At end of year	**7,844**	13,413

The decrease (2018: increase) in the loss allowance of RMB5,569,000 (2018: increase in the loss allowance of RMB4,694,000) was due to a decrease of trade receivable which were aged over 1 year and past due.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing period and days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

16. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019		Aged				
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	Over 3 years and past due	Total
Expected credit loss rate	*Note*	**2.45%**	**12.14%**	**20.58%**	**100.00%**	**3.93%**
Gross carrying amount (RMB'000)	**71,931**	**87,108**	**30,847**	**9,552**	**—**	**199,438**
Expected credit losses (RMB'000)	**—**	**2,133**	**3,745**	**1,966**	**—**	**7,844**

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018		Aged				
	Current	Less than 1 year and past due	1 to 2 years and past due	2 to 3 years and past due	Over 3 years and past due	Total
Expected credit loss rate	*Note*	10.13%	14.35%	23.08%	100.00%	11.90%
Gross carrying amount (RMB'000)	58,735	1,471	20,936	27,694	3,868	112,704
Expected credit losses (RMB'000)	—	149	3,004	6,392	3,868	13,413

Note: The Group estimated the expected credit loss rate to be minimal on current trade receivables.

16. TRADE RECEIVABLES (continued)

Transferred financial assets that are derecognised in their entirety

As at 31 December 2019, Values Culture, a subsidiary of the Group, endorsed certain notes receivable accepted by banks in Mainland China (the "Derecognised Notes") to the banks in Mainland China with a carrying amount in aggregate of RMB5,000,000 (31 December 2018: RMB1,000,000). The Derecognised Notes had a maturity of five months at the end of the year. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated notes receivables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant. During the year ended 31 December 2019, the Group has recognised the interest expense on the discounted notes receivables amounting to RMB190,000 (31 December 2018: RMB44,000).

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Arrangement") and transferred certain trade receivables to a third party. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights and rewards on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the trade receivables transferred under the Arrangement. The original carrying value of the trade receivables transferred under the Arrangement that have not been settled as at 31 December 2019 was RMB11,674,000 (31 December 2018: Nil). During the year ended 31 December 2019, the Group has recognised the interest expense on the factoring of trade receivables amounting to RMB2,335,000 (31 December 2018: Nil).

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments under the co-investment arrangement	**81,997**	79,272
Prepayments	**2,354**	842
Prepaid listing expenses	**—**	1,106
Deferred listing expenses	**5,105**	—
Deductible input-VAT	**—**	4,945
Income tax recoverable	**—**	717
Deposits and other receivables	**17,015**	351
Loans receivable *(Note (a))*	**3,774**	3,774
Interest receivables *(Note (a))*	**761**	761
Impairment allowance	**(7,718)**	(3,149)
	103,288	88,619

Deposits and other receivables mainly represent rental deposits and advance to a third party. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Note (a):

Loans receivable represent the Fixed Return Investment and a loan provided to third parties. Interest receivables represent interest derived from the aforementioned Fixed Return Investment and a loan provided to third parties. Included in the loans receivables, RMB3,000,000 as at 31 December 2019 (31 December 2018: RM3,000,000) were the Fixed Return Investment provided to third parties. The Group made investment into certain TV series under arrangements, among which the Group are entitled to fixed investment return based on principal investment amount, agreed rate of return and investment period rather than exposure to the risk of variable returns of the invested TV series.

	Effective interest rate	Maturity	RMB'000
Denominated in RMB	7.5%	30 June 2018	774*
Denominated in RMB	15%	7 October 2018	2,000*
Denominated in RMB	15%	on demand	1,000*

* The loans receivable and the corresponding interest receivables totaling RMB4,535,000 have been past due as at 31 December 2019 (31 December 2018: RMB4,535,000).

An impairment analysis is performed at the end of each reporting period. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

As at 31 December 2019, the Group estimated the expected losses for loans receivable and interest receivables to be RMB3,590,000 (31 December 2018: RMB3,149,000). As at 31 December 2019, the Group estimated expected losses for other receivables to be RMB4,128,000 (31 December 2018: Nil). Except those mentioned above, the Group estimated the expected loss rate for deposits and other receivables is minimal under the 12-month expected loss method (31 December 2018: Nil).

