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Litian Pictures Holdings Limited

力天影業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9958)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2022 decreased by 89.0% to RMB17.0 million from RMB155.3 million for the corresponding period in 2021.
- Gross profit for the six months ended 30 June 2022 decreased by 75.7% to RMB9.2 million from RMB37.7 million for the corresponding period in 2021.
- Loss attributable to equity shareholders of the Company was approximately RMB13.3 million for the six months ended 30 June 2022, as compared to profit attributable to equity shareholders of the Company of approximately RMB12.5 million for the six months ended 30 June 2021.
- Basic and diluted loss per share was approximately RMB0.04 for the six months ended 30 June 2022 as compared to basic and diluted earnings per share of approximately RMB0.04 for the corresponding period in 2021.
- The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2022.

The board (the “**Board**”) of directors (the “**Directors**”) of Litian Pictures Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021. These results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 – unaudited

(Expressed in Renminbi (“RMB”))

		Six months ended 30 June	
		2022	2021
		<i>RMB’000</i>	<i>RMB’000</i>
	<i>Note</i>		
Revenue	4	17,046	155,258
Cost of sales		<u>(7,868)</u>	<u>(117,549)</u>
Gross profit	4	9,178	37,709
Other (loss)/income	5	(927)	1,456
Selling and marketing expenses		(498)	(1,979)
Administrative expenses		(11,822)	(11,658)
Impairment loss on trade and other receivables		<u>(1,288)</u>	<u>(11,648)</u>
(Loss)/profit from operations		(5,357)	13,880
Finance costs	6(a)	<u>(7,916)</u>	<u>(1,992)</u>
(Loss)/profit before taxation	6	(13,273)	11,888
Income tax	7	<u>22</u>	<u>620</u>
(Loss)/profit attributable to equity shareholders of the Company for the period		(13,251)	12,508
Other comprehensive income for the period (after tax):			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of the financial statements denominated in foreign currencies into the Group’s presentation currency			
		<u>2,394</u>	<u>(1,031)</u>
Total comprehensive income attributable to equity shareholders of the Company for the period		<u>(10,857)</u>	<u>11,477</u>
(Loss)/earnings per share	8		
Basic and diluted (<i>RMB</i>)		<u>(0.04)</u>	<u>0.04</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 – unaudited

(Expressed in RMB)

		At 30 June 2022 RMB'000	At 31 December 2021 RMB'000 (audited)
	<i>Note</i>		
Non-current assets			
Property and equipment	9	10,531	11,325
Other financial assets		1,168	2,720
Deferred tax assets	18	42,549	42,527
		<u>54,248</u>	<u>56,572</u>
Current assets			
Drama series copyrights	10	552,758	522,694
Trade and bills receivables	11	213,100	282,103
Prepayments, deposits and other receivables	12	163,734	67,802
Cash at bank and on hand	13	57,652	85,606
		<u>987,244</u>	<u>958,205</u>
Current liabilities			
Trade payables	14	253,899	265,900
Other payables and accrued expenses	15	94,365	101,471
Contract liabilities	16	32,377	31,022
Bank and other loans	17	173,764	128,151
Lease liabilities		2,130	1,602
Current taxation		4,713	4,713
		<u>561,248</u>	<u>532,859</u>
Net current assets		<u>425,996</u>	<u>425,346</u>
Total assets less current liabilities		480,244	481,918
Non-current liabilities			
Bank and other loans	17	10,000	–
Lease liabilities		3,350	4,167
		<u>13,350</u>	<u>4,167</u>
NET ASSETS		<u>466,894</u>	<u>477,751</u>

		At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i> (audited)
CAPITAL AND RESERVES	19		
Share capital		2,742	2,742
Reserves		<u>464,152</u>	<u>475,009</u>
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u><u>466,894</u></u>	<u><u>477,751</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “**IASB**”). It was authorised for issue on 15 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

3 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to IFRS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to IFRS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial result. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Disaggregation of revenue

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Revenue from the distribution and licensing of broadcasting rights of self-produced drama series	5,734	178
Revenue from the distribution and licensing of broadcasting rights of outright-purchased drama series	10,839	147,155
Others	473	7,925
	<u>17,046</u>	<u>155,258</u>

(b) Segment reporting

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

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

(i) *Segment results*

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2022 and 2021. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2022 and 2021 is set out below.

