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# 阅文集团

**CHINA LITERATURE LIMITED**

阅文集团

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 772)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2020  
AND  
ISSUE OF CONSIDERATION SHARES  
UNDER THE SPECIFIC MANDATE**

The board of directors of China Literature Limited hereby announces the audited consolidated results of the Group for the year ended December 31, 2020. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

## **FINANCIAL PERFORMANCE HIGHLIGHTS**

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Year-</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>over-year</b>
			<b>(%)</b>
Revenues	<b>8,525,701</b>	8,347,767	2.1
Gross profit	<b>4,234,076</b>	3,692,023	14.7
Operating (loss)/profit	<b>(4,474,668)</b>	1,193,907	(474.8)
(Loss)/profit before income tax	<b>(4,538,720)</b>	1,179,797	(484.7)
(Loss)/profit for the year	<b>(4,500,197)</b>	1,112,134	(504.6)
(Loss)/profit attributable to equity holders of the Company	<b>(4,483,869)</b>	1,095,953	(509.1)
Non-IFRS profit attributable to equity holders of the Company	<b>917,105</b>	1,194,618	(23.2)

## BUSINESS REVIEW AND OUTLOOK

### Overview

2020 was a challenging year for a variety of reasons. There were external factors, such as the COVID-19 pandemic and market competition, as well as internal factors. The latter included systematic issues and weak integration across our business segments. In response to these challenges, the new management team proposed major solutions centering on content, platform and ecosystem upgrades, which led to a turnaround during the second half of the year. The Company maintained its leading position in the online reading market and strengthened its capacity in IP operations.

For the full year 2020, China Literature had total revenues of RMB8.53 billion. Out of the total, the second half saw revenues of RMB5.27 billion, up 61.5% from the first half of the year. Non-IFRS profit attributable to equity holders of the Company for the full year was RMB917 million, of which RMB895 million was generated during the second half, representing a 40-fold increase over the first half.

### Business highlights

***Upgrades in content.*** There was an increase in both the number and quality of our writers and literary works. As of the end of 2020, China Literature had more than 9 million writers on the platform, with a total of 13.9 million literary works. Approximately 46 billion Chinese characters were added to our platform during 2020. According to Baidu's search rankings for novels in February 2021, 26 of the top 30 online literary works originated on the China Literature platform. At the same time, we improved our writer ecosystem and IP incubation resources. More writers had positive impressions of our ecosystem and IP practices, including some of the platinum writers who left China Literature and have come back to us as a result of the changes we have made. This has strengthened our partnership with writers, and our reputation as the best partner to writers.

***Upgrades in platform.*** We have expanded our relationship with Tencent channels such as QQ Browser and Mobile QQ by distributing free-to-read content to a wider range of readers. In addition, we established a free reading content decision committee to provide dedicated coordination and management of free content and to incubate high-quality free literary works and writers. In December 2020, average DAUs for our free reading channels reached approximately 10 million users. We will continue to explore the field of free reading so as to make more progress in this area in 2021.

***Upgrades in ecosystem.*** We are enhancing the quality and visibility of our IPs across media formats, including comics, animation, film, TV and web series. This approach has already landed us a number of blockbusters. For example, the drama series My Heroic Husband (赘婿), which was jointly produced by New Classics Media, Tencent Pictures and China Literature Pictures, was a successful adaptation from our novel of the same name. The drama series ranked No.1 on Enlightent's web series playlist during its launch period, enjoying wide market popularity and winning praise from various media including People's Daily. Its success reflects the power of the three-way "New Classics Media-Tencent Pictures-China Literature Pictures" partnership, and we look forward to seeing more quality works from this cooperation model in the future.

Another example is the drama series Soul Land (斗羅大陸), which was also adapted from China Literature's top IP and produced by New Classics Media. It was ranked No.1 on Tencent Video's hot search list and drama series list with over 4 billion video views, and created a good synergy between the Soul Land animation series and online game. In addition to the serialized adaptation of our top IPs, New Classics Media has continued to launch high-quality products with modern themes. It is a specialist in this genre. Following the success of The First Half of My Life (我的前半生), New Classics Media released My Best Friend's Story (流金歲月), which was ranked No. 1 on the playlist of Enlightent's TV series during its launch period. New Classics Media also participated in the production of the recent hit movie Hi, Mom (你好，李煥英), with box office sales of over RMB5 billion, the second-highest ranking box office sales in the history of China's film industry. These successes have validated our decision to extend New Classics Media's earn-out mechanism in 2020. We believe that New Classics Media will have much more room to grow as part of the ecosystem of China Literature.