The movements in the loss allowance for impairment of other receivables were as follows:

	2019 **RMB'000**	2018 RMB'000
At beginning of year	**3,149**	1,000
Impairment losses *(note 6)*	**4,569**	2,149
At end of year	**7,718**	3,149

18. CASH AND CASH EQUIVALENTS

	2019 **RMB'000**	2018 RMB'000
Cash and bank balances	**5,466**	11,665
Pledged deposits	**9,000**	—
Less: Pledged deposits:		
Pledged for bank loans *(note 21)*	**(9,000)**	—
Cash and cash equivalents	**5,466**	11,665

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks and pledged deposits earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	**1,192**	6,211
3 to 6 months	**2,502**	12,666
6 to 12 months	**14,022**	6,000
1 to 2 years	**6,797**	9,988
2 to 3 years	**3,988**	—
	28,501	34,865

The trade payables are non-interest-bearing and are normally settled on terms of 90 to 180 days.

20. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Amount received under the co-investment arrangement	**—**	3,000
Other tax payables	**3,705**	237
Interest payable	**—**	1,175
Payroll and welfare payable	**808**	937
Accrued listing expenses	**6,928**	—
Accrued expenses	**1,716**	—
Others	**1,085**	497
	14,242	5,846

Other payables are non-interest-bearing and repayable on demand.

21. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	31 December 2019 RMB'000
Current			
Bank loans — secured	**5.22**	**2020**	**19,000**

	Effective interest rate (%)	Maturity	31 December 2018 RMB'000
Current			
Bank loans — secured	5.10–7.92	2019	25,000
Other borrowings — unsecured	10.00–15.00	2019	18,000
			43,000

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**19,000**	25,000
Other borrowings repayable:		
Within one year	—	18,000

As at 31 December 2019, the Group's trade receivables, which had an aggregate net carrying value of approximately RMB19,800,000 (2018: RMB16,674,000), and the pledged deposits amounting to RMB9,000,000 (2018: Nil) were pledged to secure the bank loans granted to the Group.

In addition, shareholders, namely Mr. Bai Yang, Mr. Wu Tao, Ms. Liu Peiyao, Mr. Liu Naiyue and Ms. Wei Xian, have guaranteed certain of the Group's bank loans up to RMB20,000,000 as at 31 December 2019 (31 December 2018: RMB20,000,000).

22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

2019

Deferred tax assets

	Accrued expenses and costs RMB'000	Impairment of trade receivables RMB'000	Impairment of other receivables RMB'000	Write-down of inventories RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019	—	2,949	537	—	3,486
Deferred tax (charged)/ credited to profit or loss during the year *(note 10)*	12,011	(2,015)	1,142	1,588	12,726
Gross deferred tax assets at 31 December 2019	12,011	934	1,679	1,588	16,212

Deferred tax liabilities

	Withholding tax RMB'000
At 31 December 2018 and 1 January 2019	1,056
Deferred tax credited to profit or loss	349
Gross deferred tax liabilities at 31 December 2019	1,405

22. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities during the year are as follows:

2018

Deferred tax assets

	Impairment of trade receivables RMB'000	Impairment of other receivables RMB'000	Write-down of inventories RMB'000	Total RMB'000
At 1 January 2018	2,180	—	—	2,180
Deferred tax credited to profit or loss during the year *(note 10)*	769	537	—	1,306
Gross deferred tax assets at 31 December 2018	2,949	537	—	3,486

Deferred tax liabilities

	Withholding tax RMB'000
At 1 January 2018	473
Deferred tax credited to profit or loss	583
Gross deferred tax liabilities at 31 December 2018	1,056

The aggregate amount of temporary differences associated with accumulated losses in Mainland China for which deferred tax assets have not been recognised totalled approximately RMB11,108,000 as at 31 December 2019 (31 December 2018: RMB7,561,000). Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributable by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As of 31 December 2019, deferred taxes of RMB1,405,000 (31 December 2018: RMB1,056,000) have been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

22. DEFERRED TAX (continued)

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB126,448,000 as at 31 December 2019 (31 December 2018: RMB95,022,000). In the opinion of the directors, it is not probable that the subsidiaries will distribute such earnings to foreign entities in the foreseeable future.

23. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Authorised:		
10,000,000,000 ordinary shares of US$0.000005 each	**336**	—
Issued and fully paid:		
2,000,000 ordinary shares of US$0.000005 each (2018: Nil)	**—**	—

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** RMB'000
At 1 January 2018, 31 December 2018 and 1 January 2019	—	—
Issue of shares on 11 March 2019	8,665	—
Issue of shares on 14 June 2019	91,335	—
Share subdivision on 11 December 2019	1,900,000	—
At 31 December 2019	**2,000,000**	**—**

(a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 March 2019. Its initial authorised share capital was US$50,000 divided into 500,000,000 shares of US$0.0001 each. On 11 March 2019, one fully-paid share of US$0.0001 was allotted and issued to Osiris International Cayman Limited (the initial subscriber and an independent third party), which was transferred to the shareholders at the same day. On 11 March 2019, the Company allotted and issued 8,664 shares, all fully-paid at par. On 14 June 2019, the Company further allotted and issued 91,335 shares, all fully-paid at par. On 11 December 2019, the shareholders resolved that, among others, each issued and unissued share in the Company at a par value of US$0.0001 each was to be subdivided into 20 shares at a par value of US$0.000005 each such that the authorised share capital of the Company shall be US$50,000 divided into 10,000,000,000 shares at a par value of US$0.000005 each and the issued share capital shall be US$10 divided into 2,000,000 shares at a par value of US$0.000005 each.

23. SHARE CAPITAL (continued)

(b) On 16 January 2020, pursuant to the written resolution of the shareholders of the Company dated 12 December 2019, the directors were authorised to capitalise the amount of US$3,740 of the Company to pay up in full at par 748,000,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company of the date of the written resolution (or as they may direct) on a pro rata basis

(c) On 16 January 2020, the Company was listed on the Main Board of the Stock Exchange and made a global offering of 250,000,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$0.50 per share.

24. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital and share premium of the companies comprising the Group, details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

Statutory surplus reserve

In accordance with the Company Law of the PRC, a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

25. CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year ended 31 December 2019, other borrowing amounting to RMB1,474,000 was settled by netting of trade receivables (31 December 2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Interest-bearing bank loans and other borrowings RMB'000	Amounts due to related parties RMB'000	Interest payables RMB'000	Lease liabilities RMB'000
At 1 January 2019	43,000	—	1,175	546
Changes from financing cash flows	(22,526)	—	—	(467)
Non-cash transaction	(1,474)	—	—	—
Interest accrued	—	—	2,076	47
Interest paid	—	—	(3,251)	(47)
At 31 December 2019	19,000	—	—	79

2018

	Interest-bearing bank loans and other borrowings RMB'000	Amounts due to related parties RMB'000	Interest payables RMB'000	Lease liabilities RMB'000
At 1 January 2018	—	—	—	1,011
Changes from financing cash flows	43,000	—	—	(465)
Interest accrued	—	67	4,360	54
Interest paid	—	(67)	(3,185)	(54)
At 31 December 2018	43,000	—	1,175	546

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000	2018 RMB'000
Within financing activities	**514**	512

27. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for the co-investment arrangement	**11,003**	40,050

28. RELATED PARTY TRANSACTIONS

Details of the Company's related parties are as follows:

Name	Relationship with the Company
Mr. Bai Yang	Shareholder
Suiyong Ronghui Holdings Company Limited ("Suiyong Ronghui")	An entity controlled by a shareholder of a subsidiary

28. RELATED PARTY TRANSACTIONS (continued)

(a) The Group had the following transactions with related parties during the year:

	2019 RMB'000	2018 RMB'000
Borrowings from related parties:		
Suiyong Ronghui	—	10,000
Mr. Bai Yang*	**10,000**	—
	10,000	10,000
Interest expenses to:		
Suiyong Ronghui	—	67

* The borrowing from Mr. Bai Yang was unsecured, interest-free and repayable on demand, and has been fully settled at 31 December 2019 (2018: the borrowing from Suiyong Ronghui was secured by pledge of trade receivables of RMB21,674,000, which bore interest rate at 8% per annum and the borrowing was fully settled as at 31 December 2018).

(b) Other transactions with related parties

As at 31 December 2019, the shareholders, namely Mr. Bai Yang, Mr. Wu Tao, Ms. Liu Peiyao, Mr. Liu Naiyue and Ms. Wei Xian have guaranteed certain of the Group's bank loans up to RMB20,000,000 (31 December 2018: RMB20,000,000).

(c) Compensation of key management personnel

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**1,024**	692
Pension scheme contributions	**92**	84
Total compensation paid to key management personnel	**1,116**	776

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2019

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	191,594
Financial assets included in prepayments, other receivables and other assets	13,832
Pledged deposit	9,000
Cash and cash equivalents	5,466
	219,892

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans and other borrowings	19,000
Trade payables	28,501
Lease liabilities	79
Financial liabilities included in other payables and accruals	9,729
	57,309

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2018

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	99,291
Financial assets included in prepayments, other receivables and other assets	1,737
Cash and cash equivalents	11,665
	112,693

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans and other borrowings	43,000
Trade payables	34,865
Lease liabilities	546
Financial liabilities included in other payables and accruals	1,672
	80,083

