CHINA LITERATURE LIMITED

阅 文 集 团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board of directors of China Literature Limited hereby announces the unaudited consolidated results of the Group for the six months ended June 30, 2020. The Audit Committee, together with management and the Auditor, has reviewed the unaudited interim results of the Group for the six months ended June 30, 2020.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		
	2020	2019	Year-over-year
	RMB'000	*RMB'000*	(%)
	(Unaudited)	*(Unaudited)*	
Revenues	**3,260,206**	2,970,951	9.7
Gross profit	**1,731,312**	1,621,150	6.8
Operating (loss)/profit	**(3,555,563)**	527,722	(773.8)
(Loss)/profit before income tax	**(3,511,816)**	516,740	(779.6)
(Loss)/profit for the period	**(3,310,525)**	393,220	(941.9)
(Loss)/profit attributable to equity holders of the Company	**(3,295,874)**	392,722	(939.2)
Non-IFRS profit attributable to equity holders of the Company	**21,679**	389,999	(94.4)

BUSINESS REVIEW AND OUTLOOK

Overview

The year 2020 started with a global COVID-19 pandemic unexpectedly. The pandemic has drastically changed the world over the past few months and has lasting implications for the macro-economy and film and TV industry in particular. Offline consumer demand shrank dramatically, streets were almost empty and theater chains were locked and closed. On the supply side, numerous projects, including TV and film productions, were delayed. The release dates are still uncertain for many projects.

The pandemic together with the fluid and changing macro-environment have had a negative impact on our business performance. The experience has made us realize that China Literature has structural issues that have piled up in recent years, which have gradually degraded the Company's market share and neutralized its competitive edge. These are the fundamental reasons for our disappointing results.

Business Review

Our core online reading business has been facing challenges. The robustness of the China Literature platform depends on our talented writers and their creative drive. In the past, we failed to take full care of our writer's feelings and support our writers adequately through our incentive program, and some of our writers expressed concern about previous versions of the writer's contract. Writers are the cornerstone of the China Literature platform, and we need to do more to enhance their trust.

Meanwhile, the free-to-read business failed to meet our expectations. Last year, we launched our free reading App Feidu as a supplement to our paid reading products. The free-to-read reading product has strong influence in certain markets and over certain user groups, but Feidu's overall performance failed to match the leading position the Company enjoys in China's online literature sector.

For IP business, consolidation with New Classics Media (NCM) failed to produce full synergy. NCM is one of the best TV and film production houses in China. After the NCM acquisition, we tried to systematically convert our leading IP into TV series and films. The results were encouraging, as witnessed by the popularity of *Joy of Life (慶餘年)* but far from an overall success, and our integration with NCM fell behind schedule, largely because we lacked a team with sufficient knowledge of both online literature and drama production to drive progress.

In addition, we lacked a structure, a top-down design to create an IP-centric content and operational strategy, which could maximize the life-time value of IP by promoting cross-media production. Our past efforts had resulted in some success stories but the real issue is how to scale. We need a detailed, systematic set of guidelines to turn our valuable IP into various entertainment content such as comics, animations, TV series, film and games. We need to carefully manage the value of each IP over its life cycle, and apply a common methodology to the entire IP portfolio in order to maximize portfolio returns.

Furthermore, we have many business partners that have not yet successfully been converted into participants in our ecosystem. With business partners, we negotiate deals by focusing on give and take, a typical zero-sum game mindset. With ecosystem participants, the central question is how to create a long-term, win-win relationship.

Initial Action and Results

We will take actions to deal with these challenges. The Company has already responded quickly to some of the most urgent concerns.

For example, regarding the complaints the writers have about our previous contracts, we initiated a candid dialogue with writer candidates to hear their concerns and promised to tackle deep-rooted issues in the industry. Within one month, we launched several new contract templates for writers to choose from, and stepped up our efforts to fight piracy to better protect writers' rights. These actions helped us regain the trust of the writer community, strengthened our core business, and attracted favorable attention from the market.

Outlook

Looking ahead, we will use the same critical thinking and responsive attitude as key tools to address issues in the Company's other business lines. We will take major steps to improve our content, platform and ecosystem. First, we will strengthen our core business through enhancing IP incubation capability, strengthening fundamentals, and speeding up cross-sector development to accelerate our IP development. Second, we will improve the social and community features of the platform and establish a stronger connection between China Literature's products and the Tencent portfolio. Finally, we will introduce enhancements to our IP-centric ecosystem, leveraging our high-quality IP to build business partnerships and networks in content segments including comics, animation, TV series, film, and games. We will capture new opportunities arising from our innovative technology, segment business models and partnership networks.

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenues	**3,260,206**	2,970,951
Cost of revenues	**(1,528,894)**	(1,349,801)
Gross profit	**1,731,312**	1,621,150
Interest income	**62,048**	85,589
Other (losses)/gains, net	**(3,529,736)**	269,572
Selling and marketing expenses	**(1,270,264)**	(976,720)
General and administrative expenses	**(350,665)**	(473,400)
Net (provision for)/reversal of impairment losses on financial assets	**(198,258)**	1,531
Operating (loss)/profit	**(3,555,563)**	527,722
Finance costs	**(38,080)**	(93,464)
Share of net profit of associates and joint ventures	**81,827**	82,482
(Loss)/profit before income tax	**(3,511,816)**	516,740
Income tax benefit/(expense)	**201,291**	(123,520)
(Loss)/profit for the period	**(3,310,525)**	393,220
Attributable to:		
Equity holders of the Company	**(3,295,874)**	392,722
Non-controlling interests	**(14,651)**	498
	(3,310,525)	393,220
Non-IFRS profit for the period	**7,028**	390,517
Attributable to:		
Equity holders of the Company	**21,679**	389,999
Non-controlling interests	**(14,651)**	518
	7,028	390,517

Revenues. Revenues increased by 9.7% to RMB3,260.2 million for the six months ended June 30, 2020 on a year-over-year basis. The following table sets forth our revenues by segment for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020		2019	
	RMB'000	*%*	*RMB'000*	*%*
	(Unaudited)		*(Unaudited)*	
Online business [(1)]				
On our self-owned platform products	**1,989,748**	**61.0**	985,341	33.2
On our self-operated channels on Tencent products	**324,266**	**9.9**	431,371	14.5
On third-party platforms	**181,391**	**5.6**	245,769	8.3
Subtotal	**2,495,405**	**76.5**	1,662,481	56.0
Intellectual property operations and others[(2)]				
Intellectual property operations	**719,151**	**22.1**	1,215,030	40.9
Others	**45,650**	**1.4**	93,440	3.1
Subtotal	**764,801**	**23.5**	1,308,470	44.0
Total revenues	**3,260,206**	**100.0**	2,970,951	100.0

Notes:

(1) Revenues from online business primarily reflect revenues from online paid reading, online advertising and distribution of third-party online games on our platform.

(2) Revenues from intellectual property operations and others primarily reflect revenues from production and distribution of TV, web and animated series, films, licensing of IP rights for adaptation, operation of self-operated online games and sales of physical books.