	Six months ended 30 June 2022			
	Self- produced drama series RMB'000	Outright- purchased drama series RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	<u>5,734</u>	<u>10,839</u>	<u>473</u>	<u>17,046</u>
Reportable segment gross profit	<u>5,498</u>	<u>3,207</u>	<u>473</u>	<u>9,178</u>
	Six months ended 30 June 2021			
	Self- produced drama series RMB'000	Outright- purchased drama series RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	<u>178</u>	<u>147,155</u>	<u>7,925</u>	<u>155,258</u>
Reportable segment gross profit	<u>165</u>	<u>34,474</u>	<u>3,070</u>	<u>37,709</u>

(ii) Geographic information

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

5 OTHER (LOSS)/INCOME

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	585	1,283
Interest income	9	53
Changes in fair value of financial assets measured at FVPL	(1,552)	–
Others	31	120
	<u>(927)</u>	<u>1,456</u>

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on:		
– bank and other loans	11,087	1,903
– lease liabilities	124	89
	<u>11,211</u>	<u>1,992</u>
Less: interest expenses capitalised into drama series copyrights	(3,295)	–
	<u>7,916</u>	<u>1,992</u>

(b) Other items

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation expenses		
– owned property and equipment	770	383
– right-of-use assets	854	451
	<u>1,624</u>	<u>834</u>
Impairment losses on trade and other receivables	1,288	11,648
Operating lease expenses relating to short-term leases and leases of low-value assets	48	59
Cost of drama series copyrights (<i>Note 10</i>)	5,675	69,395
	<u>5,675</u>	<u>69,395</u>

7 INCOME TAX

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Current taxation		
Provision for the period	–	2,286
Deferred taxation (Note 18)		
Origination and reversal of temporary differences	(22)	(2,906)
	<u>(22)</u>	<u>(620)</u>

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands (the “BVI”) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The Company and the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2022 (six months ended 30 June 2021: 25%).
- (iv) In accordance with the income tax rules and regulations in the PRC, entities established in the Xinjiang Kashi/Horgos special economic areas before 31 December 2021 can enjoy full exemption on PRC Corporate Income Tax for five years starting from the year in which revenue was generated. The Group has established subsidiaries in the Xinjiang Kashi/Horgos special economic areas in 2017, 2018 and 2020, and accordingly, these subsidiaries are entitled to full exemption on PRC Corporate Income Tax from the calendar year of their respective establishments to the calendar year of 2021, 2022 and 2024, respectively.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB13,251,000 (six months ended 30 June 2021: profit attributable to ordinary equity shareholders of the Company of RMB12,508,000) and the weighted average of 300,000,000 ordinary shares (six months ended 30 June 2021: 300,000,000 shares) in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the six months ended 30 June 2022 and 2021.

9 PROPERTY AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired equipment with a cost of RMB831,000 (six months ended 30 June 2021: RMB29,000).

10 DRAMA SERIES COPYRIGHTS

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Self-produced drama series with production completed (<i>Note (i)</i>)	372,764	344,143
Outright-purchased drama series	24,505	24,505
Co-financed drama series with production completed (<i>Note (ii)</i>)	70,064	70,064
Script copyrights (<i>Note (iii)</i>)	177,622	177,238
	<hr/>	<hr/>
	644,955	615,950
Less: impairment losses	(92,197)	(93,256)
	<hr/>	<hr/>
	552,758	522,694
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) The Group acts either as sole investor or executive producer under co-financing arrangements.
- (ii) The Group acts as non-executive producers under these co-financing arrangements.
- (iii) The carrying amount of script copyrights represents the payment on obtaining the literature patent and the cost incurred in relation to adaptation of these intellectual properties.

