CHINA LITERATURE LIMITED
阅文集团
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

PROFIT WARNING

This announcement is made by China Literature Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board of directors of the Company (the "**Board**") wishes to inform the shareholders of the Company (the "**Shareholders**") and potential investors that, based on the preliminary assessment and analysis of the Group's current unaudited consolidated management accounts for the six months ended June 30, 2020 (the "**Reporting Period**") and the information currently available to the Company, the Group is expected to record a net loss for the Reporting Period as compared to a net profit for the corresponding period of last year, mainly attributable to the combined effect of: (i) the Group's expected non-cash impairment of goodwill and trademark rights of an amount ranging from RMB3.7 billion to RMB4.7 billion, relating to the acquisition of New Classics Media Holdings Limited ("**New Classics Media**") in 2018, a subsidiary engaging in TV series, web series and film production and distribution in China; and partially offset by (ii) a decrease in the Group's net loss for the Reporting Period by an estimated amount ranging from RMB1.3 billion to RMB1.7 billion, due to an expected saving of earn-out consideration under the earn-out mechanism set upon the acquisition of New Classics Media. In addition, the revenue and operational results of New Classics Media fell short of the Group's expectation in the Reporting Period due to reasons outlined in the following paragraph.

Currently, the film and television industry in mainland China is undergoing profound adjustment as it responds to the fluid and changing macro-environment, and is experiencing a decline in the number of project filings, productions and releases, as well as lower-than-expected profits from certain individual projects. In addition, the outbreak of the novel coronavirus ("**COVID-19**") epidemic has continued to affect the macro-economy. The film and television industry in mainland China has suffered substantially, due to production delays and uncertain release dates. Under these pressures, New Classics Media's production cycle for film and television projects has elongated and becomes less predictable.

The Group carried out a preliminary assessment of goodwill and trademark rights attributable to New Classics Media as of June 30, 2020 based on the indicators of impairment of assets identified. The Board considers that the recoverable amount of New Classics Media's asset group comprising goodwill and trademark rights is lower than its carrying amount, and the impairment of goodwill and trademark rights will be recorded. At the same time, the Group expects that the performance of New Classics Media in 2020 will be below expectation and will trigger a reduction in the earn-out consideration to the management team of New Classics Media as sellers under the terms of the acquisition agreement, partially offsetting the impact of the impairment of goodwill and trademark rights on the financial results of the Group.

The above impairment charges on goodwill and trademark rights and change of earn-out consideration items will be excluded in the non-GAAP financial measures, including non-GAAP profit attributable to equity holders of the Company, and have no material impact on the Group's operations, liquidity and compliance with debt covenants, except for the potential saving in earn-out consideration, which in general would enhance the Group's liquidity. In addition, the current cash reserves of the Group are sufficient for the Group's daily operation. Accordingly, the management of the Company believes that the said accounting provision for impairment will not affect the Group's ability to continue as a going concern.

The information contained in this announcement is only a preliminary assessment by the Board with reference to the unaudited consolidated management accounts of the Group and other information currently available to the Company. Such information has not been audited or reviewed by the auditors or the audit committee of the Company. As the Company is still in the process of finalizing its financial results for the Reporting Period, the Group's final results for the Reporting Period may be subject to changes and may differ from the information disclosed in this announcement. The final results of the Company for the Reporting Period and other operating details of the Group will be disclosed in the interim results announcement of the Company for the Reporting Period, which is expected to be released on August 11, 2020.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares or other securities of the Company.

By order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell
Chairman of the Board and Non-executive Director

Hong Kong, July 20, 2020

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Cheng Wu and Mr. Hou Xiaonan as executive Directors; Mr. James Gordon Mitchell, Mr. Wu Wenhui, Mr. Cao Huayi and Mr. Cheng Yun Ming Matthew as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.