– Revenues from online business increased by 50.1% to RMB2,495.4 million for the six months ended June 30, 2020 on a year-over-year basis, accounting for 76.5% of total revenues.

  Revenues from online business on our self-owned platform products increased by 101.9% to RMB1,989.7 million for the six months ended June 30, 2020, primarily driven by the expansion of distribution channels and users' growing willingness to pay for our reading content during the first half of 2020.

  Revenues from online business on our self-operated channels on Tencent products decreased by 24.8% to RMB324.3 million for the six months ended June 30, 2020, primarily due to the continued decline in paid reading revenues from our self-operated channels on certain Tencent products.

  Revenues from online business on third-party platforms decreased by 26.2% to RMB181.4 million for the six months ended June 30, 2020, primarily due to the decrease in revenues from certain third-party platform cooperators.

The following table summarizes our key operating data for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,	
	2020	2019
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	**233.4 million**	217.1 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	**10.6 million**	9.7 million
Paying Ratio[1]	**4.5%**	4.5%
Monthly average revenue per paying user ("ARPU")[2]	**RMB34.1**	RMB22.5

Notes:

(1) Paying ratio is calculated as average MPUs/average MAUs for a certain period.

(2) Monthly ARPU is calculated as online reading revenues on our self-owned platform products and self-operated channels on Tencent products divided by average MPUs during the period, then divided by the number of months during the period.

- Average MAUs on our self-owned platform products and self-operated channels increased by 7.5% year-over-year from 217.1 million to 233.4 million for the six months ended June 30, 2020, among which (i) MAUs on our self-owned platform products increased 16.1% year-over-year from 115.6 million to 134.2 million, primarily due to the expansion of distribution channels for our reading content; and (ii) MAUs on our self-operated channels on Tencent products decreased 2.3% year-over-year from 101.5 million to 99.2 million, primarily due to the decline of users for paid reading content for certain Tencent products, partially offset by the increase in users brought by free-to-read content.

- Average MPUs on our self-owned platform products and self-operated channels increased by 9.3% year-over-year from 9.7 million to 10.6 million for the six months ended June 30, 2020. The increase was driven by the growing number of paying users on our self-owned platform products, partially offset by the decrease in paying users from our self-operated channels on certain Tencent products as more users were allocated to read the free-to-read content on these Tencent products for the six months ended June 30, 2020.

- As a result of the foregoing, the paying ratio remained stable at 4.5% for the six months ended June 30, 2020.

- Monthly ARPU increased by 51.6% year-over-year from RMB22.5 to RMB34.1 for the six months ended June 30, 2020, mainly because we enhanced the depth of our content operations, optimized our recommendation system and expanded content distribution channels during the first half of 2020.

– Revenues from intellectual property operations and others decreased by 41.5% year-over-year to RMB764.8 million for the six months ended June 30, 2020.

  Revenues from intellectual property operations decreased by 40.8% year-over-year to RMB719.2 million for the six months ended June 30, 2020. The decrease was primarily caused by the decrease in revenues from NCM during the first half of 2020.

  Revenues from others decreased by 51.1% year-over-year to RMB45.7 million for the six months ended June 30, 2020, primarily due to the decrease in revenues from the sales of physical books as impacted by the COVID-19 pandemic. In addition, we continued to adjust our physical book business and distribution channels in tandem with our business development strategy.

Cost of revenues. Cost of revenues increased by 13.3% year-over-year to RMB1,528.9 million for the six months ended June 30, 2020, mainly due to greater platform distribution costs which increased from RMB197.1 million to RMB619.3 million for the six months ended June 30, 2020. This was mainly resulted from the expansion of online reading channels and our self-operated online game, which also led to an increase in revenues. The increase in cost of revenues was partially offset by a decline in the production costs of TV, web and animated series and films. These costs decreased from RMB359.7 million to RMB68.1 million for the six months ended June 30, 2020, but were also accompanied by a decrease in revenues.

The following table sets forth our cost of revenues by amount and as a percentage of total revenues for the periods indicated:

	Six months ended June 30,			
	2020		2019	
	RMB'000 (Unaudited)	***% of revenues***	*RMB'000 (Unaudited)*	*% of revenues*
Platform distribution costs	**619,313**	**19.0**	197,064	6.6
Content costs	**583,608**	**17.9**	556,089	18.7
Amortization of intangible assets	**82,865**	**2.5**	65,063	2.2
Production costs of TV, web and animated series and films	**68,113**	**2.1**	359,691	12.1
Cost of inventories	**59,887**	**1.8**	83,725	2.8
Others	**115,108**	**3.6**	88,169	3.0
Total cost of revenues	**1,528,894**	**46.9**	1,349,801	45.4

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 6.8% year-over-year to RMB1,731.3 million for the six months ended June 30, 2020. Gross margin was 53.1% for the six months ended June 30, 2020, as compared with 54.6% for the six months ended June 30, 2019.

Interest income. Interest income decreased by 27.5% to RMB62.0 million for the six months ended June 30, 2020, reflecting lower interest income from bank deposits.

Other (losses)/gains, net. We recorded net other losses of RMB3,529.7 million for the six months ended June 30, 2020, compared to net other gains of RMB269.6 million for the six months ended June 30, 2019. The other losses for the six months ended June 30, 2020 consisted mainly of i) the impairment provision of goodwill and trademark rights related to the acquisition of NCM of RMB4,015.9 million and RMB389.8 million, respectively, ii) a fair value gain on consideration liabilities of RMB1,240.3 million due to an expected saving of earn-out consideration under the earn-out mechanism set upon the acquisition of NCM, and iii) the impairment provision of the Company's long-term investments related to certain investee companies of RMB252.0 million.

Selling and marketing expenses. Selling and marketing expenses increased by 30.1% year-over-year to RMB1,270.3 million for the six months ended June 30, 2020, primarily driven by greater marketing expenses to promote our online reading content during the period. As a percentage of revenues, our selling and marketing expenses increased to 39.0% for the six months ended June 30, 2020 from 32.9% for the six months ended June 30, 2019.

General and administrative expenses. General and administrative expenses decreased by 25.9% year-over-year to RMB350.7 million for the six months ended June 30, 2020, primarily attributable to the reversal of compensation costs of RMB116.7 million related to the service expense of certain employees and former owners of NCM as the Company expects that the performance of NCM in 2020 will be below expectation. As a percentage of revenues, general and administrative expenses decreased to 10.8% for the six months ended June 30, 2020 from 15.9% for the six months ended June 30, 2019.

Net (provision for)/reversal of impairment losses on financial assets. The impairment losses on financial assets reflected the provision for doubtful receivables. For the six months ended June 30, 2020, the provision for doubtful receivables was RMB198.3 million, mainly related to TV and film projects.

Operating (loss)/profit. As a result of the foregoing, we had an operating loss of RMB3,555.6 million for the six months ended June 30, 2020, as compared with an operating profit of RMB527.7 million in the prior corresponding period.

Finance costs. Finance costs decreased by 59.3% year-over-year to RMB38.1 million for the six months ended June 30, 2020. The decrease was mainly due to lower interest expenses incurred in the first half of 2020.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures remained stable at RMB81.8 million for the six months ended June 30, 2020, reflecting the profits generated by our investee companies in the first half of 2020.

