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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 2020**

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 increased by 29.7% to RMB256.7 million from RMB198.0 million for the corresponding period in 2019.
- Gross profit for the six months ended 30 June 2020 increased by 27.7% to RMB87.6 million from RMB68.6 million for the corresponding period in 2019.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2020 increased by 18.9% to RMB54.3 million from RMB45.7 million for the corresponding period in 2019. Excluding the effect of the Listing expenses, the adjusted profit attributable to equity shareholders of the Company for the six months ended 30 June 2020 increased by approximately 30.1% to RMB64.2 million from RMB49.3 million for the corresponding period in 2019.
- Basic and diluted earnings per share for the six months ended 30 June 2020 increased by 20.0% to RMB0.24 from RMB0.20 for the corresponding period in 2019.
- The Board resolved not to declare the payment of an interim dividends for the six months ended 30 June 2020.

The board of directors of Litian Pictures Holdings Limited is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019. These results have been reviewed by the Audit Committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi (“RMB”))

	Notes	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
Revenue	4	256,744	197,963
Cost of sales		(169,162)	(129,375)
Gross profit	4	87,582	68,588
Other income	5	5,026	1,847
Selling and marketing expenses		(450)	(307)
Administrative expenses		(30,178)	(15,462)
Profit from operations		61,980	54,666
Finance costs	6(a)	(2,480)	(3,399)
Costs incurred in connection with the initial listing of the Company's shares		(9,895)	(3,677)
Profit before taxation	6	49,605	47,590
Income tax	7	4,718	(1,919)
Profit attributable to equity shareholders of the Company for the period		54,323	45,671
Other comprehensive income for the period (after tax):			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation into presentation currency		(167)	–
Total comprehensive income attributable to equity shareholders of the Company for the period		54,156	45,671
Earnings per share	8		
Basic and diluted (RMB)		0.24	0.20

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

(Expressed in RMB)

	<i>Notes</i>	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	9	3,047	3,787
Deferred tax assets	17	15,656	10,454
		<u>18,703</u>	<u>14,241</u>
Current assets			
Drama series copyrights	10	186,303	179,013
Trade and bills receivables	11	572,990	530,944
Prepayments, deposits and other receivables	12	183,871	35,688
Cash at bank and on hand	13	196,543	89,701
		<u>1,139,707</u>	<u>835,346</u>
Current liabilities			
Trade payables	14	374,782	294,975
Other payables and accrued expenses	15	147,928	150,236
Bank and other loans	16	84,527	56,661
Lease liabilities		227	650
Current taxation		487	13,688
		<u>607,951</u>	<u>516,210</u>
Net current assets		<u>531,756</u>	<u>319,136</u>
Total assets less current liabilities		550,459	333,377
Non-current liabilities			
Lease liabilities		–	115
NET ASSETS		<u>550,459</u>	<u>333,262</u>
CAPITAL AND RESERVES	18		
Share capital		2,742	90
Reserves		547,717	333,172
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>550,459</u>	<u>333,262</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

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

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

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

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

There were no changes in the economic substance of the ownership and business carried out by LiTian TV & Film and its subsidiaries before and after the Corporate Reorganisation. Accordingly, the financial information for the six months ended 30 June 2019 has been prepared and presented as a continuation of the consolidated financial statements of LiTian TV & Film and its subsidiaries with the assets and liabilities of LiTian TV & Film and its subsidiaries recognised and measured at their historical carrying amounts prior to the Corporate Reorganisation. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the financial information for the six months ended 30 June 2020.

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 25 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 2019 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 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented 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	
	2020 RMB’000	2019 RMB’000
Revenue from the distribution and licensing of broadcasting rights of self-produced drama series	3,024	60,832
Revenue from the distribution and licensing of broadcasting rights of outright-purchased drama series	253,720	127,673
Revenue from the provision of distribution agency services	–	9,458
	256,744	197,963

(b) Segment reporting

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

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

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 is set out below.

	Six months ended 30 June 2020			
	Self-produced drama series <i>RMB'000</i>	Outright- purchased drama series <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>3,024</u>	<u>253,720</u>	<u>–</u>	<u>256,744</u>
Reportable segment gross profit	<u>2,243</u>	<u>85,339</u>	<u>–</u>	<u>87,582</u>
	Six months ended 30 June 2019			
	Self-produced drama series <i>RMB'000</i>	Outright- purchased drama series <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>60,832</u>	<u>127,673</u>	<u>9,458</u>	<u>197,963</u>
Reportable segment gross profit	<u>19,171</u>	<u>39,959</u>	<u>9,458</u>	<u>68,588</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 INCOME

	Six months ended 30 June	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	4,875	1,138
Interest income from:		
– cash at bank	71	9
– loans to third parties	–	680
Others	80	20
	<u>5,026</u>	<u>1,847</u>

