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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 2023

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2023 increased by 352.1% to RMB77.1 million from RMB17.0 million for the corresponding period in 2022.
- Gross profit for the six months ended 30 June 2023 increased by 6.9% to RMB9.8 million from RMB9.2 million for the corresponding period in 2022.
- Loss attributable to equity shareholders of the Company for the six months ended 30 June 2023 decreased by 48.3% to RMB6.8 million from RMB13.3 million for the corresponding period in 2022.
- Basic and diluted loss per share for the six months ended 30 June 2023 decreased by 50.0% to RMB0.02 from RMB0.04 for the corresponding period in 2022.
- The Board resolved not to declare the payment of interim dividends for the six months ended 30 June 2023.

The board (the “**Board**”) of directors (the “**Directors**”) of Litian Pictures Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022. 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 2023 – unaudited

(Expressed in Renminbi (“RMB”))

		Six months ended 30 June	
		2023	2022
Notes		<i>RMB’000</i>	<i>RMB’000</i>
Revenue	4	77,064	17,046
Cost of sales		(67,254)	(7,868)
Gross profit	4	9,810	9,178
Other income/(loss)	5	710	(927)
Selling and marketing expenses		(254)	(498)
Administrative expenses		(9,242)	(11,822)
Impairment loss on trade and other receivables		(1,028)	(1,288)
Loss from operations		(4)	(5,357)
Finance costs	6(a)	(6,845)	(7,916)
Loss before taxation	6	(6,849)	(13,273)
Income tax	7	–	22
Loss attributable to equity shareholders of the Company for the period		(6,849)	(13,251)
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		1,796	2,394
Total comprehensive income attributable to equity shareholders of the Company for the period		(5,053)	(10,857)
Loss per share	8		
Basic and diluted (<i>RMB</i>)		(0.02)	(0.04)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 – unaudited

(Expressed in RMB)

	Notes	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Non-current assets			
Property and equipment	9	6,168	8,166
Other financial assets		1,294	1,220
Deferred tax assets	18	17,821	17,821
		<u>25,283</u>	<u>27,207</u>
Current assets			
Drama series copyrights	10	623,649	545,630
Trade and bills receivables	11	184,038	155,364
Prepayments, deposits and other receivables	12	26,916	32,904
Restricted deposits	13	51,258	49,576
Cash and cash equivalents	13	3,190	10,002
		<u>889,051</u>	<u>793,476</u>
Current liabilities			
Trade payables	14	244,633	252,480
Other payables and accrued expenses	15	129,022	125,132
Contract liabilities	16	144,614	34,266
Bank and other loans	17	204,984	212,670
Lease liabilities		3,069	1,872
Current taxation		4,713	4,713
		<u>731,035</u>	<u>631,133</u>
Net current assets		<u>158,016</u>	<u>162,343</u>
Total assets less current liabilities		183,299	189,550
Non-current liabilities			
Lease liabilities		1,472	2,670
NET ASSETS		<u>181,827</u>	<u>186,880</u>
CAPITAL AND RESERVES			
Share capital	19	2,742	2,742
Reserves		179,085	184,138
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>181,827</u>	<u>186,880</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

Litian Pictures Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 17 June 2019 as an exempted company with limited liability under the Companies Act 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

These interim financial statements have 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 30 August 2023.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of interim financial statements 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.

These interim financial statements contain 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 2022 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 2022 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.

For the six months period ended 30 June 2023, the Group had net loss before impairment losses on drama series copyrights, of RMB6,849,000. The Group’s business operations were adversely affected by the challenging market conditions and macroeconomic environment, in particular the delay in new drama series production and their licensing and broadcasting. Notwithstanding these, the directors of the Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group’s ability to continue as a going concern. This is because of a cash flow forecast of the Group for at least the next twelve months from the end of the reporting period prepared by the management, which has taken into account the following:

- The Group had unutilised bank facilities of RMB10,000,000 as at 30 June 2023. The directors of the Company are of the opinion that renewal or new banking facilities is likely to be obtained during the twelve months ending 30 June 2024;

- Included in the current liabilities were RMB108,999,000 as at 30 June 2023 which will only be due upon broadcasting of related drama series or cash collection from the Group's customers and the Group is closely monitoring the payment schedule in accordance with the contract terms with vendors;
- The Group continues to streamline its operations and accelerate the negotiation of the broadcasting of the Group's self-produced drama series and expedite the cash collection after the completion of the sales; and/or
- The Group has obtained financial support committed by its ultimate controlling parties, Mr. Yuan Li and Ms. Tian Tian.