### **Improvement of organizational structure and decision-making mechanism**

Our core management team is now stronger and more diverse, as a result of introducing new leaders in the areas of IP operations, online business, investment, legal and finance. These new members of our management team have extensive industry experience and outstanding entrepreneurial spirit in their respective fields, and are injecting new dynamism into the company. At the same time, we have upgraded our hiring criteria, in order to build a team that is passionate about content and dedicated to improve the organizational efficiency of the company overall.

Our organizational structure has become more flexible and inclusive. We have established a Joint Committee between China Literature's Comics & Animation Department and Tencent Comics and a Joint Committee between China Literature Pictures, New Classics Media and Tencent Pictures, which have developed synergies with Tencent Pictures, Tencent Comics and New Classics Media, which share common beliefs in the value of deepening the relationship.

High-level decision-making has become more focused on long-term strategy-oriented than short-term business. We have never valued the overall lifecycle value of an IP as much as we do today. Historically, each IP licensing agreement was simply an endorsement of a sales figure. Today, each IP licensing agreement is the beginning of a long-term IP life cycle. China Literature will do everything it can to realize the lifetime value of its IPs together with our partners, build its ecosystem, and create long-term value. The key to the strengthening of our management team and the re-design of our organizational structure is to ensure this core concept is put into practice.

To support this approach to decision-making, we have established an IP-focused intermediate business platform, with functional segments including writer services, IP screening and planning, and ecosystem partnerships. The establishment of this IP intermediate platform has standardized our IP licensing procedure, and paved the way for an industrial-scale IP development system. Based on the capacities built into this intermediate IP platform, we can strengthen ecosystem partnerships, expand production capacity, achieve improvements in quality and quantity, and finally increase the value of IPs.

## Significant business developments in 2020

In addition to the highlights described above, we had significant achievements in the following areas during the year:

- We improved our writer's ecosystem, and provided writers with better services and experiences. One example is a grading system for contracts, reflecting writer preferences to be able to choose different models to collaborate with us. We changed the editing and support system so that our writers could choose their own editors. We also introduced a new mechanism to improve welfare and provide better IP protections for writers.
- We established Qidian Academy in order to provide an all-round, multi-level tiered system to nurture writers. Video views for its online courses exceeded 2 million within one month.
- Generation Z writers have become an important part of the supply of new writers. Writers born after the 1990s made up half on our top 12 writers list during the year of 2020.
- We improved our reading community through functions such as instant comments and replies, user-generated audio readings for texts, and user generated chapters, which enhanced user loyalty and participation. By the end of 2020, more than 100 literary works each had over 1 million user comments. We improved our recommendation system, allowing users to find their preferred books more quickly. In addition, big data analysis tools became an important means to assist our editors to screen and nurture content.
- The National Library of China collected 100 literary works from the China Literature platform. The list includes stories rooted in traditional culture such as Joy of Life (慶餘年) and Nirvana in Fire (琅琊榜), stories focusing on China's industrial development such as Great Power Heavy Industry (大國重工) and Material Empire (材料帝國), stories about the lives and careers of ordinary people such as China Railway Man (中國鐵路人), Doctor Lingran (大醫凌然) and A Story of Police Man (朝陽警事), as well as stories that show concern about vulnerable groups in society such as Memoirs of Jade Hall (玉堂留故).
- In 2020, we licensed approximately 200 IP rights for adaptation. Many of our IPs licensed to third-party partners were adapted into popular online content, such as the drama series Love and Redemption (琉璃) and Legendary Cook (人間煙火花小廚). We also released a number of new seasons for existing animated titles including Stellar Transformations (星辰變), Martial Universe (武動乾坤), The King's Avatar (全職高手), Fighter of the Destiny (擇天記) and Fulltime Master (全職法師).
- We continued to expand into international markets. As of the end of 2020, WebNovel, our foreign language website and mobile platform, offered approximately 1,000 works translated from Chinese and over 200,000 original content works created locally. WebNovel generated 54 million user visits in 2020.