Income tax benefit/(expense). Income tax benefit was RMB201.3 million for the six months ended June 30, 2020, as compared to an income tax expense of RMB123.5 million for the same period of last year. The recognition of deferred income tax assets and the reversal of deferred income tax liabilities from the accrual of asset impairment losses exceeded the income tax expenses that incurred during the first half of 2020, resulting in a net gain from income taxes.

(Loss)/profit attributable to equity holders of the Company. We had a loss attributable to equity holders of the Company of RMB3,295.9 million for the six months ended June 30, 2020, as compared with a profit attributable to equity holders of the Company of RMB392.7 million for the six months ended June 30, 2019.

Segment Information:

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the six months ended June 30, 2020 and 2019:

	Six months ended June 30, 2020		
	Online business	**Intellectual property operations and others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
	(Unaudited)	***(Unaudited)***	***(Unaudited)***
Segment revenues	**2,495,405**	**764,801**	**3,260,206**
Cost of revenues	**1,146,247**	**382,647**	**1,528,894**
Gross profit	**1,349,158**	**382,154**	**1,731,312**
Gross margin	**54.1%**	**50.0%**	**53.1%**

	Six months ended June 30, 2019		
	Online business	Intellectual property operations and others	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
Segment revenues	1,662,481	1,308,470	2,970,951
Cost of revenues	703,329	646,472	1,349,801
Gross profit	959,152	661,998	1,621,150
Gross margin	57.7%	50.6%	54.6%

OTHER FINANCIAL INFORMATION

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
EBITDA(1)	**59,585**	298,173
Adjusted EBITDA(2)	**17,117**	459,214
Adjusted EBITDA margin(3)	**0.5%**	15.5%
Interest expense	**33,873**	96,293
Net cash(4)	**4,530,411**	4,892,250
Capital expenditures(5)	**125,083**	94,549

Notes:

(1) EBITDA consists of operating profit for the period less interest income and other gains, net and plus depreciation of property, plant and equipment as well as right-of-use assets, and amortization of intangible assets.

(2) Adjusted EBITDA is calculated as EBITDA for the period plus share-based compensation expense and expenditures related to acquisitions.

(3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.

(4) Net cash is calculated as cash and cash equivalents, term deposits and restricted bank deposits, less total borrowings.

(5) Capital expenditures consist of expenditures for intangible assets and property, plant and equipment.

The following table reconciles our operating (loss)/profit to our EBITDA and adjusted EBITDA for the periods presented:

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Operating (loss)/profit	**(3,555,563)**	527,722
Adjustments:		
Interest income	**(62,048)**	(85,589)
Other losses/(gains), net	**3,529,736**	(269,572)
Depreciation of property, plant and equipment	**11,466**	10,968
Depreciation of right-of-use assets	**32,641**	31,343
Amortization of intangible assets	**103,353**	83,301
EBITDA	**59,585**	298,173
Adjustments:		
Share-based compensation	**52,152**	71,639
Expenditure related to acquisition	**(94,620)**	89,402
Adjusted EBITDA	**17,117**	459,214

Non-IFRS Financial Measure:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-IFRS financial measures, namely non-IFRS operating (loss)/profit, non-IFRS operating margin, non-IFRS profit for the period, non-IFRS net margin, non-IFRS profit attributable to equity holders of the Company, non-IFRS basic EPS and non-IFRS diluted EPS as additional financial measures, have been presented in this interim results announcement for the convenience of readers. These unaudited non-IFRS financial measures should be considered in addition to, and not as a substitute for, measures of our Group's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies. In addition, non-IFRS adjustments include relevant non-IFRS adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

Our management believes that the presentation of these non-IFRS financial measures, when shown in conjunction with the corresponding IFRS measures, provides useful information to investors and management regarding the financial and business trends relating to the Company's financial condition and results of operations. Our management also believes that the non-IFRS financial measures are useful in evaluating our Group's operating performances. From time to time, there may be other items that our Company may include or exclude in reviewing its financial results.

The following tables set forth the reconciliations of our Group's non-IFRS financial measures for the six months ended June 30, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2020					
		Adjustments				
	As reported	**Share-based compensation**	**Net loss from investments and acquisition**[1]	**Amortization of intangible assets**[2]	**Tax effect**	**Non-IFRS**
			(RMB' 000, unless specified)			
Operating (loss)	**(3,555,563)**	**52,152**	**3,400,988**	**45,761**	**–**	**(56,662)**
(Loss)/profit for the period	**(3,310,525)**	**52,152**	**3,394,335**	**45,761**	**(174,695)**	**7,028**
(Loss)/profit attributable to equity holders of the Company	**(3,295,874)**	**52,152**	**3,394,335**	**45,761**	**(174,695)**	**21,679**
EPS (RMB per share)						
– basic	**(3.30)**					**0.02**
– diluted	**(3.31)**					**0.02**
Operating margin	**(109.1%)**					**(1.7%)**
Net margin	**(101.5%)**					**0.2%**

	Unaudited six months ended June 30, 2019					
		Adjustments				
	As reported	Share-based compensation	Net (gain) from investments and acquisition[1]	Amortization of intangible assets[2]	Tax effect	Non-IFRS
			(RMB' 000, unless specified)			
Operating profit	527,722	71,639	(145,979)	63,738	–	517,120
Profit for the period	393,220	71,639	(125,125)	63,738	(12,955)	390,517
Profit attributable to equity holders of the Company	392,722	71,639	(125,125)	63,718	(12,955)	389,999
EPS (RMB per share)						
– basic	0.39					0.39
– diluted	0.39					0.39
Operating margin	17.8%					17.4%
Net margin	13.2%					13.1%

Notes:

(1) Including impairment provision of goodwill, trademark rights and long-term investments related to certain investee companies, fair value changes arising from investee companies, fair value gains on consideration liabilities related to the acquisition of NCM and the reversal of compensation costs related to the service expense of certain employees and former owners of NCM.

(2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets decreased from RMB26,250.0 million as of December 31, 2019 to RMB21,460.4 million as of June 30, 2020, while our total liabilities decreased from RMB6,839.2 million as of December 31, 2019 to RMB5,027.8 million as of June 30, 2020. Liabilities-to-assets ratio decreased from 26.1% as of December 31, 2019 to 23.4% as of June 30, 2020.

As of June 30, 2020, the current ratio (the ratio of total current assets to total current liabilities) was 291.7%, compared to 206.1% as of December 31, 2019.

As of June 30, 2020, our Group has pledged receivables of RMB224.7 million as security to a certain bank borrowing, compared to RMB324.2 million as of December 31, 2019.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, cash generated from our operations, and borrowings from related parties and bank loans. As of June 30, 2020, our Group had net cash of RMB4,530.4 million, compared to RMB5,139.3 million as of December 31, 2019. The decrease in net cash in the first half of 2020 was mainly due to the earn-out cash consideration paid for the acquisition of NCM based on its 2019 financial performance, partially offset by the cash generated from our operating activities. Our bank balances and term deposits are primarily in USD, RMB and HKD. Our Group monitors capital on the basis of gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2020:

- Our gearing ratio was 11.3%, compared to 6.7% as of December 31, 2019.
- Our total borrowings were RMB1,864.2 million, which were primarily denominated in RMB.
- Our unutilized banking facility was RMB1,407.8 million.