Movements of drama series copyrights are set out below:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
At 1 January	522,694	385,448
Additions	35,739	86,385
Recognised in cost of sales (<i>Note 6(b)</i>)	(5,675)	(69,395)
	<hr/>	<hr/>
At 30 June	552,758	402,438
	<hr/> <hr/>	<hr/> <hr/>

11 TRADE AND BILLS RECEIVABLES

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Trade receivables	268,087	344,254
Less: loss allowance	<u>(77,487)</u>	<u>(76,199)</u>
	190,600	268,055
Bills receivables	<u>22,500</u>	<u>14,048</u>
	<u>213,100</u>	<u>282,103</u>

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

(a) Ageing analysis

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

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 6 months	16,684	58,831
6 to 12 months	46,215	57,225
1 to 2 years	103,519	111,234
2 to 3 years	46,179	48,837
Over 3 years	<u>503</u>	<u>5,976</u>
	<u>213,100</u>	<u>282,103</u>

(b) At 30 June 2022, trade receivables of RMB61,440,000 are pledged for the Group's bank and other loans (31 December 2021: RMB72,080,000).

(c) The Group has discounted certain bills it received from customers at banks, and endorsed certain bills it received from customers to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has not derecognised the bills receivables as the Group remains to have a significant exposure to the credit risk of these bills receivables. At 30 June 2022, the carrying amounts of the associated bank loans, and trade and other payables amounted to RMB22,006,000 (31 December 2021: RMB3,173,500).

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
VAT recoverable	86,505	67,252
Prepayments for productions and promotional and marketing expenses of drama series	76,588	–
Others	759	668
	<u>163,852</u>	<u>67,920</u>
Less: loss allowance	(118)	(118)
	<u><u>163,734</u></u>	<u><u>67,802</u></u>

13 CASH AT BANK AND ON HAND

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Cash at bank	57,587	85,471
Cash on hand	65	135
	<u>57,652</u>	<u>85,606</u>
Less: restricted deposits (<i>Note (i)</i>)	(49,601)	(47,421)
	<u>8,051</u>	<u>38,185</u>

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

Note:

- (i) Restricted deposits represent deposits placed at banks as pledged assets for the Group's bank and other loans (see Note 17).

14 TRADE PAYABLES

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Payables for productions and acquisitions of drama series	<u>253,899</u>	<u>265,900</u>

The ageing analysis of trade payables, based on the transaction date, is as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 6 months	9,200	59,482
6 to 12 months	47,102	31,801
1 to 2 years	63,536	75,816
More than 2 years	<u>134,061</u>	<u>98,801</u>
	<u>253,899</u>	<u>265,900</u>

15 OTHER PAYABLES AND ACCRUED EXPENSES

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Payables to co-investors of drama series under co-financing arrangements	78,865	89,685
Interest payables	10,020	5,667
Payables for staff related costs	3,130	2,848
Payables for other taxes	234	646
Others	<u>2,116</u>	<u>2,625</u>
Financial liabilities measured at amortised cost	<u>94,365</u>	<u>101,471</u>

16 CONTRACT LIABILITIES

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Receipts in advance from customers	<u>32,377</u>	<u>31,022</u>

All of the contract liabilities are expected to be recognised as income within one year.

17 BANK AND OTHER LOANS

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bank loans:		
– Secured by bills receivables	22,006	899
– Secured by the Group's trade receivables and guaranteed by related parties (<i>Note (i)</i>)	20,000	16,384
– Secured by the Group's restricted deposits (<i>Note (ii)</i>)	44,890	–
	<u>86,896</u>	<u>17,283</u>
Other loans from third parties:		
– Unsecured and unguaranteed (<i>Note (iii)</i>)	96,868	110,868
	<u>183,764</u>	<u>128,151</u>

As of the end of the reporting period, the bank and other loans were repayable as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year or on demand	173,764	128,151
After 1 year but within 2 years	10,000	–
	<u>183,764</u>	<u>128,151</u>

Notes:

- (i) At 30 June 2022, the aggregate amount of trade receivables pledged is RMB61,440,000 (31 December 2021: RMB72,080,000) (see Note 11(b)).
- (ii) At 30 June 2022, the aggregate amount of deposits pledged is RMB49,601,000 (31 December 2021: RMB47,420,800) (see Note 13).
- (iii) The balance represents loans from third-party non-executive producers with fixed repayment terms and bears interest at a rate of 15% per annum (31 December 2021: 15%).