The directors of the Company therefore are of the opinion that the Group would have sufficient working capital to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

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:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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	
	2023 RMB'000	2022 RMB'000
Revenue from the distribution and licensing of broadcasting rights of self-produced drama series	61,313	5,734
Revenue from the distribution and licensing of broadcasting rights of outright-purchased drama series	15,717	10,839
Others	34	473
	<u>77,064</u>	<u>17,046</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 of 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 2023 and 2022. 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 2023 and 2022 is set out below.

	Six months ended 30 June 2023			
	Self- produced drama series RMB'000	Outright- purchased drama series RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	61,313	15,717	34	77,064
Reportable segment gross profit	6,838	2,972	–	9,810
	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	5,734	10,839	473	17,046
Reportable segment gross profit	5,498	3,207	473	9,178

(ii) *Reconciliations of reportable segment revenues and profit or loss*

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Revenue:		
– Reportable segment revenue	77,064	17,046
– Elimination of inter-segment revenue	–	–
Consolidated revenue	<u>77,064</u>	<u>17,046</u>
Reportable segment gross profit	9,810	9,178
Elimination of inter-segment revenue	–	–
Reportable segment gross loss derived from group's external customers	9,810	9,178
Other income/(loss)	710	(927)
Selling and marketing expenses	(254)	(498)
Depreciation expenses	(2,061)	(1,624)
Other administrative expenses	(7,181)	(10,198)
Impairment loss on trade and other receivables	(1,028)	(1,288)
Finance costs	(6,845)	(7,916)
Consolidated loss before taxation	<u>(6,849)</u>	<u>(13,273)</u>

(iii) *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/(LOSS)

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Government grants	550	585
Interest income	10	9
Changes in fair value of financial assets measured at FVPL	75	(1,552)
Others	75	31
	<u>710</u>	<u>(927)</u>

6 LOSS BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Interest expenses on:		
– bank and other loans	8,712	11,087
– lease liabilities	82	124
	<u>8,794</u>	<u>11,211</u>
Less: interest expenses capitalised into drama series copyrights	<u>(1,949)</u>	<u>(3,295)</u>
	<u><u>6,845</u></u>	<u><u>7,916</u></u>

(b) Other items

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Depreciation expenses		
– owned property and equipment	1,189	770
– right-of-use assets	872	854
	<u>2,061</u>	<u>1,624</u>
Operating lease expenses relating to short-term leases and leases of low-value assets	12	48
Cost of drama series copyrights (<i>Note 10</i>)	<u>64,047</u>	<u>5,675</u>

7 INCOME TAX

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Current taxation		
Provision for the period	–	–
Deferred taxation (<i>Note 18</i>)		
Origination and reversal of temporary differences	–	(22)
	<u>–</u>	<u>(22)</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 2023 (six months ended 30 June 2022: RMBNil).
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2023 (six months ended 30 June 2022: 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 PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB6,849,000 (six months ended 30 June 2022: RMB13,251,000) and the weighted average of 300,000,000 ordinary shares (six months ended 30 June 2022: 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 2023 and 2022.

9 PROPERTY AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired equipment with a cost of RMB63,000 (six months ended 30 June 2022: RMB831,000).