As of June 30, 2020 and December 31, 2019, our Group had no significant contingent liabilities.

As of June 30, 2020 and December 31, 2019, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of contents and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the six months ended June 30, 2020 totalled RMB125.1 million, compared to RMB305.6 million for the six months ended June 30, 2019, representing a year-over-year decrease of RMB180.5 million which was primarily due to less expenditure for investments in associates and joint ventures in the first half of 2020. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the IPO Proceeds.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the six months ended June 30, 2020 and 2019.

Employee

As of June 30, 2020, we had approximately 2,000 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

Our success depends on our ability to attract, retain and motivate qualified personnel. As a part of our retention strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. As required under the PRC regulations, we participate in a housing fund and various employee social security plans that are organized by applicable local municipal and provincial governments. We also purchase commercial health and accidental insurance for our employees. Bonuses are generally discretionary and are based in part on the overall performance of our business. We have granted and planned to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

NEW CLASSICS MEDIA

On October 31, 2018, the Company acquired 100% of the equity interest in NCM which is primarily engaged in TV series, web series and film production and distribution in China. NCM, on a standalone basis, recorded RMB129.9 million in revenues and RMB97.1 million in net loss for the six months ended June 30, 2020.

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 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, NCM's production cycle for film and television projects has elongated and becomes less predictable.

The Company carried out an assessment of goodwill and trademark rights attributable to NCM as of June 30, 2020 based on impairment indicators. In the Board's view, the recoverable amount of goodwill and trademark rights related to the acquisition of NCM was lower than their carrying amount, and the impairment provision was recorded of RMB4,015.9 million and RMB389.8 million in goodwill and trademark rights, respectively. At the same time, the Company recognized a fair value gain on consideration liabilities of RMB1,240.3 million and reversed compensation costs of RMB116.7 million, as the Company expects that the performance of NCM in 2020 will be below expectation and will trigger a reduction in the earn-out consideration to the management team of NCM as sellers under the terms of the acquisition agreement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2020

		Six months ended June 30,	
		2020	2019
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	*(Unaudited)*
Revenues	*5*	**3,260,206**	2,970,951
Cost of revenues	*6*	**(1,528,894)**	(1,349,801)
Gross profit		**1,731,312**	1,621,150
Interest income		**62,048**	85,589
Other (losses)/gains, net	*7*	**(3,529,736)**	269,572
Selling and marketing expenses	*6*	**(1,270,264)**	(976,720)
General and administrative expenses	*6*	**(350,665)**	(473,400)
Net (provision for)/reversal of impairment losses on financial assets		**(198,258)**	1,531
Operating (loss)/profit		**(3,555,563)**	527,722
Finance costs		**(38,080)**	(93,464)
Share of net profit of associates and joint ventures	*12*	**81,827**	82,482
(Loss)/profit before income tax		**(3,511,816)**	516,740
Income tax benefit/(expense)	*8*	**201,291**	(123,520)
(Loss)/profit for the period		**(3,310,525)**	393,220
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of associates and joint ventures		**(65)**	(415)
Currency translation differences		**77,566**	(18,144)
Total comprehensive (loss)/income for the period		**(3,233,024)**	374,661

	Note	Six months ended June 30, **2020** **_RMB'000_** **_(Unaudited)_**	2019 _RMB'000_ _(Unaudited)_
(Loss)/profit attributable to:			
– Equity holders of the Company		**(3,295,874)**	392,722
– Non-controlling interests		**(14,651)**	498
		(3,310,525)	393,220
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		**(3,218,373)**	374,168
– Non-controlling interests		**(14,651)**	493
		(3,233,024)	374,661
(Loss)/earnings per share (expressed in RMB per share)			
– Basic (loss)/earnings per share	_9(a)_	**(3.30)**	0.39
– Diluted (loss)/earnings per share	_9(b)_	**(3.31)**	0.39

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020

	Note	**As of June 30, 2020 *RMB'000* *(Unaudited)***	As of December 31, 2019 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**36,088**	41,521
Right-of-use assets		**71,633**	92,630
Intangible assets	*11*	**7,655,473**	12,168,799
Investments in associates and joint ventures	*12*	**796,045**	963,551
Financial assets at fair value through profit or loss	*13*	**451,061**	457,185
Deferred income tax assets		**311,192**	190,769
Prepayments, deposits and other assets		**109,025**	145,024
		9,430,517	14,059,479
Current assets			
Inventories	*14*	**551,052**	606,037
Television series and film rights	*15*	**1,198,470**	1,107,671
Financial asset at fair value through profit or loss	*13*	**723,960**	–
Trade and notes receivables	*16*	**2,362,021**	3,366,078
Prepayments, deposits and other assets		**799,776**	668,351
Restricted bank deposits		**74,716**	94,787
Term deposits		**2,804,892**	415,752
Cash and cash equivalents		**3,515,018**	5,931,849
		12,029,905	12,190,525
Total assets		**21,460,422**	26,250,004

	Note	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**645**	642
Shares held for RSU scheme		**(11)**	(19)
Share premium		**16,364,509**	16,161,809
Other reserves		**1,265,040**	1,135,387
(Accumulated losses)/retained earnings		**(1,197,126)**	2,098,748
		16,433,057	19,396,567
Non-controlling interests		**(407)**	14,244
Total equity		**16,432,650**	19,410,811
LIABILITIES			
Non-current liabilities			
Borrowings	18	**624,779**	–
Lease liabilities		**29,831**	34,371
Long-term payables		**22,340**	–
Deferred income tax liabilities		**194,552**	322,631
Deferred revenue		**32,500**	33,462
Financial liabilities at fair value through profit or loss		**–**	535,082
		904,002	925,546
Current liabilities			
Borrowings	18	**1,239,436**	1,303,072
Lease liabilities		**41,019**	55,558
Trade payables	19	**906,326**	1,020,676
Other payables and accruals		**927,746**	1,489,689
Deferred revenue		**829,284**	717,708
Current income tax liabilities		**179,959**	205,413
Financial liabilities at fair value through profit or loss		**–**	1,121,531
		4,123,770	5,913,647
Total liabilities		**5,027,772**	6,839,193
Total equity and liabilities		**21,460,422**	26,250,004

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2020

	Attributable to equity holders of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU scheme *RMB'000*	Other reserves *RMB'000*	(Accumulated losses)/ retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
(Unaudited)								
As of January 1, 2020	**642**	**16,161,809**	**(19)**	**1,135,387**	**2,098,748**	**19,396,567**	**14,244**	**19,410,811**
Comprehensive (loss)/income								
Loss for the period	–	–	–	–	(3,295,874)	(3,295,874)	(14,651)	(3,310,525)
Other comprehensive (loss)/income								
– Share of other comprehensive loss of associates and a joint venture	–	–	–	(65)	–	(65)	–	(65)
– Currency translation differences	–	–	–	77,566	–	77,566	–	77,566
Total comprehensive (loss)/ income for the period	–	–	–	77,501	(3,295,874)	(3,218,373)	(14,651)	(3,233,024)
Transaction with owners								
Share-based compensation expenses	–	–	–	52,152	–	52,152	–	52,152
Transfer of vested RSUs	–	104,830	8	–	–	104,838	–	104,838
Issue of ordinary shares as consideration for a business combination	3	97,870	–	–	–	97,873	–	97,873
Transactions with owners in their capacity for the period	3	202,700	8	52,152	–	254,863	–	254,863
As of June 30, 2020	645	16,364,509	(11)	1,265,040	(1,197,126)	16,433,057	(407)	16,432,650