18 DEFERRED TAX ASSETS

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

Deferred tax assets arising from:	Credit loss allowance <i>RMB'000</i>	Impairment losses on drama series copyrights <i>RMB'000</i>	Accruals <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	14,574	2,872	322	17,768
Credited/(charged) to the consolidated statement of profit or loss	<u>4,505</u>	<u>20,442</u>	<u>(188)</u>	<u>24,759</u>
At 31 December 2021 and 1 January 2022	19,079	23,314	134	42,527
Credited/(charged) to the consolidated statement of profit or loss (<i>Note 7</i>)	<u>322</u>	<u>(265)</u>	<u>(35)</u>	<u>22</u>
At 30 June 2022	<u><u>19,401</u></u>	<u><u>23,049</u></u>	<u><u>99</u></u>	<u><u>42,549</u></u>

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	<u>At 30 June 2022</u>		<u>At 31 December 2021</u>	
	Number of shares '000	Amount <i>HK\$'000</i>	Number of shares '000	Amount <i>HK\$'000</i>
Authorised share capital, HK\$0.01 each	<u><u>500,000</u></u>	<u><u>5,000</u></u>	<u><u>500,000</u></u>	<u><u>5,000</u></u>

	<u>At 30 June 2022</u>		<u>At 31 December 2021</u>	
	Number of shares	Amount <i>RMB'000</i>	Number of shares	Amount <i>RMB'000</i>
Ordinary shares, issued and fully paid	<u><u>300,000,000</u></u>	<u><u>2,742</u></u>	<u><u>300,000,000</u></u>	<u><u>2,742</u></u>

(b) Dividends

The directors of the Company did not recommend an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities carried at other than fair value.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as of 30 June 2022 and 31 December 2021.

21 IMPACTS FROM COVID-19 PANDEMIC

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

We are a drama series distribution company in the PRC. The Group was established in 2013, and is primarily engaged in the business of distribution and licensing the broadcasting rights of self-produced and outright-purchased drama series. For the six months ended 30 June 2021 and 2022, we distributed a total of 13 and 13 drama series, respectively, which were comprised of self-produced drama series and outright-purchased drama series that we purchased outright from third-party copyright owners/licensors.

During the first half of 2022, we successfully licensed the first-run broadcasting rights of “The assault of blue fire” (“藍焰突擊”), which was our outright-purchased drama series. In addition, we successfully licensed the rerun broadcasting rights of “The Gallant Army” (“老虎隊”) to the satellite channels, which was our self-produced drama series.

In the second half of 2022, we will work closely with the third-party copyright owners/licensors to obtain the copyrights of additional outright-purchased drama series of different genres to cater to the different preferences of our customers. In addition, we will try our best to begin filming our expected self-produced drama series.

Nevertheless, our management is confident in the future growth of our business.

Notwithstanding the uncertainties in the industry and the overall competitive business environment, the Group will continue to dedicated to implementing the business strategies.

FINANCIAL REVIEW

Revenue

The table below sets forth a breakdown of our revenue by business segments for six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Revenue from the distribution and licensing of the broadcasting rights of self-produced drama series	5,734	178
Revenue from the distribution and licensing of the broadcasting rights of outright-purchased drama series	10,839	147,155
Others	473	7,925
Total	<u>17,046</u>	<u>155,258</u>

Our revenue decreased by approximately 89.0% from approximately RMB155.3 million for the six months ended 30 June 2021 to approximately RMB17.0 million for the six months ended 30 June 2022. The decrease was mainly due to a decrease of approximately RMB136.3 million in revenue from the distribution and licensing of the broadcasting rights of outright-purchased drama series, partially offset by an increase of RMB5.6 million in revenue from the distribution and licensing of the rights of self-produced drama series.