10 DRAMA SERIES COPYRIGHTS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Self-produced drama series (<i>Note (i)</i>)		
– under production	196,660	68,507
– with production completed	<u>409,258</u>	<u>463,876</u>
	605,918	532,383
Outright-purchased drama series	24,924	24,505
Co-financed drama series with production completed (<i>Note (ii)</i>)	73,178	69,405
Script copyrights (<i>Note (iii)</i>)	<u>211,713</u>	<u>211,421</u>
	915,733	837,714
Less: impairment losses	<u>(292,084)</u>	<u>(292,084)</u>
	<u>623,649</u>	<u>545,630</u>

Notes:

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

Movements of drama series copyrights are set out below:

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
At 1 January	545,630	522,694
Additions	142,066	35,739
Recognised in cost of sales (<i>Note 6(b)</i>)	<u>(64,047)</u>	<u>(5,675)</u>
At 30 June	<u>623,649</u>	<u>552,758</u>

11 TRADE AND BILLS RECEIVABLES

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Trade receivables	279,402	238,430
Less: loss allowance	<u>(112,594)</u>	<u>(111,566)</u>
	166,808	126,864
Bills receivables	<u>17,230</u>	<u>28,500</u>
	<u>184,038</u>	<u>155,364</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 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Within 6 months	68,510	21,803
6 to 12 months	11,055	18,008
1 to 2 years	17,044	43,763
2 to 3 years	74,185	66,048
Over 3 years	<u>13,244</u>	<u>5,742</u>
	<u>184,038</u>	<u>155,364</u>

- (b) 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 2023, the carrying amounts of the associated bank loans, and trade and other payables amounted to RMB16,874,000 (31 December 2022: RMB27,890,000).

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
VAT recoverable	24,114	28,149
Prepayments for productions of drama series	–	3,774
Others	2,932	1,111
	<u>27,046</u>	<u>33,034</u>
Less: loss allowance	(130)	(130)
	<u><u>26,916</u></u>	<u><u>32,904</u></u>

13 CASH AT BANK AND ON HAND

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Cash at bank	54,437	59,520
Cash on hand	11	58
	<u>54,448</u>	<u>59,578</u>
Less: restricted deposits (<i>Note (i)</i>)	(51,258)	(49,576)
	<u>3,190</u>	<u>10,002</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) and deposits frozen by courts due to a litigation against a third party.

14 TRADE PAYABLES

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Payables for productions and acquisitions of drama series	<u>244,633</u>	<u>252,480</u>

All of the trade payables are expected to be settled within one year or are repayable on demand, except for those of RMB20,802,000 (31 December 2022: RMB20,802,000) which will only be due upon broadcasting of related drama series or cash collection from the Group's customers. The ageing analysis of trade payables, based on the transaction date, is as follows:

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Within 6 months	9,408	4,647
6 to 12 months	2,403	6,189
1 to 2 years	43,954	78,558
More than 2 years	<u>188,868</u>	<u>163,086</u>
	<u>244,633</u>	<u>252,480</u>

15 OTHER PAYABLES AND ACCRUED EXPENSES

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Payables to co-investors of drama series under co-financing arrangements	102,903	95,881
Interest payables	21,294	23,735
Payables for staff related costs	3,735	3,587
Payables for other taxes	101	86
Others	<u>989</u>	<u>1,843</u>
Financial liabilities measured at amortised cost	<u>129,022</u>	<u>125,132</u>

All of the other payables and accrued expenses are expected to be settled within one year or are repayable on demand, except for those of RMB69,540,000 (31 December 2022: RMB62,619,000) which will only be due upon broadcasting of related drama series or cash collection from the Group's customers.

16 CONTRACT LIABILITIES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Receipts in advance from customers	<u>144,614</u>	<u>34,266</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 2023 RMB'000	At 31 December 2022 RMB'000
Bank loans:		
– Secured by bills receivables	16,044	27,890
– Secured by the Group's restricted deposits (<i>Note (i)</i>)	40,000	–
– Guaranteed by controlling parties	<u>10,000</u>	<u>20,000</u>
	66,044	47,890
Other loans from third parties:		
– Unsecured and unguaranteed (<i>Note (ii)</i>)	129,940	113,280
– Guaranteed by controlling parties	<u>9,000</u>	<u>21,000</u>
	138,940	134,280
Other loans from related parties:		
– Guaranteed by controlling parties	<u>–</u>	<u>30,500</u>
	<u>204,984</u>	<u>212,670</u>

Notes:

- (i) At 30 June 2023, the aggregate amount of deposits pledged is RMB51,170,000 (31 December 2022: RMB49,576,000) (see Note 13).
- (ii) The balance represents loans from third-party non-executive producers with fixed repayment terms and bears interest at rates between 12% and 15% per annum (31 December 2022: 15%), except for those of RMB18,657,000 (31 December 2022: RMB25,657,000) which will only be due upon broadcasting of related drama series or cash collection from the Group's customers.