	Share capital	Share premium	Treasury shares	Shares held for RSU scheme	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
	Attributable to equity holders of the Company								
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)									
As of January 1, 2019	649	16,456,555	–	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045
Comprehensive income/(loss)									
Profit for the period	–	–	–	–	–	392,722	392,722	498	393,220
Other comprehensive loss									
– Share of other comprehensive loss of an associate	–	–	–	–	(415)	–	(415)	–	(415)
– Currency translation differences	–	–	–	–	(18,139)	–	(18,139)	(5)	(18,144)
Total comprehensive (loss)/ income for the period	–	–	–	–	(18,554)	392,722	374,168	493	374,661
Transaction with owners									
Share-based compensation expenses	–	–	–	–	71,639	–	71,639	–	71,639
Repurchase of shares (not yet cancelled)	–	–	(6,254)	–	–	–	(6,254)	–	(6,254)
Repurchase and cancellation of shares	–	(9,602)	–	–	–	–	(9,602)	–	(9,602)
Transfer of vested RSUs	–	(41,928)	–	2	–	–	(41,926)	–	(41,926)
Dividends paid	–	–	–	–	–	–	–	(7,981)	(7,981)
Capital injection	–	–	–	–	–	–	–	6,200	6,200
Acquisition of non-controlling interests	–	–	–	–	(594)	–	(594)	(10,205)	(10,799)
Transactions with owners in their capacity for the period	–	(51,530)	(6,254)	2	71,045	–	13,263	(11,986)	1,277
As of June 30, 2019	649	16,405,025	(6,254)	(19)	950,641	1,440,867	18,790,909	74	18,790,983

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Net cash generated from/(used in) operating activities	**540,941**	(2,182)
Net cash (used in) investing activities	**(3,485,580)**	(1,587,276)
Net cash flows generated from/(used in) financing activities	**486,394**	(1,061,107)
Net decrease in cash and cash equivalents	**(2,458,245)**	(2,650,565)
Cash and cash equivalents at beginning of the period	**5,931,849**	8,342,228
Exchange gains/(losses) on cash and cash equivalents	**41,414**	(19,287)
Cash and cash equivalents at end of the period	**3,515,018**	5,672,376

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

China Literature Limited (the "Company") was incorporated in the Cayman Islands on April 22, 2013 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since November 8, 2017.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the "Group"), are principally engaged in the provision of reading services (either free or paid), copyright commercialisation (either by self-operation or collaboration with others), writer cultivation and brokerage, operation of text work reading and related open platform, which are all based on text work, and the realisation of these activities through technology methods and digital media including but not limited to personal computers, Internet and mobile network in the People's Republic of China (the "PRC"). On October 31, 2018, the Group acquired 100% equity interest of New Classics Media Holdings Limited (or referred to as "New Classics Media" and previously known as "Qiandao Lake Holdings Limited"). New Classics Media and its subsidiaries are principally engaged in production and distribution of television series, web series and films in the PRC, which has further expanded the Group's intellectual property operation business, in particular for the production and distribution of film and TV programs.

The ultimate holding company of the Company is Tencent Holdings Limited ("Tencent"), which is incorporated in the Cayman Islands with limited liability and the shares of Tencent have been listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The interim financial information comprises the consolidated statement of financial position as of June 30, 2020, the related consolidated statement of comprehensive (loss)/income for the six months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Interim Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*" issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the 2019 annual report of the Company dated March 17, 2020 (the "2019 Financial Statements").

3 Significant accounting policies

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2019 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including contingent consideration payable) at fair value through profit or loss, which are carried at fair value.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profit.

3.1 Amendments to standards and interpretations adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2020:

Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 3	Definition of a business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

New standards and amendments to standards effective for the financial year ending December 31, 2020 do not have a material impact on the Group's Interim Financial Information.

3.2 New standards and amendments to standards that have been issued but not effective

The following new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2020, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 28 and IFRS 10	Sales or contribution assets between an investor and its associate or joint venture	To be determined
IFRS 17	Insurance contracts	January 1, 2023

4 Segment information

The chief operating decision-makers mainly include executive directors of the Group. They review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

As of June 30, 2020 and 2019, the chief operating decision-makers of the Group have identified the following reportable segments:

- Online business (including online paid reading, online advertising and game publishing); and

- Intellectual property operations and others (including licensing and distribution of film and television properties, copyrights licensing, sales of physical books, in-house online games operations, etc.)

As of June 30, 2020, the chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, net impairment loss on financial assets, other (losses)/gains, net, finance costs, share of profit of investments accounted for using equity method and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2020 and 2019. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated statement of comprehensive (loss)/income.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in the Interim Financial Information. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. The revenue is mainly generated in China.

5 Revenues

5.1 Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major lines:

	Online business			**Intellectual property operations and others**		
(Unaudited) **Six months ended June 30, 2020**	**On self-owned platform products** ***RMB'000***	**On self-operated channels on Tencent products** ***RMB'000***	**On third-party platforms** ***RMB'000***	**Intellectual property operations** ***RMB'000***	**Others** ***RMB'000***	**Total** ***RMB'000***
Timing of revenue recognition:						
– At a point in time	**1,848,937**	**226,915**	**181,391**	**279,594**	**41,268**	**2,578,105**
– Over time	**140,811**	**97,351**	**–**	**439,557**	**4,382**	**682,101**
	1,989,748	**324,266**	**181,391**	**719,151**	**45,650**	**3,260,206**

	Online business			Intellectual property operations and others		
(Unaudited) Six months ended June 30, 2019	On self-owned platform products *RMB'000*	On self-operated channels on Tencent products *RMB'000*	On third-party platforms *RMB'000*	Intellectual property operations *RMB'000*	Others *RMB'000*	Total *RMB'000*
Timing of revenue recognition:						
– At a point in time	864,133	359,042	245,769	781,108	88,799	2,338,851
– Over time	121,208	72,329	–	433,922	4,641	632,100
	985,341	431,371	245,769	1,215,030	93,440	2,970,951