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Interest expenses on:		
– bank and other loans	2,692	4,729
– lease liabilities	24	32
	<u>2,716</u>	<u>4,761</u>
Less: interest expenses capitalised into drama series copyrights	(236)	(1,362)
	<u>2,480</u>	<u>3,399</u>

(b) Other items

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Depreciation expenses		
– owned property, plant and equipment	494	522
– right-of-use assets	496	474
Impairment losses on trade and other receivables	22,564	7,995
Operating lease expenses relating to short-term leases and leases of low-value assets	138	238
Cost of drama series copyrights (<i>Note 10</i>)	106,360	80,233
	<u>106,360</u>	<u>80,233</u>

7 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current taxation		
Provision for the period	484	3,946
Deferred taxation (<i>Note 17</i>)		
Origination and reversal of temporary differences	(5,202)	(2,027)
	<u>(4,718)</u>	<u>1,919</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) No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax for the six months ended 30 June 2020 and 2019.
- (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 2020 (six months ended 30 June 2019: 25%).
- (iv) In accordance with the income tax rules and regulations in the PRC, entities newly established in the Xinjiang Kashi/Horgos special economic areas during the years from 2010 to 2020 can enjoy full exemption on PRC Corporate Income Tax for five years starting from the year in which revenue was generated. The Group has established subsidiaries in the Xinjiang Kashi/Horgos special economic areas in 2017 and 2018, and accordingly, these subsidiaries are entitled to full exemption on PRC Corporate Income Tax from the calendar year of their respective establishments to the calendar year of 2020.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB54,323,000 and the weighted average of 228,709,000 ordinary shares in issue during the six months ended 30 June 2020, comprising:

- (i) 10,000,000 ordinary shares in issue at 1 January 2020;
- (ii) 215,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering, as if these ordinary shares were outstanding throughout the six months ended 30 June 2020; and
- (iii) 75,000,000 ordinary shares issued on the Listing Date by initial public offering.

The basic earnings per share for the six months ended 30 June 2019 was calculated based on the profit attributable to equity shareholders of the Company of RMB45,671,000 and the weighted average of 225,000,000 ordinary shares, comprising 1 ordinary share issued on 17 June 2019, 999,999 ordinary shares issued on 30 September 2019, 9,000,000 ordinary shares issued on 17 October 2019 and the related 215,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering, as if the above total of 225,000,000 ordinary shares were outstanding throughout the six months ended 30 June 2019.

The calculation of the weighted average number of ordinary shares for the six months ended 30 June 2020 and 2019 is as follows:

	Six months ended 30 June	
	2020	2019
Issued ordinary shares at 1 January	10,000,000	–
Issuance of shares upon incorporation of the Company	–	1
Issuance of shares prior to the initial listing of the Company	–	9,999,999
Effect of capitalisation issue (<i>Note 18(a)(ii)</i>)	215,000,000	215,000,000
Effect of shares issued by initial public offering on 22 June 2020 (<i>Note 18(a)(iii)</i>)	3,709,000	–
	228,709,000	225,000,000

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the six months ended 30 June 2020 and 2019.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired equipment with a cost of RMB250,000 (six months ended 30 June 2019: RMB100,000).

10 DRAMA SERIES COPYRIGHTS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Self-produced drama series (<i>Note (i)</i>)		
– under production	–	21,691
– with production completed	97,170	74,784
	97,170	96,475
Outright-purchased drama series	29,974	24,024
Co-financed drama series (<i>Note (ii)</i>)		
– with production completed	32,363	32,363
Script copyrights	26,796	26,151
	186,303	179,013

Notes:

- (i) The Group acts either as sole investor or executive producer under co-financing arrangements.
- (ii) The Group acts as non-executive producers under these co-financing arrangements.

Movements of drama series copyrights are set out below:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Balance at the beginning of the period	179,013	169,398
Additions	113,650	77,753
Recognised in cost of sales (<i>Note 6(b)</i>)	(106,360)	(80,233)
Balance at the end of the period	186,303	166,918

11 TRADE AND BILLS RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables	554,113	552,462
Less: loss allowance	(62,277)	(39,713)
	<u>491,836</u>	<u>512,749</u>
Bills receivables	81,154	18,195
	<u>572,990</u>	<u>530,944</u>

For the distribution and licensing of the broadcasting rights of drama series, trade and bills receivable are due within 2 years from the date of billing; for the Group's other sources of revenue, trade and bills receivable are due within 60 days from the date of billing.