Revenue by business segments

(i) Distribution and licensing of the broadcasting rights of self-produced drama series

Revenue generated from the distribution and licensing of the broadcasting rights of self-produced drama series increased by approximately 3,121.3% from approximately RMB0.2 million for the six months ended 30 June 2021 to approximately RMB5.7 million for the six months ended 30 June 2022, primarily because the Group recorded revenue from the distribution and licensing of the rerun broadcasting rights of self-produced drama series on satellite channels and the revenue from the third-party customers.

Under this business segment, revenue generated from our customers which are TV channels accounted for approximately 40.4% and 12.0% of our revenue generated from distribution and licensing the broadcasting rights of self-produced drama series for the six months ended 30 June 2021 and 2022, respectively, while the remainder of this segment revenue was attributable to other third-party customers.

Among revenue generated from licensing the broadcasting rights of self-produced drama series, no revenue was generated from first-run broadcast on satellite TV channels for neither the six months ended 30 June 2021 nor 2022, and the revenue on satellite TV channels for the six months ended 30 June 2022 was generated from rerun broadcast and terrestrial broadcast.

(ii) *Distribution and licensing of the broadcasting rights of outright-purchased drama series*

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

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

Under this business segment, revenue generated from our customers which are TV channels accounted for approximately 100.0% and 79.0% of our revenue generated from distribution and licensing the broadcasting rights of outright-purchased drama series for the six months ended 30 June 2021 and 2022, respectively, while the remainder of such segment revenue was attributable to other third-party customers.

In addition, for the six months ended 30 June 2021 and 2022, among the revenue generated from distribution and licensing the broadcasting rights of outright-purchased drama series, approximately 82.2% and 71.8%, respectively, was generated from first-run broadcast on satellite TV channels. For the same periods, approximately 17.6% and 7.2% was generated from rerun broadcast on satellite TV channels, respectively, and the remainder was attributable to terrestrial TV channels and other third-party customers.

Our revenue generated from the distribution and licensing of the broadcasting rights of outright-purchased drama series decreased by approximately 92.6% from approximately RMB147.2 million for the six months ended 30 June 2021 to approximately RMB10.8 million for the six months ended 30 June 2022, primarily because we only licensed one first-run broadcasting rights of our outright-purchased drama series on satellite TV channels, which generated the revenue of approximately RMB7.8 million, due to the challenging market conditions and macroeconomic environment, which led to the decrease in the number of outright-purchased drama series of the Group in the six months ended 30 June 2022.

Cost of Sales

The following table sets forth our cost of sales by business segment for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Costs of the distribution and licensing of broadcasting rights of self-produced drama series	236	13
Costs of the distribution and licensing of broadcasting rights of outright-purchased drama series	7,632	112,681
Others	–	4,855
Total	7,868	117,549

Our cost of sales decreased by approximately 93.3% from approximately RMB117.5 million for the six months ended 30 June 2021 to approximately RMB7.9 million for the six months ended 30 June 2022, primarily due to a decrease in costs of the distribution and licensing of broadcasting rights series of outright-purchased drama series.

Our costs of the distribution and licensing of broadcasting rights of outright-purchased drama series decreased by approximately 93.2% from approximately RMB112.7 million for the six months ended 30 June 2021 to approximately RMB7.6 million for the six months ended 30 June 2022. This decrease was primarily due to a decrease in costs of purchasing the broadcasting rights of drama series.

For the business segment of distribution and licensing of the broadcasting rights of self-produced drama series, the costs of sales increased by approximately 1,715.4% from approximately RMB13,000 for the six months ended 30 June 2021 to approximately RMB236,000 for the six months ended 30 June 2022, primarily due to the increase in revenue from the broadcasting rights of self-produced drama series.