6 Expenses by nature

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Promotion and advertising expenses	**1,027,799**	712,198
Platform distribution costs	**619,313**	197,064
Content costs	**583,608**	556,089
Employee benefits expenses	**260,847**	413,405
Payment handling costs	**167,560**	167,140
Amortization of intangible assets	**103,353**	83,301
Game development outsourcing costs	**55,557**	43,523
Provision for physical inventory obsolescence	**39,330**	32,910
Bandwidth and server custody fees	**34,493**	27,103
Animation production costs	**32,820**	37,413
Depreciation of right-of-use assets	**32,641**	31,343
Professional service fees	**31,646**	35,069
Impairment loss on prepayments to directors, actors and writers	**26,000**	–
Impairment loss on television series and film rights	**22,425**	–
Cost of physical inventories sold	**20,557**	50,815
Travelling, entertainment and general office expenses	**15,789**	23,505
Production costs of television series and film rights	**12,868**	322,278
Depreciation of property, plant and equipment	**11,466**	10,968
Auditors' remuneration		
– Audit services	**5,150**	4,938
– Non-audit services	**482**	212
Logistic expenses	**2,397**	3,520
Expense relating to short-term leases	**2,350**	1,587
Others	**41,372**	45,540
	3,149,823	2,799,921

7 Other (losses)/gains, net

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Fair value gain on remeasurement of contingent consideration receivable/payable	**1,240,750**	194,116
Subsidies and tax rebates	**48,449**	50,238
Gain on copyright infringements	**8,541**	3,405
Fair value gain of investment in a listed entity	**2,337**	–
Impairment loss of goodwill	**(4,015,854)**	–
Impairment loss of other intangible assets	**(537,086)**	–
Impairment provision for investments in associates and a joint venture	**(251,960)**	–
Fair value (loss)/gain of investments in redeemable shares of associates	**(8,999)**	1,863
Fair value gain of derivative financial asset	**–**	10,107
(Loss)/gain on disposal of film rights and a television series	**(10,038)**	6,700
Others	**(5,876)**	3,143
	(3,529,736)	269,572

8 Income tax (benefit)/expense

(a) *Cayman Islands corporate income tax ("CIT")*

Under the current laws of Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

(b) *Hong Kong profit tax*

Entities incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% since January 1, 2010. The operations in Hong Kong has incurred net accumulated operating losses for income tax purposes and no income tax provisions are recorded for the periods presented.

(c) *PRC corporate income tax*

CIT provision was made on the estimated assessable profit of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the periods presented.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the periods presented according to the applicable CIT Law.

According to the relevant tax circulars issued by the PRC tax authorities, a subsidiary of the Group is entitled to certain tax concessions and it is exempt from CIT during the year from its incorporation to December 31, 2020.

The amount of income tax charged to the consolidated statement of comprehensive (loss)/income represents:

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Current income tax	**47,211**	171,882
Deferred income tax	**(248,502)**	(48,362)
Income tax (benefit)/expense	**(201,291)**	123,520

9 (Loss)/earnings per share

(a) Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the periods.

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Net (loss)/profit attributable to the equity holders of the Company	**(3,295,874)**	392,722
Weighted average number of ordinary shares in issue (thousand)	**998,186**	1,000,452
Basic (loss)/earnings per share (expressed in RMB per share)	**(3.30)**	0.39

(b) Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The impact of potential ordinary shares to be issued by a joint venture of the Group into ordinary shares of the joint venture is included in the computation of loss per share for the six months ended June 30, 2020 as the impact would be dilutive.

For the six months ended June 30, 2019, the Company has the dilutive potential ordinary shares of restricted shares units ("RSUs") granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Net (loss)/profit attributable to the equity holders of the Company	**(3,295,874)**	392,722
Impact of a joint venture's potential ordinary shares	**(6,944)**	–
Net (loss)/profit used to determine (loss)/earnings per share	**(3,302,818)**	392,722
Weighted average number of ordinary shares in issue (thousand)	**998,186**	1,000,452
Adjustments for share-based compensation – RSUs (thousand)	**–**	9,571
Weighted average number of ordinary shares for diluted (loss)/ earnings per share (thousand)	**998,186**	1,010,023
Diluted (loss)/earnings per share (expressed in RMB per share)	**(3.31)**	0.39

10 Dividends

No dividends have been paid or declared by the Company during the six months ended June 30, 2020 and 2019.

11 Intangible assets

	Goodwill	Non-compete agreement	Trademarks	Copyrights of contents	Writers' contracts	Software	Domain names	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)								
Six months ended June 30, 2020								
Opening net book amount as of January 1, 2020	**10,653,325**	**17,283**	**1,105,697**	**349,847**	**36,666**	**3,670**	**2,311**	**12,168,799**
Additions	**–**	**38,840**	**–**	**100,913**	**–**	**2,237**	**–**	**141,990**
Amortization	**–**	**(5,384)**	**(13,598)**	**(75,310)**	**(7,333)**	**(1,677)**	**(51)**	**(103,353)**
Impairment provision	**(4,015,854)**	**–**	**(483,930)**	**(53,121)**	**–**	**(35)**	**–**	**(4,552,940)**
Currency translation differences	**–**	**–**	**–**	**977**	**–**	**–**	**–**	**977**
Closing net book amount as of June 30, 2020	**6,637,471**	**50,739**	**608,169**	**323,306**	**29,333**	**4,195**	**2,260**	**7,655,473**

	Goodwill	Non-compete agreement	Trademarks	Copyrights of contents	Writers' contracts	Distribution channel relationship	Customers relationship	Software	Domain names	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)										
Six months ended June 30, 2019										
Opening net book amount as of January 1, 2019	10,653,325	23,383	1,132,893	273,251	51,333	800	21	3,615	2,536	12,141,157
Additions	–	–	–	88,536	–	–	–	682	–	89,218
Amortization	–	(3,050)	(13,598)	(57,409)	(7,333)	(400)	(21)	(1,316)	(174)	(83,301)
Currency translation differences	–	–	–	675	–	–	–	2	–	677
Closing net book amount as of June 30, 2019	10,653,325	20,333	1,119,295	305,053	44,000	400	–	2,983	2,362	12,147,751

As of June 30, 2020 and 2019, goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	As of June 30, 2020	As of December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	
Online business	**3,720,323**	3,720,323
Acquired TV and film business	**2,917,148**	6,933,002
	6,637,471	10,653,325

12 Investments in associates and joint ventures

	As of June 30, 2020	As of December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	
Investments in associates *(a)*	**255,111**	469,943
Investments in joint ventures *(b)*	**540,934**	493,608
	796,045	963,551

(a) Investments in associates

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
At the beginning of the period	**469,943**	307,794
Additions	**–**	136,471
Share of net (loss)/profit of associates	**(1,233)**	22,214
Share of other comprehensive loss of associates	**(990)**	(415)
Liquidation of an associate	**–**	(70,666)
Impairment provision	**(214,837)**	–
Currency translation differences	**2,228**	345
At the end of the period	**255,111**	395,743

(b) Investments in joint ventures

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
At the beginning of the period	**493,608**	373,124
Additions	**–**	85,061
Dividend from a joint venture	**–**	(45,000)
Share of net profit of the joint ventures	**83,060**	60,268
Share of other comprehensive income of a joint venture	**925**	–
Impairment provision	**(37,123)**	–
Currency translation differences	**464**	–
At the end of the period	**540,934**	473,453

(c) Joint operations

The Group participated in a number of TV drama production and distribution projects with other parties and the Group also has joint operations with content distribution platforms for intellectual property monetization operations. The principal place of business of the joint operations are in the PRC.