(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 are as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	139,929	141,613
3 to 6 months	130,579	14,427
6 to 12 months	59,097	167,570
1 to 2 years	161,506	148,129
2 to 3 years	72,646	59,205
Over 3 years	9,233	–
	<u>572,990</u>	<u>530,944</u>

(b) At 30 June 2020, the Group has pledged RMB41,484,000 (31 December 2019: RMB36,965,000) of trade receivables for loans from banks (see Note 16).

(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 2020, the carrying amounts of the associated bank loans, and trade and other payables amounted to RMB75,411,000 (31 December 2019: RMB6,714,000).

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Prepayments for productions and promotional and marketing expenses of drama series	161,090	13,654
VAT recoverable	21,090	17,523
Prepayments for costs incurred in connection with the listing of the Company's shares	–	4,076
Others	1,748	492
	<u>183,928</u>	<u>35,745</u>
Less: loss allowance	(57)	(57)
	<u>183,871</u>	<u>35,688</u>

13 CASH AT BANK AND ON HAND

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank	196,497	89,677
Cash on hand	46	24
	<u>196,543</u>	<u>89,701</u>
Cash at bank and on hand included in the consolidated statement of financial position	196,543	89,701
Less: restricted deposits (<i>Note (i)</i>)	(12,761)	(7,961)
	<u>183,782</u>	<u>81,740</u>
Cash and cash equivalents included in the consolidated cash flow statement	<u>183,782</u>	<u>81,740</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 collaterals for bank and other loans (see Note 16) of the Group.

14 TRADE PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Payables for productions and acquisitions of drama series	<u>374,782</u>	<u>294,975</u>

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	51,580	134,820
3 to 6 months	68,314	2,260
6 to 12 months	116,119	45,010
1 to 2 years	133,082	103,925
More than 2 years	5,687	8,960
	<u>374,782</u>	<u>294,975</u>

15 OTHER PAYABLES AND ACCRUED EXPENSES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Payables to co-investors of drama series under co-financing arrangements	126,811	122,558
Interest payables	2,773	5,394
Payables for staff related costs	2,144	2,473
Payables for other taxes	5,515	19,566
Payables for costs incurred in connection with the listing of the Company's shares	9,343	245
Others	1,342	–
	<u>147,928</u>	<u>150,236</u>

16 BANK AND OTHER LOANS

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bank loans:		
– Secured by the Group's trade and bills receivables and restricted deposits (<i>Note (i)</i>)	65,659	27,793
Other loans from third parties:		
– Unsecured and unguaranteed (<i>Note (ii)</i>)	18,868	28,868
	<u>84,527</u>	<u>56,661</u>

Notes:

- (i) At 30 June 2020, the aggregate amount of deposits and trade and bills receivables pledged are RMB81,484,000 (31 December 2019: RMB51,166,000).
- (ii) The balance represents loans from third-party non-executive producers with fixed repayment terms and bear interest at rates of 15% per annum (31 December 2019: 15%).

17 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 RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2019	2,872	327	3,199
Credited to the consolidated statement of profit or loss	7,072	183	7,255
At 31 December 2019 and 1 January 2020	9,944	510	10,454
Credited to the consolidated statement of profit or loss (<i>Note 7</i>)	5,641	(439)	5,202
At 30 June 2020	15,585	71	15,656

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2020		At 31 December 2019	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised share capital (<i>Note (i)</i>)	500,000	5,000	38,000	380
	At 30 June 2020		At 31 December 2019	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Ordinary shares, issued and fully paid:				
At 1 January 2020/17 June 2019 (date of incorporation)	10,000,000	90	1	—*
Issuance of shares	—	—	9,999,999	90
Capitalisation issue (<i>Note (ii)</i>)	215,000,000	1,966	—	—
Issuance of shares by initial public offering (<i>Note (iii)</i>)	75,000,000	686	—	—
At 30 June/31 December	300,000,000	2,742	10,000,000	90

* Amount less than RMB1,000.

Notes:

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

(b) Dividends

The directors of the Company do not recommend an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

19 IMPACTS FROM COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact from the COVID-19 pandemic on the Group's businesses and has put in place various contingency measures. These contingency measures include but not limited to reassessing changes (if any) 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 position by expediting debtor settlements and negotiating with suppliers on payment extensions.

As far as the Group's businesses are concerned, the COVID-19 pandemic has caused a slowdown in collections from customers, and accordingly, the Group has increased the expected loss rate of trade receivables to reflect the market conditions.

The exact timing and extent of recovery of the Group's business are still uncertain and subject to the development of the COVID-19 pandemic. Nonetheless, the directors of the Company is optimistic that the COVID-19 pandemic will eventually be under full control, and the Group will continue to closely monitor the situation and implement contingency measures, where necessary, in a view to reduce the impacts from the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

We are a drama series distribution company in the PRC. The Group was established in 2013, and is primarily engaged in the business of licensing the broadcasting rights of self-produced and outright-purchased drama series. For the six months ended 30 June 2019 and 2020, we distributed a total of 27 and 26 drama series, respectively, including both self-produced drama series and drama series we purchased outright from third-party copyright owners/licensors.