Gross Profit and Gross Profit Margin

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

	Six months ended 30 June			
	2022		2021	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
Distribution and licensing of the broadcasting rights of self-produced drama series	5,498	95.9	165	92.7
Distribution and licensing of the broadcasting rights of outright-purchased drama series	3,207	29.6	34,474	23.4
Others	473	100.0	3,070	38.7
Total	<u>9,178</u>	<u>53.8</u>	<u>37,709</u>	<u>24.3</u>

(i) *Gross profit*

Our gross profit decreased by approximately 75.7% from approximately RMB37.7 million for the six months ended 30 June 2021 to approximately RMB9.2 million for the six months ended 30 June 2022, primarily due to a decrease in gross profit from the distribution and licensing of the broadcasting rights of outright-purchased drama series.

(ii) *Gross profit margin*

Our gross profit margin increased from approximately 24.3% for the six months ended 30 June 2021 to approximately 53.8% for the six months ended 30 June 2022, primarily due to an increase in gross profit margin from the distribution and licensing of the broadcasting rights of outright-purchased drama series.

In addition, our gross profit margin of distribution and licensing the broadcasting rights of self-produced drama series was approximately 92.7% and 95.9%, respectively, for the six months ended 30 June 2021 and 2022.

Our gross profit margin of distribution and licensing the broadcasting rights of outright-purchased drama series was approximately 23.4% and 29.6%, respectively, for the six months ended 30 June 2021 and 2022.

Other (loss)/income

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Government grants	585	1,283
Interest income	9	53
Changes in fair value of financial assets measured at fair value through profit or loss (“FVPL”)	(1,552)	–
Others	31	120
Total	<u>(927)</u>	<u>1,456</u>

Our other income decreased from approximately RMB1.5 million for the six months ended 30 June 2021 to a loss of approximately RMB0.9 million for the six months ended 30 June 2022, primarily due to the changes in fair value of financial assets measured at FVPL.

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of (i) marketing and promotion expenses; (ii) staff costs relating to the sales and marketing employees; (iii) travel and transportation expenses; and (iv) conference expenses. The table below sets forth the breakdown of our selling and marketing expenses for the periods indicated:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Marketing and promotion expenses	93	1,189
Staff costs relating to the sales and marketing employees	372	355
Travel and transportation expenses	3	29
Conference expenses	6	73
Others	24	333
Total	<u>498</u>	<u>1,979</u>

Our selling and marketing expenses decreased by approximately 74.8% from approximately RMB2.0 million for the six months ended 30 June 2021 to approximately RMB0.5 million for the six months ended 30 June 2022, primarily due to a decrease in marketing and promotion expenses.

Administrative Expenses

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

	Six months ended 30 June	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Staff costs relating to our administrative functions	7,610	5,923
Rental fee	86	158
Depreciation and amortization	1,624	1,730
Office expenses	217	162
Consultancy fee	610	1,179
Transportation fee	179	138
Travel expense	240	114
Entertainment expenses	731	1,257
Taxes and surcharges	34	345
Bank charges	57	49
Others	434	603
Total	11,822	11,658

Administrative expenses remained stable for the six months ended 30 June 2022 of approximately RMB11.8 million as compared to that for the six months ended 30 June 2021.

Finance Costs

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on:		
– bank and other loans	11,087	1,903
– lease liabilities	124	89
	<u>11,211</u>	<u>1,992</u>
Less: interest expenses capitalized into drama series copyrights	<u>(3,295)</u>	<u>–</u>
Total	<u><u>7,916</u></u>	<u><u>1,992</u></u>

Our finance costs increased by approximately 297.4% from approximately RMB2.0 million for the six months ended 30 June 2021 to approximately RMB7.9 million for the six months ended 30 June 2022, primarily due to an increase in interest expenses on bank and other loans and lease liabilities, offset by the increase interest expenses capitalised into drama series copyrights.

Income Tax

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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes. Pursuant to the PRC Income Tax Law and respective regulations, the Group operating income are subject to enterprise income tax (“EIT”) at a rate of 25% on the taxable income. No provision for Hong Kong profits tax was made as the Group had no assessable profit subject to Hong Kong profits tax for the six months ended 30 June 2021 and 2022.