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 2022	19,079	23,314	134	42,527
Charged to the consolidated statement of profit or loss	<u>(12,067)</u>	<u>(12,505)</u>	<u>(134)</u>	<u>(24,706)</u>
At 31 December 2022 and 1 January 2023	7,012	10,809	–	17,821
Charged to the consolidated statement of profit or loss (<i>Note 7</i>)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 30 June 2023	<u><u>7,012</u></u>	<u><u>10,809</u></u>	<u><u>–</u></u>	<u><u>17,821</u></u>

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	<u>At 30 June 2023</u>		<u>At 31 December 2022</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 2023</u>		<u>At 31 December 2022</u>	
	Number of shares '000	Amount <i>RMB'000</i>	Number of shares '000	Amount <i>RMB'000</i>
Ordinary shares, issued and fully paid	<u><u>300,000</u></u>	<u><u>2,742</u></u>	<u><u>300,000</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 2023 (six months ended 30 June 2022: 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 2023 and 31 December 2022.

21 MATERIAL RELATED PARTY TRANSACTIONS

Transactions with the controlling parties and senior management of the Company during the period

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Proceeds of loans from controlling parties	8,000	–
Repayment of loans to controlling parties	28,000	–
Proceeds of loans from senior management	6,650	–
Repayment of loans to senior management	17,150	–
Guarantees received from controlling parties for bank and other loans at the end of the reporting period	19,000	8,000

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 2022 and 2023, we distributed a total of 13 and 7 drama series, respectively, which were comprised of self-produced drama series and outright-purchased drama series we purchased outright from third-party copyright owners/licensors.

During the first half of 2023, we successfully licensed the first-run broadcasting rights of “Smiling Mom” (微笑媽媽), which was our self-produced drama series. In addition, we successfully licensed the first-run broadcasting rights of “Youth in flames of war” (戰火中的青春) to the satellite channels, which was our outright-purchased drama series.

In the second half of 2023, 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 be 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 2023.

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Revenue from the licensing of the broadcasting rights of self-produced drama series	61,313	5,734
Revenue from the licensing of the broadcasting rights of outright-purchased drama series	15,717	10,839
Others	34	473
Total	<u>77,064</u>	<u>17,046</u>

Our revenue increased by approximately 352.1% from approximately RMB17.0 million for the six months ended 30 June 2022 to approximately RMB77.1 million for the six months ended 30 June 2023. The increase was mainly due to an increase of approximately RMB55.6 million in revenue from the licensing of the broadcasting rights of self-produced drama series.

Revenue by business segments

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

Revenue generated from the licensing of the broadcasting rights of self-produced drama series increased by approximately 969.3% from approximately RMB5.7 million for the six months ended 30 June 2022 to approximately RMB61.3 million for the six months ended 30 June 2023, primarily because no self-produced drama series was licensed the first-run broadcast on satellite channels in the corresponding period in 2022.

Under this business segment, revenue generated from our customers which are third-party customers accounted for approximately 88.0% and 99.6% of our revenue generated from licensing the broadcasting rights of self-produced drama series for the six months ended 30 June 2022 and 2023, respectively, while the remainder was attributable to TV channels customers.

Among revenue generated from licensing the broadcasting rights of self-produced drama series, approximately nil and 6.1% was generated from first-run broadcast on satellite TV channels for the six months ended 30 June 2022 and 2023, respectively. For the same periods, approximately 88.0% and 93.5% of the revenue, respectively, was generated from the third-party customers. The remainder was generated from rerun broadcast and terrestrial broadcast on satellite TV channels.