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

The outbreak of the 2019 coronavirus disease (“COVID-19”) has brought about uncertainties to the business environment in which we operate and has impacted our operations and financial position. Although the outbreak of COVID-19 has caused some suppliers to implement work-from-home arrangements and impose travel restrictions on their employees, the content review and inspection of the relevant outright-purchased drama series could be completed remotely through mobile phones and/or video conferences. We focused on expanding our business of licensing the broadcasting rights of outright-purchased drama series during the COVID-19 pandemic. We actively communicated with third-party copyright owners/licensors to procure the broadcasting rights of quality drama series and recommended suitable genres of drama series to our customers. During the first half of 2020, we successfully licensed the first-run broadcasting rights of “Waiting for You in Beijing” (我在北京等你) and “Skate into Love” (冰糖燉雪梨) to the satellite channel of Zhejiang Television Station, and licensed the rerun broadcasting rights of “I Will Find You a Better Home” (安家) to several satellite TV channels.

With respect to our self-produced drama series, as we are in the process of polishing and finalizing the scripts of certain self-produced drama series, we currently plan to begin filming a drama series named “Unparalleled at Thirty” (三十歲無與倫比) in November 2020, and two other drama series, namely, “Please Eat with Lonely Me” (請和孤單的我吃飯吧) and “Starting Line” (起跑線) in the first half of 2021. If the COVID-19 pandemic continues to spread in the second half of 2020 or the PRC government authorities prohibit us from filming our self-produced drama series to avoid new waves of infection, we have business contingency plans in place. These measure include, among others, (i) reassessing the changes (if any) to the customers' preferences on the types of drama series to be broadcast; (ii) assessing the readiness of our production units and revisiting the progress of self-produced drama series; (iii) reassessing the adequacy and suitability of our existing supplier inventory of drama series; (iv) expanding our supplier base to procure suitable drama series; (v) negotiating with customers on possible delay of drama series delivery timetable; (vi) closely monitoring the business environment of our customers; and (vii) improving our cash position by expediting debtor settlements and negotiating with suppliers on payment extensions. In addition, we have eight self-produced drama series, including seven TV series and one web series, which

had completed production and are ready to be licensed to our customers. We will focus on expanding our business of licensing the broadcasting rights of outright-purchased drama series to offset the impact of the COVID-19 pandemic on the business of our self-produced drama series.

In addition, 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. Even if our employees are required to stay at home and/or maintain social distance, we will be able to communicate with third-party copyright owners/licensors and our customers through mobile phones or video conferences. We can conduct content review and inspections of outright-purchased drama series remotely, and the broadcasting tapes of the relevant outright-purchased drama series can be delivered by couriers.

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

Financial Review

Revenue

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue from the licensing of the broadcasting rights of self-produced drama series	3,024	60,832
Revenue from the licensing of the broadcasting rights of outright-purchased drama series	253,720	127,673
Revenue from the provision of distribution agency services	—	9,458
	256,744	197,963

Our revenue increased by 29.7% from RMB198.0 million for the six months ended 30 June 2019 to RMB256.7 million for the six months ended 30 June 2020. This increase was mainly due to an increase of RMB126.0 million in revenue from the licensing of the broadcasting rights of outright-purchased drama series, partially offset by (i) a decrease of RMB57.8 million in revenue from the licensing of the broadcasting rights of self-produced drama series; and (ii) a decrease of RMB9.5 million in revenue from the provision of distribution agency services.

Licensing of the Broadcasting Rights of Self-produced Drama Series

Under this business segment, we either (i) act as the sole investor in such drama series, in which case we contribute all of the funding and are in charge of the entire production and distribution process. Accordingly, we enjoy all of the copyright benefits of such drama series and bear all investment risks; or (ii) we cooperate with other investors in a co-financing arrangement, in which case we act as the executive producer of the drama series.

The following table sets forth a breakdown of our revenue from licensing the broadcasting rights of self-produced drama series by customer types for the periods indicated:

	Six months ended 30 June					
	2020			2019		
	Number of drama series ⁽¹⁾	Revenue RMB'000	%	Number of drama series ⁽¹⁾	Revenue RMB'000	%
Self-produced drama series						
Satellite TV channels						
– First-run	–	–	–	2	45,659	75.0
– Rerun	1	2,719	89.9	1	10,328	17.0
Terrestrial TV channels	2	291	9.6	2	1,250	2.1
Other third-party customers ⁽²⁾	1	14	0.5	3	3,595	5.9
Total⁽³⁾	2	3,024	100.0	4	60,832	100.0

Notes:

- (1) The number of drama series licensed takes into consideration that some drama series were licensed to both TV channels and other third-party customers in the same financial period, thus, the total number of drama series licensed shown in the table above may or may not equal to the sum of the drama series licensed to different customers.
- (2) Other third-party customers primarily represent online media platforms and other third-party drama series distribution companies in the PRC.
- (3) Represents the total number of drama series distributed, irrespective of the distribution platforms on which they are broadcast. A particular drama series can be broadcast on more than one distribution platforms.