## Outlook

Looking ahead, we will build around our content, platform and ecosystem, creating a sustainable growth trajectory and laying a solid foundation to explore new businesses. We hope that more users will enjoy China Literature's IPs across a wide range of entertainment formats, including text, comics, animation, film, TV series and games, as we produce consistent IP winners as time goes by. We will also promote partnerships with various industry players to expand our boundaries. We believe there is enormous growth potential for our IP business across various segments.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

	Year Ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenues</b>	<b>8,525,701</b>	8,347,767
Cost of revenues	<u>(4,291,625)</u>	<u>(4,655,744)</u>
<b>Gross profit</b>	<b>4,234,076</b>	3,692,023
Interest income	<b>116,315</b>	157,539
Other (losses)/gains, net	<b>(5,322,903)</b>	453,194
Selling and marketing expenses	<b>(2,498,187)</b>	(2,073,937)
General and administrative expenses	<b>(873,766)</b>	(1,010,282)
Net provision for impairment losses on financial assets	<u><b>(130,203)</b></u>	<u>(24,630)</u>
<b>Operating (loss)/profit</b>	<b>(4,474,668)</b>	1,193,907
Finance costs	<b>(68,785)</b>	(172,618)
Share of net profit of associates and joint ventures	<u><b>4,733</b></u>	<u>158,508</u>
<b>(Loss)/profit before income tax</b>	<b>(4,538,720)</b>	1,179,797
Income tax benefit/(expense)	<u><b>38,523</b></u>	<u>(67,663)</u>
<b>(Loss)/profit for the year</b>	<u><b>(4,500,197)</b></u>	<u>1,112,134</u>
Attributable to:		
Equity holders of the Company	<b>(4,483,869)</b>	1,095,953
Non-controlling interests	<u><b>(16,328)</b></u>	<u>16,181</u>
	<u><b>(4,500,197)</b></u>	<u>1,112,134</u>
<b>Non-IFRS profit for the year</b>	<u><b>900,777</b></u>	<u>1,210,837</u>
Attributable to:		
Equity holders of the Company	<b>917,105</b>	1,194,618
Non-controlling interests	<u><b>(16,328)</b></u>	<u>16,219</u>
	<u><b>900,777</b></u>	<u>1,210,837</u>

*Revenues.* Revenues increased by 2.1% to RMB8,525.7 million for the year ended December 31, 2020 on a year-over-year basis. The following table sets out our revenues by segment for the year ended December 31, 2020 and 2019:

	Year ended December 31,			
	2020		2019	
	RMB'000	%	RMB'000	%
<b>Online business<sup>(1)</sup></b>				
On our self-owned platform products	3,903,447	45.8	2,425,142	29.1
On our self-operated channels on				
Tencent products	681,805	8.0	836,027	10.0
On third-party platforms	346,932	4.1	449,249	5.4
<b>Subtotal</b>	<b>4,932,184</b>	<b>57.9</b>	<b>3,710,418</b>	<b>44.5</b>
<b>Intellectual property operations and others<sup>(2)</sup></b>				
Intellectual property operations	3,451,107	40.5	4,423,104	53.0
Others	142,410	1.6	214,245	2.5
<b>Subtotal</b>	<b>3,593,517</b>	<b>42.1</b>	<b>4,637,349</b>	<b>55.5</b>
<b>Total revenues</b>	<b>8,525,701</b>	<b>100.0</b>	<b>8,347,767</b>	<b>100.0</b>

*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 32.9% to RMB4,932.2 million for the year ended December 31, 2020 on a year-over-year basis, accounting for 57.9% of total revenues.

Revenues from online business on our self-owned platform products increased by 61.0% to RMB3,903.4 million for the year ended December 31, 2020, primarily driven by the expansion of distribution channels and users' growing willingness to pay for our reading content during the year under review.

Revenues from online business on our self-operated channels on Tencent products decreased by 18.4% to RMB681.8 million for the year ended December 31, 2020, mainly due to a further decline in paid reading revenues from our self-operated channels on certain Tencent products as the Company continued to expand free-to-read services.

Revenues from online business on third-party platforms decreased by 22.8% to RMB346.9 million for the year ended December 31, 2020, primarily due to the decrease in revenues from certain third-party platform partners.

The following table summarizes our key operating data for the year ended December 31, 2020 and 2019:

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	<b>228.9 million</b>	219.7 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	<b>10.2 million</b>	9.8 million
Paying Ratio <sup>(1)</sup>	<b>4.5%</b>	4.5%
Monthly average revenue per paying user ("ARPU") <sup>(2)</sup>	<b>RMB34.7</b>	RMB25.3