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

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

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

Our revenue generated from the licensing of the broadcasting rights of outright-purchased drama series increased by approximately 45.0% from approximately RMB10.8 million for the six months ended 30 June 2022 to approximately RMB15.7 million for the six months ended 30 June 2023, primarily because the Group recorded the revenue of approximately RMB11.0 million from the licensing of the first-run broadcasting rights of “Youth in flames of war” (戰火中的青春).

Under this business segment, revenue generated from our customers which are TV channels accounted for approximately 79.0% and 100.0% of our revenue generated from licensing the broadcasting rights of outright-purchased drama series for the six months ended 30 June 2022 and 2023, respectively, while the remainder was attributable to other third-party customers.

In addition, for the six months ended 30 June 2022 and 2023, among revenue generated from licensing the broadcasting rights of outright-purchased drama series, approximately 71.8% and 70.2%, respectively, was generated from first-run broadcast on satellite TV channels. For the same periods, approximately 7.2% and 29.8% was generated from rerun broadcast on satellite TV channels, respectively.

Cost of Sales

The following table sets forth our cost of sales by business segment for the six months ended 30 June 2022 and 2023.

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Costs of the licensing of broadcasting rights of self-produced drama series	54,475	236
Costs of the licensing of broadcasting rights of outright-purchased drama series	12,745	7,632
Others	34	–
Total	<u>67,254</u>	<u>7,868</u>

Our cost of sales increased by approximately 754.8% from approximately RMB7.9 million for the six months ended 30 June 2022 to approximately RMB67.3 million for the six months ended 30 June 2023, primarily due to the increase in costs of the licensing of broadcasting rights of self-produced drama series.

Our costs of the licensing of broadcasting rights of self-produced drama series increased by approximately 22,982.6% from approximately RMB236,000 for the six months ended 30 June 2022 to approximately RMB54.5 million for the six months ended 30 June 2023. This increase was in line with the increase in revenue from the licensing of broadcasting rights of self-produced drama series.

For the business segment of licensing of the broadcasting rights of outright-purchased drama series, the costs of sales increased by approximately 67.0% from approximately RMB7.6 million for the six months ended 30 June 2022 to approximately RMB12.7 million for the six months ended 30 June 2023. This increase was in line with the increase in revenue from the licensing of broadcasting rights of outright-purchased 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			
	2023		2022	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
Licensing of the broadcasting rights of self-produced drama series	6,838	11.2	5,498	95.9
Licensing of the broadcasting rights of outright-purchased drama series	2,972	18.9	3,207	29.6
Others	–	–	473	100.0
Total	<u>9,810</u>	<u>12.7</u>	<u>9,178</u>	<u>53.8</u>

(i) *Gross profit*

Our gross profit increased by approximately 6.9% from approximately RMB9.2 million for the six months ended 30 June 2022 to approximately RMB9.8 million for the six months ended 30 June 2023, primarily due to an increase in gross profit from the licensing of the broadcasting rights of self-produced drama series.

(ii) *Gross profit margin*

Our gross profit margin decreased from approximately 53.8% for the six months ended 30 June 2022 to approximately 12.7% for the six months ended 30 June 2023, mainly because the lower gross profit margin of licensing the broadcasting rights of self-produced drama series and outright-purchased drama series for the six months ended 30 June 2023.

In addition, our gross profit margin of licensing the broadcasting rights of self-produced drama series was approximately 95.9% and 11.2%, respectively, for the six months ended 30 June 2022 and 2023. Our gross profit margin of licensing the broadcasting rights of self-produced drama series for the six months ended 30 June 2023 was lower than that for 2022, primarily because the low gross profit margin from licensing of the first-run broadcasting rights of “Meteor with White Plume” (白羽流星), from which the Group generated the majority of our revenue from the licensing of broadcasting rights of self-produced drama series during the six months ended 30 June 2023.