Under this business segment, revenue generated from our customers that are TV channels accounted for approximately 94.1% and 99.5% of our revenue generated from licensing the broadcasting rights of self-produced drama series for the six months ended 30 June 2019 and 2020, respectively, while the remainder of this segment revenue was attributable to other third party customers.

Among revenue generated from licensing the broadcasting rights of self-produced drama series, approximately 75.0% and nil was generated from first-run broadcast on satellite TV channels for the six months ended 30 June 2019 and 2020, respectively. For the same periods, approximately 17.0% and 89.9%, respectively, was generated from rerun broadcast on satellite TV channels, and approximately 2.1% and 9.6%, respectively, was generated from broadcast on terrestrial TV channels. The remainder was generated from licensing the broadcasting rights of self-produced drama series to other third-party customers.

Our revenue generated from the licensing of the broadcasting rights of self-produced drama series decreased by 95.0% from RMB60.8 million for the six months ended 30 June 2019 to RMB3.0 million for the six months ended 30 June 2020, primarily because the price per episode of drama series that have first-run broadcast on satellite TV channels is usually higher compared to that of drama series that have rerun broadcast on satellite TV channels, and we did not have any self-produced drama series that was first-run broadcast on satellite TV channels during the first half of 2020, as we shifted to focus on expanding our business of licensing the broadcasting rights of outright-purchased drama series to cater to the timing and content preferences of our customers.

Licensing of the Broadcasting Rights of Outright-purchased Drama Series

In addition to licensing the broadcasting rights of our self-produced drama series, we are engaged in licensing the broadcasting rights of drama series that 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 TV series, as the case may be. Subsequently, we distribute the relevant drama series to our customers.

The following table sets forth a breakdown of our revenue from licensing the broadcasting rights of outright-purchased drama series by customer types for the period indicated:

	Six months ended 30 June					
	2020			2019		
	Number of drama series ⁽¹⁾	Revenue RMB'000	%	Number of drama series ⁽¹⁾	Revenue RMB'000	%
Outright-purchased drama series						
Satellite TV channels						
– First-run	2	162,321	64.0	2	73,427	57.5
– Rerun	12	87,191	34.4	17	50,248	39.4
Terrestrial TV channels	3	191	0.1	2	922	0.7
Other third-party customers ⁽²⁾	9	4,017	1.5	7	3,076	2.4
Total⁽³⁾	24	253,720	100.0	23	127,673	100.0

Notes:

- (1) The number of drama series licensed takes into consideration that some drama series were licensed to both TV channels and other third-party customers in the same financial period, thus, the total number of drama series licensed shown in the table above may or may not equal to the sum of the drama series licensed to different customers.
- (2) Other third-party customers primarily represent online media platforms and other third-party drama series distribution companies in the PRC.
- (3) Represents the total number of drama series distributed, irrespective of the distribution platforms on which they are broadcast. A particular drama series can be broadcast on more than one distribution platforms.

Under this business segment, revenue generated from our customers that are TV channels accounted for approximately 97.6% and 98.4% of our revenue generated from licensing the broadcasting rights of outright-purchased drama series for the six months ended 30 June 2019 and 2020, respectively, while the remainder of our segment revenue was attributable to other third-party customers.

In addition, for the six months ended 30 June 2019 and 2020, among revenue generated from licensing the broadcasting rights of outright-purchased drama series, approximately 57.5% and 64.0%, respectively, was generated from first-run broadcast on satellite TV channels. For the same periods, approximately 39.4% and 34.4% was generated from rerun broadcast on satellite TV channels, respectively, and the remainder was attributable to terrestrial TV channels and other third-party customers.

Our revenue generated from the licensing of the broadcasting rights of outright-purchased drama series increased by 98.7% from RMB127.7 million for the six months ended 30 June 2019 to RMB253.7 million for the six months ended 30 June 2020, primarily due to (i) an increase of RMB88.9 million in revenue generated from first-run broadcast on satellite TV channels as a result of the licensing of the first-run broadcasting rights of “Waiting for You in Beijing” (我在北京等你) and “Skate into Love” (冰糖炖雪梨) during the first half of 2020; and (ii) an increase of RMB36.9 million in revenue generated from rerun broadcast on satellite TV channels, which was attributable to the licensing of the rerun broadcasting rights of “I Will Find You a Better Home” (安家).