*Notes:*

- (1) Paying ratio is calculated as average MPUs divided by 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 4.2% year-over-year from 219.7 million to 228.9 million for the year ended December 31, 2020. A further breakdown of MAUs is as follows: i) MAUs on our self-owned platform products increased 1.7% year-over-year from 119.5 million to 121.5 million, primarily due to the expansion of distribution channels for our reading content; and ii) MAUs on our self-operated channels on Tencent products increased 7.2% year-over-year from 100.2 million to 107.4 million, as the expansion of free-to-read content distribution further drew more users to the channels.
  - Average MPUs on our self-owned platform products and self-operated channels increased by 4.1% year-over-year from 9.8 million to 10.2 million for the year ended December 31, 2020. The increase was driven by the growing number of paying users on our self-owned platform products, partially offset by a decrease in paying users from our self-operated channels on certain Tencent products as more users were attracted to the free-to-read content on these Tencent products during the year.
  - As a result of the closely matched increase in both MAUs and MPUs, the paying ratio remained stable at 4.5% for the year ended December 31, 2020.
  - Monthly ARPU increased by 37.2% year-over-year from RMB25.3 to RMB34.7 for the year ended December 31, 2020, as a result of improvements in our content operations and recommendation system, and the expansion of content distribution channels during the year.
- Revenues from intellectual property operations and others decreased by 22.5% year-over-year to RMB3,593.5 million for the year ended December 31, 2020.

Revenues from intellectual property operations decreased by 22.0% year-over-year to RMB3,451.1 million for the year ended December 31, 2020. The decrease was primarily caused by the delayed production and release dates for films and TV and web series due to the COVID-19 pandemic in 2020.

Revenues from others decreased by 33.5% year-over-year to RMB142.4 million for the year ended December 31, 2020, primarily due to lower revenues generated from physical book sales.



*Cost of revenues.* Cost of revenues decreased by 7.8% year-over-year to RMB4,291.6 million for the year ended December 31, 2020, mainly due to the declined production costs of TV, web and animated series and films from RMB2,134.1 million to RMB1,111.9 million for the year ended December 31, 2020. These decreased costs were attributable to the delayed release of certain projects due to the adverse impact of the COVID-19 pandemic, which also led to a decrease in revenues. The decrease in cost of revenues was partially offset by an increase in platform distribution costs from RMB569.5 million to RMB1,194.4 million due to the expansion of our online reading channels and the improved operation of our online game in 2020, as accompanied with revenue increases.

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

	Year ended December 31,			
	2020		2019	
	<i>RMB'000</i>	<i>% of revenues</i>	<i>RMB'000</i>	<i>% of revenues</i>
Platform distribution costs	1,194,357	14.0	569,497	6.8
Content costs	1,464,506	17.2	1,477,077	17.7
Amortization of intangible assets	175,706	2.1	136,496	1.6
Production costs of TV, web and animated series and films	1,111,884	13.0	2,134,057	25.6
Cost of inventories	94,617	1.1	130,157	1.6
Others	250,555	2.9	208,460	2.5
<b>Total cost of revenues</b>	<b>4,291,625</b>	<b>50.3</b>	<b>4,655,744</b>	<b>55.8</b>

*Gross profit and gross margin.* As a result of the foregoing, our gross profit increased by 14.7% year-over-year to RMB4,234.1 million for the year ended December 31, 2020. Gross margin was 49.7% for the year ended December 31, 2020, as compared with 44.2% for the year ended December 31, 2019.

*Interest income.* Interest income decreased by 26.2% to RMB116.3 million for the year ended December 31, 2020, reflecting a lower average cash deposit balance for the year ended December 31, 2020.

*Other (losses)/gains, net.* We recorded net other losses of RMB5,322.9 million for the year ended December 31, 2020, compared with net other gains of RMB453.2 million for the year ended December 31, 2019. The other losses for the year ended December 31, 2020 consisted mainly of i) an impairment provision covering goodwill and trademark rights related to the acquisition of NCM of RMB4,015.9 million and RMB389.8 million, respectively, ii) a net fair value loss of RMB604.6 million due to the modification of NCM's earn-out mechanism in 2020, and iii) an impairment provision covering 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 20.5% year-over-year to RMB2,498.2 million for the year ended December 31, 2020, primarily driven by greater marketing expenses for our online reading content during the year. As a percentage of revenues, our selling and marketing expenses increased to 29.3% for the year ended December 31, 2020 from 24.8% for the year ended December 31, 2019.

*General and administrative expenses.* General and administrative expenses decreased by 13.5% year-over-year to RMB873.8 million for the year ended December 31, 2020, primarily attributable to a net reversal of compensation costs of RMB109.6 million related to the service expense of certain employees and former owners of NCM as the Company modified the earn-out mechanism for NCM in 2020. As a percentage of revenues, general and administrative expenses decreased to 10.2% for the year ended December 31, 2020 from 12.1% for the year ended December 31, 2019.

*Net provision for impairment losses on financial assets.* The impairment losses on financial assets reflected the provision for doubtful receivables. For the year ended December 31, 2020, the net provision for doubtful receivables was RMB130.2 million, mainly related to TV and film projects.