Our gross profit margin of licensing the broadcasting rights of outright-purchased drama series was approximately 29.6% and 18.9%, respectively, for the six months ended 30 June 2022 and 2023. Our gross profit margin of licensing the broadcasting rights of outright-purchased drama series for the six months ended 30 June 2023 was lower than that for 2022, primarily because the low gross profit margin of our outright-purchased drama series “Youth in flames of war” (戰火中的青春), from which the Group generated the majority of the revenue from licensing of broadcasting rights of outright-purchased drama series during the six months ended 30 June 2023.

Other Income/(Loss)

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	550	585
Interest income	10	9
Changes in fair value of financial assets measured at fair value through profit or loss (“FVPL”)	75	(1,552)
Others	75	31
Total	710	(927)

Our other income increased by 176.6% 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 our sales and marketing employees; (iii) travel and transportation expenses of our marketing staff; and (iv) 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Marketing and promotion expenses	104	93
Staff costs	87	372
Travel and transportation expenses	2	3
Conference expenses	–	6
Others	61	24
Total	254	498

Our selling and marketing expenses decreased by approximately 49.0% from approximately RMB498,000 for the six months ended 30 June 2022 to approximately RMB254,000 for the six months ended 30 June 2023, primarily due to a decrease in staff costs relating to sales and marketing employees.

Administrative Expenses

Administrative expenses primarily consist of (i) staff costs relating to our administrative department; (ii) rental fees, which includes the rental expenses and property management fees in connection with our leased properties; (iii) depreciation and amortisation; (iv) office expenses; (v) consultancy fees, which mainly represents professional services fees, such as legal consulting fees, in connection with our business operations; (vi) transportation fees; (vii) travel expenses; (viii) entertainment expenses; (ix) taxes and surcharges, which primarily consist of construction tax, stamp duty and other education surcharges; (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	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Staff costs	4,748	7,610
Rental fees	51	86
Depreciation and amortisation	2,061	1,624
Office expenses	124	217
Consultancy fees	800	610
Transportation fees	118	179
Travel expenses	296	240
Entertainment expenses	315	731
Taxes and surcharges	157	34
Bank charges	27	57
Others	545	434
Total	9,242	11,822

Administrative expenses decreased by approximately 21.8% from approximately RMB11.8 million for the six months ended 30 June 2022 to approximately RMB9.2 million for the six months ended 30 June 2023. This decrease was primarily due to a decrease of staff costs relating to administrative department, partially offset by an increase in depreciation and amortisation.

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	
	2023 RMB'000	2022 RMB'000
Interest expenses on:		
– bank and other loans	8,712	11,087
– lease liabilities	82	124
Total	8,794	11,211
Less: interest expenses capitalized into drama series copyrights	(1,949)	(3,295)
Total	<u>6,845</u>	<u>7,916</u>

Our finance costs decreased by 13.5% from RMB7.9 million for the six months ended 30 June 2022 to RMB6.8 million for the six months ended 30 June 2023, 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 2023 compared to that for the six months ended 30 June 2022.

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 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 2022 and 2023.

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation		
Provision for the period	–	–
Deferred taxation		
Origination and reversal of temporary differences	–	(22)
Total	<u>–</u>	<u>(22)</u>

Our income tax benefit decreased by 100.0% from RMB22,000 for the six months ended 30 June 2022 to nil for the six months ended 30 June 2023, primarily due to the decrease of provision of origination and reversal of temporary differences.

Loss Attributable to Equity Shareholders of the Company for the Period

As a result of the foregoing, our loss attributable to equity shareholders of the Company decreased by 48.3% from RMB13.3 million for the six months ended 30 June 2022 to RMB6.8 million for the six months ended 30 June 2023.

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 2023, we had cash at bank and on hand of approximately RMB54.4 million as compared to cash at bank and on hand of approximately RMB59.6 million as of 31 December 2022, which were predominantly denominated in RMB.

As of 30 June 2023, we had net current assets of approximately RMB158.0 million as compared to the net current assets of approximately RMB162.3 million as of 31 December 2022.

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 RMB205.0 million as of 30 June 2023 as compared to total bank and other loans of approximately RMB212.7 million as of 31 December 2022.