In addition, according to the Notice on Preferential EIT Policies in Relation to Kashgar and Horgos as Two Special Economic Development Zones in Xinjiang (《關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》) promulgated by the Ministry of Finance and the State Taxation Administration of the PRC on 29 November 2011, an enterprise established in Horgos between 1 January 2010 to 31 December 2021 and fell within the scope of the Catalog of EIT Incentives for Industries Particularly Encouraged in Underprivileged Areas of Xinjiang for Development (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》) shall be exempted from the EIT entirely for five years beginning from the first year in which operational income is earned. According to the preferential filing record of EIT (企業所得稅優惠事項備案表) of our consolidated affiliated entities, (i) Horgos Tiantian Meimei Film Co., Ltd.* (霍爾果斯甜甜美美影業有限公司), Horgos Haohao Xuexi Film Co., Ltd.* (霍爾果斯好好學習影業有限公司), Tiantian Xiangshang Film Co., Ltd.* (霍爾果斯天天向上影業有限公司) obtained the approval from the relevant PRC tax bureaus for entitlement of EIT exemption from January 2017 to December 2021; (ii) Xinjiang Qingchun LiTian Film Co., Ltd.* (新疆青春力天影業有限公司) is entitled to EIT exemption from January 2018 to December 2021; and (iii) Horgos Yuema Film Co., Ltd.* (霍爾果斯躍馬影業有限公司), Horgos Baima Film Co., Ltd. (霍爾果斯白馬影業有限公司) and Horgos Zhizhen Film Co., Ltd.* (霍爾果斯至臻影視有限公司) are entitled to EIT exemption from January 2020 to December 2021.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current taxation		
Provision for the period	–	2,286
Deferred taxation		
Origination and reversal of temporary differences	<u>(22)</u>	<u>(2,906)</u>
Total	<u>(22)</u>	<u>(620)</u>

Our income tax benefit decreased by approximately 96.5% from approximately RMB620,000 for the six months ended 30 June 2021 to approximately RMB22,000 for the six months ended 30 June 2022. The decrease in the income tax benefit was primarily due to the decrease of provision of origination and reversal of temporary differences from approximately RMB2.9 million for the six months ended 30 June 2021 to approximately RMB22,000 for the six months ended 30 June 2022.

(Loss)/Profit Attributable to Equity Shareholders of the Company

As a result of the foregoing, our loss attributable to equity shareholders of the Company was approximately RMB13.3 million for the six months ended 30 June 2022, as compared to profit attributable to equity shareholders of the Company of approximately RMB12.5 million for the six months ended 30 June 2021.

LIQUIDITY AND FINANCIAL RESOURCES

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

As of 30 June 2022, we had cash at bank and on hand of approximately RMB57.7 million as compared to cash at bank and on hand of approximately RMB85.6 million as of 31 December 2021, which were predominantly denominated in RMB.

As of 30 June 2022, we had net current assets of approximately RMB426.0 million as compared to the net current assets of approximately RMB425.3 million as of 31 December 2021.

The Group primarily obtains borrowings from banks and other third parties to finance our business operations and to fulfil working capital requirements. In addition, we had total bank and other loans of approximately RMB183.8 million as of 30 June 2022 as compared to total bank and other loans of approximately RMB128.2 million as of 31 December 2021.

As of 30 June 2022, we had bank loans of RMB86.9 million, among which RMB20.0 million were secured by the Group's trade receivables and guaranteed by related parties. In addition, we had unsecured and unguaranteed loans from third-party of approximately RMB96.9 million as of 30 June 2022.

Key Financial Ratios

Return on equity

The return on equity decreased from approximately 2.2% for the six months ended 30 June 2021 to approximately negative 2.8% for the six months ended 30 June 2022. Return on equity equals net profit/(loss) divided by the average of beginning and ending balances of total equity of the relevant period.