Acting as a Distribution Agent of the Drama Series

Beginning from the first half of 2019, we acted as a distribution agent for the copyright owner/licensor of the drama series, through which we promoted the relevant TV series to the TV channels and negotiated the terms and conditions in connection with the licensing of the broadcasting rights of such TV series with the TV channels on behalf of the TV series copyright owners/licensors. We generally charge the relevant copyright owner/licensor of the TV series a distribution agent fee, which is calculated based on a fixed percentage (typically 15.0%) of the license fee to be received by the copyright owner/licensor from the TV channels. We settle distribution agent fee after the copyright owner of the drama series has received the relevant license fee from the TV channels. For the six months ended 30 June 2019, our revenue generated from this business was RMB9.5 million. We did not provide such services in the first half of 2020.

Cost of Sales

Our cost of sales primarily represents the cost we incurred in our operations. The following table sets forth the breakdown of our cost of sales by nature for each business segment for the periods indicated:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Self-produced drama series		
Filming crew service fees	—	19,510
Filming and production costs	—	12,928
Procurement costs for scripts	—	5,240
Post-production costs	781	2,851
Capitalized interests	—	1,132
Subtotal	781	41,661
Outright-purchased drama series		
Costs of purchasing the broadcasting rights of drama series	106,360	38,653
Promotional and marketing expenses	62,021	49,061
Subtotal	168,381	87,714
Total	169,162	129,375

For the six months ended 30 June 2019 and 2020, our cost of sales principally comprised of costs of purchasing the broadcasting rights of drama series and the promotional and marketing expenses for engaging third-party marketing service providers to promote and advertise our outright-purchased drama series, which in the aggregate accounted for approximately 67.8% and 99.5% of our total cost of sales for the period, respectively.

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

Our cost of sales increased by 30.8% from RMB129.4 million for the six months ended 30 June 2019 to RMB169.2 million for the six months ended 30 June 2020. This increase was primarily due to an increase in costs of purchasing the broadcasting rights of drama series, including “Waiting for You in Beijing” (我在北京等你), “Skate into Love” (冰糖炖雪梨) and “I Will Find You a Better Home” (安家), partially offset by a decrease in the costs relating to our self-produced drama series as we did not have any self-produced drama series broadcast on satellite TV channels during the first half of 2020.

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			
	2020		2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Licensing of the broadcasting rights of self-produced drama series	2,243	74.2	19,171	31.5
Licensing of the broadcasting rights of outright-purchased drama series	85,339	33.6	39,959	31.3
Distribution agency services	—	N/A	9,458	100.0
	87,582	34.1	68,588	34.6

Our gross profit increased by 27.7% from RMB68.6 million for the six months ended 30 June 2019 to RMB87.6 million for the six months ended 30 June 2020, primarily due to an increase in gross profit from the licensing of the broadcasting rights of outright-purchased drama series in line with the growth of such business during the first half of 2020.

Our gross profit margin decreased slightly from 34.6% for the six months ended 30 June 2019 to 34.1% for the six months ended 30 June 2020, mainly because we did not generate revenue from the distribution agency services for the six months ended 30 June 2020, which adversely affected our gross profit margin as a whole.

In addition, our gross profit margin of licensing the broadcasting rights of self-produced drama series was approximately 31.5% and 74.2%, respectively, for the six months ended 30 June 2019 and 2020. Our gross profit margin of licensing the broadcasting rights of self-produced drama series for the six months ended 30 June 2020 was higher than that for the corresponding period in 2019, primarily because (i) we licensed the rerun broadcasting rights of our self-produced drama series, “A Gallant Army” (老虎隊), to China Central Television (中國中央電視台) in the first half of 2020, which had a higher gross profit margin; and (ii) the costs of sales in connection with the licensing of the rerun broadcasting rights of “Guerrilla Heroes” (游擊英雄) and “A Gallant Army” (老虎隊) had been fully accounted for by the end of 2019, which resulted in a higher gross profit margin of our business of licensing the broadcasting rights of self-produced drama series for the six months ended 30 June 2020.

Our gross profit margin of licensing the broadcasting rights of outright-purchased drama series was approximately 31.3% and 33.6%, respectively, for the six months ended 30 June 2019 and 2020. Our gross profit margin of licensing the broadcasting rights of outright-purchased drama series for the six months ended 30 June 2020 was higher than that for the corresponding period in 2019, primarily because we successfully licensed the broadcasting rights of two outright-purchased drama series, namely “Waiting for You in Beijing” (我在北京等你) and “I Will Find You a Better Home” (安家) during the first half of 2020, which had a higher gross profit margin.