As of 30 June 2023, we had bank loans of RMB66.0 million, among which RMB56.0 million were secured by the Group's bills receivables and restricted deposits. In addition, we had unsecured and unguaranteed loans of approximately RMB129.9 million as of 30 June 2023 from third-party non-executive producers with fixed repayment terms and bears interest at rates between 12% and 15% per annum.

Key Financial Ratios

Return on equity

The return on equity decreased from approximately negative 2.8% for the six months ended 30 June 2022 to approximately negative 3.7% for the six months ended 30 June 2023. Return on equity equals net profit for the period 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 negative 1.3% for the six months ended 30 June 2022 to approximately negative 0.8% for the six months ended 30 June 2023. Return on total assets equals net profit for the period divided by the average of beginning and ending balances of total assets of the relevant period.

Current ratio

The Group's current ratio increased from approximately 1.3 times as of 30 June 2022 to approximately 1.2 times as of 30 June 2023. Current ratio equals our current assets divided by current liabilities as of the end of the period.

Gearing ratio

The Group's gearing ratio decreased from approximately 113.8% as of 30 June 2022 to approximately 112.7% as of 30 June 2023. Gearing ratio equals total debt as of the end of the year divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.

CAPITAL EXPENDITURES

Our capital expenditure primarily consists of expenditures on the improvements to leased properties and purchase of office furniture and other equipment. Our capital expenditures for the six months ended 30 June 2022 and 2023 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 2023, 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 2022 and 30 June 2023, our deposits and trade and bills receivables, which had an aggregate amount of approximately RMB78.1 million and RMB67.6 million, respectively, were pledged to secure the bank loans of approximately RMB47.9 million and RMB66.0 million granted to the Group.

As of 30 June 2023, the Group did not have any material contingent liabilities (as of 31 December 2022: nil).

HUMAN RESOURCES AND REMUNERATION POLICY

As of 30 June 2023, the Group had 48 employees (47 as of 31 December 2022). 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 2023.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 June 2023, 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 2023 and up to the date of this announcement.

USE OF NET PROCEEDS

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

The following table sets forth a breakdown of the utilisation and proposed utilisation of net proceeds as of 30 June 2023:

Unit: Hong Kong dollar million

No.	Purpose	Percentage of total Amount %	Net proceeds HK\$ million	Utilised amount as of 31 December 2022 HK\$ million	Utilised amount during the six months ended 30 June 2023 HK\$ million	Unutilised amount HK\$ million	Expected timeline for utilisation of proceeds
1.	Produce own drama series	50.0	76.0	57.5	12.0	6.5	By December 2023
2.	Outright-purchase the copyrights (or broadcasting rights) associated with drama series from third-party copyright owners/licensors	37.5	57.0	38.2	9.0	9.8	By December 2023
3.	Hire additional experienced professionals and provide staff training	7.5	11.4	7.6	2.2	1.6	By December 2023
4.	Working capital and general corporate purposes	5.0	7.6	6.3	0.8	0.5	By December 2023
Total		<u>100.0</u>	<u>152.0</u>	<u>109.6</u>	<u>24.0</u>	<u>18.4</u>	

As of 30 June 2023, the Company has used approximately HK\$133.6 million of the net proceeds, representing approximately 87.9% 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 (“**Shareholders**”). The Company has studied relevant regulations thoroughly as stipulated in the Rules Governing the Listing of Securities on the Stock Exchange (“**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 six months ended 30 June 2023, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Part 2 of Appendix 14 of the Listing Rules (“**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 Transaction by Directors of Listed Issuers (“**Model Code**”) set out in Appendix 10 of the Listing Rules 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 six months ended 30 June 2023.

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 2023. 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 throughout the six months ended 30 June 2023.

INTERIM DIVIDEND

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.litian.tv). The interim report of the Company for the six months ended 30 June 2023 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, 30 August 2023

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 and Mr. Tang Zhiwei as non-executive directors; and Mr. Teng Bing Sheng, Mr. Liu Hanlin and Mr. Gan Weimin as independent non-executive directors.