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and interest-bearing bank loans and other borrowings and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2019 were assessed to be insignificant.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets included in prepayments, other receivables and other assets, interest-bearing bank loans and other borrowings, financial liabilities included in other payables and accruals and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables, and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans with a floating interest rate.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000
31 December 2018		
RMB	50	(8)
RMB	(50)	8
31 December 2019		
RMB	**50**	**(10)**
RMB	**(50)**	**10**

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	191,594	191,594
Financial assets included in prepayments, other receivables and other assets					
— Normal**	1,015	—	—	—	1,015
— Doubtful**	—	—	12,817	—	12,817
Pledge deposit					
— Not yet past due	9,000	—	—	—	9,000
Cash and cash equivalents					
— Not yet past due	5,466	—	—	—	5,466
	15,481	—	12,817	191,594	219,892

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs		Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	—	—	—	99,291	99,291
Financial assets included in prepayments, other receivables and other assets					
— Normal**	351	—	—	—	351
— Doubtful**	—	—	1,386	—	1,386
Cash and cash equivalents					
— Not yet past due	11,665	—	—	—	11,665
	12,016	—	1,386	99,291	112,693

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the financial statement.

** The credit quality of notes receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank loans and other borrowings	—	19,103	—	—	—	19,103
Trade payables	28,501	—	—	—	—	28,501
Lease liabilities	—	86	—	—	—	86
Financial liabilities included in other payables and accruals	9,729	—	—	—	—	9,729
	38,230	19,189	—	—	—	57,419

	31 December 2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank loans and other borrowings	—	33,486	10,247	—	—	43,733
Trade payables	28,654	6,211	—	—	—	34,865
Lease liabilities	—	101	367	108	—	576
Financial liabilities included in other payables and accruals	1,672	—	—	—	—	1,672
	30,326	39,798	10,614	108	—	80,846

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total debt (of which debt is defined to include interest-bearing payables) divided by total equity multiplied by 100% as at the date indicated. Total debt includes lease liabilities and interest-bearing bank loans and other borrowings. Total capital represents equity attributable to owners of the parent. The gearing ratios as at the end of each of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank loans and other borrowings	19,000	43,000
Lease liabilities	79	546
Total debt	19,079	43,546
Equity attributable to owners of the Company	347,057	322,417
Gearing ratio	5.5%	13.5%

32. EVENTS AFTER THE REPORTING PERIOD

On 16 January 2020, the Company was listed on the Main Board of Stock Exchange and made a global offering of 250,000,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price of HK$0.50 per share.

Pursuant to the over-allotment option granted by the Company to the International Underwriters, the Company allotted and issued 37,500,000 additional offer shares on 7 February 2020 at the offer price of HK$0.50 per share to cover over-allocation in the International Placing and to satisfy the obligation of the stabilising manager to return securities borrowed under the stock borrowing agreement.

The ECL at 31 December 2019 was estimated based on forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across Mainland China and beyond, causing disruption to businesses and economic activities. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under HKFRS 9 in 2020.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000
NON-CURRENT ASSET	
Investment in a subsidiary	—
Total non-current assets	—
CURRENT ASSETS	
Prepayments, other receivables and other assets	3,663
Total current assets	3,663
CURRENT LIABILITIES	
Other payables and accruals	6,007
Due to a subsidiary	8,928
Total current liabilities	14,935
NET CURRENT LIABILITIES	(11,272)
TOTAL ASSETS LESS CURRENT LIABILITIES	(11,272)
Net liabilities	(11,272)
EQUITY	
Share capital	—
Reserves *(note)*	(11,272)
Net deficiency in assets	(11,272)

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
11 March 2019 (date of incorporation)	—	—	—	—
Loss for the period	—	—	(11,080)	(11,080)
Other comprehensive income for the period:				
Exchange differences on translation of the Company's financial statements	—	(192)	—	(192)
Total comprehensive income for the period	—	(192)	(11,080)	(11,272)
At 31 December 2019	**—**	**(192)**	**(11,080)**	**(11,272)**

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

FOUR YEAR SUMMARY

A summary of the published results and assets and liabilities of the Group for the latest four years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2019 **RMB'000**	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	**212,637**	154,085	99,266	101,975
Profit for the year	**24,832**	64,483	6,691	32,803
Attributable to:				
Owners of the parent	**24,832**	64,483	6,691	32,803
Total assets	**424,320**	407,730	294,971	303,248
Total liabilities	**77,263**	85,313	37,037	52,005
Net assets	**347,057**	322,417	257,934	251,243