13 Financial assets at fair value through profit or loss

(a) Classification of financial assets at fair value through profit or loss

The Group classifies the following financial assets at fair value through profit or loss:

- debt instruments that do not qualify for measurement at either amortized cost or at fair value through other comprehensive income;
- equity investments that are held for trading; and
- equity investments for which the entity has not elected to recognise fair value gains or losses through other comprehensive income.

Financial assets at fair value through profit or loss include the following:

	As of June 30, 2020 **_RMB'000_** **_(Unaudited)_**	As of December 31, 2019 *RMB'000*
Included in non-current assets:		
Investments in redeemable shares of associates	**421,162**	429,842
Investments in unlisted entities	**12,000**	12,000
Investment in a listed entity	**17,899**	15,343
	451,061	457,185
Included in current assets:		
Contingent consideration receivable	**723,960**	–
	1,175,021	457,185

Movement of financial assets at fair value through profit or loss is analysed as follows:

	Six months ended June 30,	
	2020 **_RMB'000_** **_(Unaudited)_**	2019 *RMB'000* *(Unaudited)*
At the beginning of the period	**457,185**	470,941
Additions	**–**	12,000
Changes in fair value	**717,298**	11,970
Conversion of an associate's preferred shares to ordinary shares	**–**	(23,000)
Settlement of forward foreign currency contract	**–**	(36,911)
Currency translation difference	**538**	–
At the end of the period	**1,175,021**	435,000

(b) Amounts recognized in profit or loss

During the periods, the following gains were recognized in profit or loss:

	Six months ended June 30,	
	2020 **_RMB'000_** **_(Unaudited)_**	2019 *RMB'000* *(Unaudited)*
Fair value gain on financial assets at fair value through profit or loss		
– Fair value gain of contingent consideration receivable	**723,960**	–
– Fair value gain of investment in a listed entity	**2,337**	–
– Fair value (loss)/gain of investments in redeemable shares of associates	**(8,999)**	1,863
– Fair value gain of derivative financial assets	**–**	10,107
	717,298	11,970

14 Inventories

	As of June 30, 2020	As of December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	
Adaptation rights and scripts	**490,623**	509,753
Raw materials	**8,610**	9,308
Work in progress	**9,398**	12,806
Inventories in warehouse	**81,853**	81,073
Inventories held with distributors on consignment	**83,556**	88,415
Others	**8,202**	7,026
	682,242	708,381
Less: provision for inventory obsolescence	**(131,190)**	(102,344)
	551,052	606,037

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale. Inventories are stated at the lower of cost or net realisable value. During the six months ended June 30, 2020, the cost of inventories, including provision for inventory obsolescence, recognized as expense and included in "cost of revenues" amounted to approximately RMB103,271,000 (six months ended June 30, 2019: RMB83,725,000).

During the six months ended June 30, 2020, write-downs of inventories to net realisable value and reversal of write-downs of inventories that recognized as expense and included in "cost of revenues" were amounting to approximately RMB44,435,000 and RMB10,485,000 (six months ended June 30, 2019: RMB32,910,000 and RMB33,109,000), respectively.

15 Television series and film rights

	As of June 30, 2020	As of December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	
Television series and film rights		
– under production	**889,500**	655,723
– completed	**308,970**	451,948
	1,198,470	1,107,671

	Under production	**Completed**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
(Unaudited)			
As of January 1, 2020	**655,723**	**451,948**	**1,107,671**
Additions	**264,230**	**–**	**264,230**
Transfer from under production to completed	**(54,890)**	**54,890**	**–**
Transfer from adaptation rights and scripts to under production	**46,229**	**–**	**46,229**
Recognized in cost of revenues *(Note a)*	**(21,792)**	**(46,321)**	**(68,113)**
Recognised in other (losses)/gains, net *(Note 7)*	**–**	**(151,547)**	**(151,547)**
As of June 30, 2020 ***(Note b)***	**889,500**	**308,970**	**1,198,470**

	Adaptation rights and scripts *RMB'000*	Under production *RMB'000*	Completed *RMB'000*	Total *RMB'000*
(Unaudited)				
As of January 1, 2019	709,491	1,416,202	731,363	2,857,056
Transfer to inventories	(709,491)	–	–	(709,491)
Additions	–	603,441	2,809	606,250
Transfer from under production to completed	–	(640,730)	640,730	–
Transfer from adaptation rights and scripts to under production	–	107,820	–	107,820
Recognized in cost of revenues	–	–	(359,691)	(359,691)
As of June 30, 2019 *(Note b)*	–	1,486,733	1,015,211	2,501,944

Notes:

(a) During the six months ended June 30, 2020, impairment loss of approximately RMB22,425,000 was provided for the Group's completed television series and film rights (six months ended June 30, 2019: nil).

(b) The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights under production were transferred to television series and film rights completed upon completion of production.

16 Trade and notes receivables

The Group usually allows a credit period of 30 to 120 days to its customers. Aging analysis of trade and notes receivables (net of allowance for doubtful debts) based on recognition date is as follows:

	As of June 30, 2020 ***RMB'000*** ***(Unaudited)***	As of December 31, 2019 *RMB'000*
Trade and notes receivables		
– Up to 3 months	**784,168**	2,648,932
– 3 to 6 months	**78,811**	146,655
– 6 months to 1 year	**1,254,652**	308,289
– 1 to 2 years	**174,746**	239,494
– Over 2 years	**69,644**	22,708
	2,362,021	3,366,078

As of June 30, 2020 and December 31, 2019, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 120 days. As of June 30, 2020, only insignificant amounts of the remaining balances were past due.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as of June 30, 2020 and December 31, 2019.

As of June 30, 2020, the carrying amounts of the trade receivables included approximately RMB224,700,000 receivables which were pledged for certain bank borrowings (Note 18).

17 Share-based payments

The Company has adopted a share award scheme on December 23, 2014 to the extent of 25,000,000 new ordinary shares of the Company for the purposes of attracting and retaining the best available personnel, to provide additional incentives to employees, directors and consultants and to promote the success of the Group's business (the "2014 Equity Incentive Plan").

Pursuant to the RSUs agreements under 2014 Equity Incentive Plan, subject to grantee's continued service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 20% of the RSUs on each of the first five anniversaries of the grant date.

On March 12, 2016, the Company adopted amended and restated 2014 Equity Incentive Plan. According to the amended and restated 2014 Equity Incentive Plan, subject to grantee's continued service to the Group through the applicable vesting date, all RSUs vested and to be vested shall be settled on a date as soon as practicable after the RSUs vest and the completion of a defined initial public offering of the Company.

As such, the Group modified the terms of conditions of its granted RSUs that are not beneficial to its employees. This should not be taken into account when considering the estimate of the number of equity instruments expected to vest and the Group continues to account for the RSUs without any original grants changes.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2020	**15,214,100**
Granted	**725,000**
Forfeited	**(709,600)**
Vested	**(1,126,500)**
Outstanding balance as of June 30, 2020	**14,103,000**
(Unaudited)	
As of January 1, 2019	17,477,000
Granted	235,000
Forfeited	(325,500)
Vested	(1,112,500)
Outstanding balance as of June 30, 2019	16,274,000

The fair value of each RSUs was calculated based on the market price of the Company's shares at the respective grant date.