Return on total assets

The return on total assets decreased from approximately 1.1% for the six months ended 30 June 2021 to approximately negative 1.3% for the six months ended 30 June 2022. Return on total assets equals net profit/(loss) divided by the average of beginning and ending balances of total assets of the relevant period.

Current ratio

The Group's current ratio remained the same at approximately 1.8 as of 30 June 2022 as compared to that as of 31 December 2021. Current ratio equals our current assets divided by current liabilities as of the end of the relevant period.

Gearing ratio

The Group's gearing ratio increased from approximately 26.8% as of 31 December 2021 to approximately 39.4% as of 30 June 2022. Gearing ratio equals total debt divided by total equity as of the end of the relevant period. Total debt includes all interest-bearing bank loans and other borrowings.

CAPITAL EXPENDITURES

Our capital expenditure primarily consists of expenditures on the purchase of office furniture and other equipment. Our capital expenditures for the six months ended 30 June 2021 and 2022 were insignificant and were primarily financed by cash flows from our operating activities.

FOREIGN EXCHANGE EXPOSURE

The Group operates in the PRC and the functional currency is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As of 30 June 2022, only certain bank balances were denominated in HKD.

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

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As of 31 December 2021 and 30 June 2022, our deposits and trade and bills receivables, which had an aggregate amount of approximately RMB120.4 million and RMB111.0 million, respectively, were pledged to secure the bank loans of approximately RMB17.3 million and RMB86.9 million for the same periods, respectively.

As of 30 June 2022, the Group did not have any material contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As of 30 June 2022, the Group had 55 employees (70 as of 31 December 2021). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. The remuneration policies of the Group are determined based on prevailing market levels and performance of the Group as well as the individual employees. These policies are reviewed on a regular basis. In addition to salary, the Group also offers to its employees other fringe benefits, including year-end bonus, discretionary bonus, share options to be granted under the Company's share option scheme, contributory provident fund, social security fund and medical benefits. We also provide suitable technical training according to the needs of different positions in order to improve their abilities. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the six months ended 30 June 2022.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 June 2022, the Group did not have any significant investment and material acquisition or disposal of subsidiaries, associates and joint ventures.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2022 and up to the date of this announcement.

USE OF NET PROCEEDS

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

The following table sets forth a breakdown of the utilisation and proposed utilisation of net proceeds as of 30 June 2022:

Unit: Hong Kong dollar million

No.	Purpose	Percentage of total Amount (%)	Net proceeds	Utilised amount	Unutilised amount	Expected timeline for utilisation of proceeds
1.	Produce own drama series	50.0	76.0	42.5	33.5	2023.12
2.	Outright-purchase the copyrights (or broadcasting rights) associated with drama series from third-party copyright owners/licensors	37.5	57.0	34.5	22.5	2023.12
3.	Hire additional experienced professionals and provide staff training	7.5	11.4	5.6	5.8	2023.12
4.	Working capital and general corporate	5.0	7.6	4.3	3.3	2023.12
Total		<u>100</u>	<u>152.0</u>	<u>86.9</u>	<u>65.1</u>	

From 22 June 2020, the date on which the Shares were listed on the Main Board of the Stock Exchange (the “**Listing Date**”) to 30 June 2022, the Company has used approximately HK\$86.9 million of the net proceeds, representing approximately 57.2% of the net proceeds. The Company will utilise such amounts according to the allocation set out in the prospectus of the Company dated 10 June 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

During the six months ended 30 June 2022, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the “**Corporate Governance Code**”) and adopted most of the recommended best practices as set out therein.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had also adopted the Model Code for Securities Transactions by the Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2022.

AUDIT COMMITTEE

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

The Audit Committee, together with the management and the external auditor of the Company, has reviewed the interim results of the Group for the six months ended 30 June 2022. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group.

The Audit Committee considered that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2022.

DIVIDENDS

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.litian.tv). The interim report of the Company for the six months ended 30 June 2022 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Litian Pictures Holdings Limited
Yuan Li
Chairman

Hong Kong, 15 August 2022

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

* *For identification purposes only*