Other Income

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Government grants	4,875	1,138
Interest income from:		
– Cash at bank	71	9
– Loans to third parties	–	680
Others	80	20
	5,026	1,847

Our other income increased by 172.1% from RMB1.8 million for the six months ended 30 June 2019 to RMB5.0 million for the six months ended 30 June 2020, primarily due to an increase of RMB3.7 million in government grants, which was due to (i) the bonus of RMB2.0

million in connection with the Listing awarded by the local government of Haining City, Zhejiang Province; and (ii) value-added tax refund of RMB2.2 million in the aggregate received by one of our consolidated affiliated entities, LiTian TV & Film.

Selling and Marketing Expenses

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	404	223
Travel and transportation expenses	18	54
Conference expenses	28	30
	450	307

Our selling and marketing expenses increased by 46.6% from RMB0.3 million for the six months ended 30 June 2019 to RMB0.5 million for the six months ended 30 June 2020, primarily due to an increase in staff costs as a result of the increased number of our distribution department staff.

Administrative Expenses

Administrative expenses primarily consist of (i) staff costs relating to our administrative; (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) impairment loss; and (xi) bank charges, which primarily represent bank transaction fees. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Staff costs	3,593	3,352
Rental fee	163	264
Depreciation and amortization	990	996
Office expenses	98	118
Consultancy fee	498	458
Transportation fee	106	105
Travel expense	168	443
Entertainment expenses	413	778
Taxes and surcharges	1,333	751
Impairment losses	22,564	7,995
Bank charges	34	25
Others	218	177
	30,178	15,462

Our administrative expenses increased by 95.2% from RMB15.5 million for the six months ended 30 June 2019 to RMB30.2 million for the six months ended 30 June 2020. This increase was primarily due to (i) an increase of RMB14.6 million in impairment losses as a result of an increase in past due days of the trade receivable balances as of 30 June 2020, which resulted in higher expected loss rates in our assessment of the loss allowance; and (ii) an increase of RMB0.6 million in taxes and surcharges due to the increased taxable income.

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	
	2020	2019
	RMB'000	RMB'000
Interest expenses on:		
– bank and other loans	2,692	4,729
– lease liabilities	24	32
	2,716	4,761
Less: interest expenses capitalized into drama series copyrights	(236)	(1,362)
	2,480	3,399

Our finance costs decreased by 27.0% from RMB3.4 million for the six months ended 30 June 2019 to RMB2.5 million for the six months ended 30 June 2020, primarily due to a decrease in interest expenses on bank and other loans as a result of a decrease in the effective interest rate per annum for the six months ended 30 June 2020 compared to that for the six months ended 30 June 2019.

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 2019 and 2020.

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current taxation		
Provision for the period	484	3,946
Deferred taxation		
Origination and reversal of temporary differences	(5,202)	(2,027)
	(4,718)	1,919

Our income tax expense was approximately RMB1.9 million for the six months ended 30 June 2019. We had income tax benefit of RMB4.7 million for the six months ended 30 June 2020, primarily due to origination and reversal of temporary differences of approximately RMB5.2 million, which was a result of the increase in impairment losses.

Profit Attributable to Equity Shareholders of the Company for the Period

As a result of the foregoing, our profit attributable to equity shareholders of the Company increased by 18.9% from RMB45.7 million for the six months ended 30 June 2019 to RMB54.3 million for the six months ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations and bank loans and other borrowings.

As of 30 June 2020, we had cash at bank and on hand of RMB196.5 million (31 December 2019: RMB89.7 million), which were predominantly denominated in RMB. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, bank loans and other borrowings and other funds raised from the capital markets from time to time.

Net Current Assets

As of 30 June 2020, we had net current assets of RMB531.8 million as compared to the net current assets of RMB319.1 million as of 31 December 2019. The increase in our net current assets was primarily due to (i) an increase of RMB148.2 million in prepayments, deposit and other receivables as a result of the prepaid drama series production fees for our self-produced drama series and the prepaid promotional and marketing expenses in connection with our outright-purchased drama series; (ii) an increase of RMB106.8 million in cash at bank and on hand; and (iii) an increase of RMB42.0 million in trade and bills receivables, mainly due to an increase in bills receivables from Zhejiang Television Station in connections with the licensing of the broadcasting rights of “Waiting for You in Beijing” (我在北京等你) and “Skate into Love” (冰糖炖雪梨), partially offset by an increase of RMB79.8 million in trade payables in relation to the procurement of the broadcasting rights of outright-purchased drama series, “Waiting for You in Beijing” (我在北京等你) and “Skate into Love” (冰糖炖雪梨) from third-party copyright owners/licensors and an increase of RMB27.9 million in bank and other loans.

Our current ratio (being the ratio of our total current assets to total current liabilities) was approximately 1.9 as of 30 June 2020, compared to approximately 1.6 as of 31 December 2019.