18 Borrowings

	As of June 30, 2020 *RMB'000* *(Unaudited)*	As of December 31, 2019 *RMB'000*
Non-current		
Unsecured		
RMB bank borrowings *(Note a)*	**200,000**	–
USD bank borrowings *(Note a)*	**424,779**	–
Total non-current borrowings	**624,779**	–
Current		
Unsecured		
RMB bank borrowings *(Note a)*	**1,048,947**	1,102,517
Secured		
RMB bank borrowings *(Note b)*	**190,489**	200,555
Total current borrowings	**1,239,436**	1,303,072
Total borrowings	**1,864,215**	1,303,072

Notes:

(a) As of June 30, 2020, the Group's unsecured long-term bank borrowings consist of RMB200,000,000 fixed-rate borrowings bearing interest rates of 5.70% per annum and approximately RMB424,779,000 variable-rate borrowings bearing floating interest rates of London Inter-bank Offered Rate ("LIBOR") plus 1.1% per annum. The fixed-rate long-term bank borrowings of RMB200,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of New Classics Media) (or referred to as "Mr. Cao") and/or other subsidiaries of the Group, among which RMB70,000,000 and RMB130,000,000 will be repayable in April and June, 2022, respectively. The variable-rate long-term bank borrowings of approximately RMB424,779,000 will be repayable in February 2023.

As of December 31, 2019, the Group's unsecured long-term bank borrowings consist of RMB200,000,000 borrowings bearing fixed interest rate of 5.70% per annum. These long-term bank borrowings were guaranteed by Mr. Cao. As of December 31, 2019, the borrowing balance of RMB200,000,000 were reclassified to current liabilities as the borrowings will be repayable within 12 months after December 31, 2019, and had been repaid during the six months ended June 30, 2020.

As of June 30, 2020, the Group's unsecured short-term bank borrowings consist of approximately RMB1,048,947,000 fixed-rate borrowings, bearing interests ranging from 3.6% to 5.220% per annum, among which approximately RMB448,947,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

As of December 31, 2019, the Group's unsecured short-term bank borrowings consist of RMB902,517,000 fixed-rate borrowings, bearing interests ranging from 3.6% to 5.220% per annum, among which approximately RMB272,517,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group. Fixed-rate borrowings of RMB30,000,000 had been repaid during the six months ended June 30, 2020.

(b) As of June 30, 2020, the Group's secured short-term bank borrowings consist of approximately RMB190,489,000 bearing fixed interest rates of 5.133% per annum. These short-term bank borrowings of approximately RMB70,489,000 were secured by USD9,000,000 and RMB11,000,000 restricted bank deposits. The other short-term bank borrowings of RMB120,000,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group, and were secured by certain receivables (Note 16).

As of December 31, 2019, the Group's secured short-term bank borrowings consist of approximately RMB200,555,000 borrowings bearing fixed interest rates of 5.133% per annum. These short-term bank borrowings of approximately RMB80,555,000 were secured by USD9,000,000 and RMB32,000,000 restricted bank deposits, among which approximately RMB15,555,000 had been repaid during the six months ended June 30, 2020. The other short-term bank borrowings of RMB120,000,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group, and were secured by certain receivables.

19 Trade payables

Aging analysis of the trade payables based on recognition date are as follows:

	As of June 30, 2020 ***RMB'000*** ***(Unaudited)***	As of December 31, 2019 *RMB'000*
– Up to 3 months	**490,226**	775,350
– 3 to 6 months	**149,972**	115,631
– 6 months to 1 year	**148,279**	46,293
– 1 to 2 years	**80,255**	43,990
– Over 2 years	**37,594**	39,412
	906,326	1,020,676

USE OF PROCEEDS

Our shares were listed on the Stock Exchange on November 8, 2017 by way of global offering and the net proceeds raised during our IPO were approximately RMB6,145 million (HKD7,235 million). The following table set forth the Group's intended timetable for use of proceeds as at June 30, 2020.

Intended use of net proceeds		Allocation of net proceeds	Amount of net proceeds utilized up to June 30, 2020	Balance of net proceeds unutilized as at June 30, 2020	Intended timetable for use of the unutilized net proceeds
			(RMB in millions)		
(i)	Expanding the Group's online reading business and sales and marketing activities	1,843.4	1,424.5	418.9	By/before December 31, 2020
(ii)	Expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles	1,843.4	1,843.4	–	Not applicable
(iii)	Funding our potential investments, acquisitions and strategic alliances	1,843.4	1,843.4	–	Not applicable
(iv)	Working capital and general corporate purposes	614.5	614.5	–	Not applicable

The remaining balance of the net proceeds was placed with banks. The Group will apply the remaining net proceeds in the manner set out in the Prospectus.

DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2020 (2019: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Group's business. The Company has adopted the CG Code as its own code of corporate governance.

For the six months ended June 30, 2020, the Company has complied with all applicable code provisions of the CG Code.

Model Code for Dealing in Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having been made specific enquiries by the Company, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended June 30, 2020.

Audit Committee

The Audit Committee, together with the Board and the Auditor has reviewed the unaudited interim results of the Group for the six months ended June 30, 2020. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and has also reviewed the effectiveness of the risk management and Internal Control Systems of the Company, and considered the risk management and Internal Control Systems to be effective and adequate.

Publication of the Results Announcement and Interim Report

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://ir.yuewen.com), and the Interim Report will be published on the respective websites of the Stock Exchange and the Company, and will be dispatched to the Shareholders in due course.

APPRECIATION

Finally, I would like to thank our management and employees for their commitment, contributions, and creativity; our Board of Directors for its guidance and support; and our Shareholders for their trust.

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

Hong Kong, August 11, 2020

As of the date of this announcement, the Board 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.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward- looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

DEFINITION

"Audit Committee"	:	the audit committee of the Company;
"Auditor"	:	PricewaterhouseCoopers, the external auditor of the Company;
"Board"	:	the board of Directors of the Company;
"CG Code"	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
"China" or the "PRC"	:	the People's Republic of China;
"Company", "our Company", "the Company"	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
"Director(s)"	:	the director(s) of our Company;
"Group", "our Group", "the Group", "we", "us", or "our"	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
"HKD"	:	the lawful currency of Hong Kong;
"Hong Kong"	:	the Hong Kong Special Administrative Region of the People's Republic of China;

"IP"	:	intellectual property;
"IPO"	:	initial public offering;
"IPO Proceeds"	:	the total net proceeds of HKD7,235 million from the Company's global offering on November 8, 2017, after deducting professional fees, underwriting commissions and other related listing expenses;
"Listing Date"	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
"Main Board"	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
"MAUs"	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"New Classics Media Holdings Limited (NCM)"	:	previously known as "Qiandao Lake Holdings Limited", a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
"Reporting Period"	:	the six months ended June 30, 2020;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);

"Shanghai Yuewen"	:	Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014;
"Share(s)"	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
"Shareholders"	:	holder(s) of our Share(s);
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Tencent"	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700); and
"USD"	:	the lawful currency of the United States.