CAPITAL EXPENDITURES

Our capital expenditure primarily consists of expenditures on the improvements to leased properties and purchase of office furniture and other equipment. Our capital expenditures for the six months ended 30 June 2019 and 2020 were insignificant and were primarily financed by cash flows from our operating activities.

FOREIGN EXCHANGE EXPOSURE

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As of 30 June 2020, 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

As of 31 December 2019 and 30 June 2020, our deposits and trade and bills receivables in an aggregate amount of approximately RMB51.2 million and RMB81.5 million, respectively, were pledged to secure the bank loans of approximately RMB27.8 million and RMB65.7 million for the same periods, respectively.

INDEBTEDNESS

Bank and Other Loans

The Group primarily obtains borrowings from banks and other third parties to finance our business operations and to fulfil working capital requirements.

As of 30 June 2020, we had bank loans of approximately RMB65.7 million which were secured by an aggregate of deposits and trade and bills receivables of approximately RMB81.5 million. These bank loans bore interest rate ranging from 2.8% to 4.8% per annum as of 30 June 2020. In addition, we had unsecured and unguaranteed loans from third-party non-executive producers under the co-financing arrangement with fixed repayment terms of approximately RMB18.9 million as of 30 June 2020. The loans from third parties bore an interest rate of 15.0% per annum as of 30 June 2020.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and banks loans and other borrowings. We regularly reviews its major funding positions to ensure that hawse have adequate financial resources in meeting its financial obligations.

Gearing Ratio

Gearing ratio equals total debt as of the end of the year/period divided by total equity as of the end of the year/period. Total debt includes all interest-bearing bank loans and other borrowings. Our gearing ratio decreased from approximately 17.0% as of 31 December 2019 to approximately 15.3% as of 30 June 2020, primarily due to an increase in our total equity.

Contingent Liabilities

As of 30 June 2020, the Group did not have any material contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As of 30 June 2020, the Group had 51 employees (47 as of 31 December 2019). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. The 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 2020.

SHARE OPTION SCHEME

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

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

No share options has been granted since the adoption date of the Share Option Scheme and there are no outstanding share options as at 30 June 2020.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 June 2020, the Group did not have any significant investment and material acquisition or disposal of subsidiaries, associates and joint ventures.

EVENTS AFTER THE REPORTING PERIOD

From 30 June 2020 and up to the date of this announcement, we had licensed the broadcasting rights of three outright-purchased drama series, including the first-run broadcasting rights of “The Most Brilliant Us” (最燦爛的我們) to the satellite channel of Zhejiang Television Station and the rerun broadcasting rights of “Mr. Fighting” (加油，你是最棒的) and “Skate into Love” (冰糖燉雪梨) to the satellite channel of Shenzhen Television Station.

The Group will continue to monitor the impact of COVID-19 pandemic and adjust our business contingency plans as appropriate. Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2020 and up to the date of this announcement.

SUFFICIENCY OF PUBLIC FLOAT

Throughout the period from the Listing Date to 30 June 2020, the Company has complied with the public float requirements under Rule 8.08(1)(a) of the Listing Rules pursuant to which at least 25% of the Company’s total issued Shares must at all times be held by the public.

USE OF NET PROCEEDS FROM LISTING

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

As of 30 June 2020, the utilisation of the net proceeds is as follows:

Unit: Hong Kong dollar million

No.	Items	Percentage	Available	Utilised	Unutilised	Expected time of full utilisation of remaining balance
1.	Produce own drama series	50.0%	76.0	–	76.0	December 2023
2.	Outright-purchase the copyrights (or broadcasting rights) associated with drama series from third-party copyright owners/licensors	37.5%	57.0	–	57.0	December 2023
3.	Hire additional experienced professionals and provide staff training	7.5%	11.4	–	11.4	December 2023
4.	Working capital and general corporate purposes	5.0%	7.6	1.0	6.6	December 2023
		100%	152.0	1.0	151.0	

From the Listing Date to 30 June 2020, the Company has used approximately HK\$1.0 million of the net proceeds, representing approximately 0.66% of the net proceeds. The Company will utilise such amounts according to the allocation set out in the Prospectus.

CORPORATE GOVERNANCE CODE

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

Throughout the period from the Listing Date to 30 June 2020, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code and adopted most of the recommended best practices as set out therein.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to 30 June 2020.

AUDIT COMMITTEE

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

The Group's interim results for the six months ended 30 June 2020 have been reviewed by the Audit Committee. 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. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities throughout the period from the Listing Date to 30 June 2020.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020.

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 for the six months ended 30 June 2020 will be dispatched to Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

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

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

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

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

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

Hong Kong, 25 August 2020

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.