*Operating (loss)/profit.* As a result of the foregoing, we had an operating loss of RMB4,474.7 million for the year ended December 31, 2020, as compared with an operating profit of RMB1,193.9 million in the prior corresponding period.

*Finance costs.* Finance costs decreased by 60.2% year-over-year to RMB68.8 million for the year ended December 31, 2020. The decrease was mainly due to lower interest expenses incurred in the year 2020, in line with a decline in borrowings.

*Share of net profit of associates and joint ventures.* Our share of net profit of associates and joint ventures declined by 97.0% to RMB4.7 million for the year ended December 31, 2020, primarily due to a fair value loss on financial liabilities of an investee company in the year of 2020.

*Income tax benefit/(expense).* Income tax benefit was RMB38.5 million for the year ended December 31, 2020, as compared with an income tax expense of RMB67.7 million for the year ended December 31, 2019. 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 were incurred in 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 RMB4,483.9 million for the year ended December 31, 2020, as compared with a profit attributable to equity holders of the Company of RMB1,096.0 million for the year ended December 31, 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 year ended December 31, 2020 and 2019:

	Year ended December 31, 2020		
	Online business RMB' 000	Intellectual property operations and others RMB' 000	Total RMB' 000
Segment revenues	4,932,184	3,593,517	8,525,701
Cost of revenues	<u>2,354,619</u>	<u>1,937,006</u>	<u>4,291,625</u>
Gross profit	<u>2,577,565</u>	<u>1,656,511</u>	<u>4,234,076</u>
Gross margin	<u>52.3%</u>	<u>46.1%</u>	<u>49.7%</u>
	Year ended December 31, 2019		
	Online business RMB' 000	Intellectual property operations and others RMB' 000	Total RMB' 000
Segment revenues	3,710,418	4,637,349	8,347,767
Cost of revenues	<u>1,600,610</u>	<u>3,055,134</u>	<u>4,655,744</u>
Gross profit	<u>2,109,808</u>	<u>1,582,215</u>	<u>3,692,023</u>
Gross margin	<u>56.9%</u>	<u>34.1%</u>	<u>44.2%</u>

## OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
EBITDA <sup>(1)</sup>	1,033,839	841,660
Adjusted EBITDA <sup>(2)</sup>	1,029,692	1,247,324
Adjusted EBITDA margin <sup>(3)</sup>	12.1%	14.9%
Interest expense	67,678	171,322
Net cash <sup>(4)</sup>	5,010,972	5,139,316
Capital expenditures <sup>(5)</sup>	288,309	216,587

### Notes:

- (1) EBITDA consists of operating (loss)/profit for the year less interest income and other (losses)/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 year 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 year presented:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Operating (loss)/profit	(4,474,668)	1,193,907
Adjustments:		
Interest income	(116,315)	(157,539)
Other losses/(gains), net	5,322,903	(453,194)
Depreciation of property, plant and equipment	23,703	22,306
Depreciation of right-of-use assets	62,268	61,451
Amortization of intangible assets	215,948	174,729
<b>EBITDA</b>	<b>1,033,839</b>	<b>841,660</b>
Adjustments:		
Share-based compensation	120,204	141,569
Expenditure related to acquisition	(124,351)	264,095
<b>Adjusted EBITDA</b>	<b>1,029,692</b>	<b>1,247,324</b>

## Non-IFRS Financial Measures:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-IFRS financial measures, namely non-IFRS operating profit, non-IFRS operating margin, non-IFRS profit for the year, 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 annual 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. 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 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 out the reconciliations of our Group's non-IFRS financial measures for the year ended December 31, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31, 2020					
	As reported	Share-based compensation	Net loss from investments and acquisitions <sup>(1)</sup> <i>(RMB' 000, unless specified)</i>	Amortization of intangible assets <sup>(2)</sup>	Tax effect	Non-IFRS
Operating (loss)/profit	(4,474,668)	120,204	5,259,633	29,433	-	934,602
(Loss)/profit for the year	(4,500,197)	120,204	5,422,551	29,433	(171,214)	900,777
(Loss)/profit attributable to equity holders of the Company	(4,483,869)	120,204	5,422,551	29,433	(171,214)	917,105
(Loss)/earnings per share <i>(RMB per share)</i>						
- basic	(4.48)					0.92
- diluted	(4.49)					0.91
Operating margin	(52.5%)					11.0%
Net margin	(52.8%)					10.6%

Year ended December 31, 2019

	Adjustments					
	As reported	Share-based compensation	Net (gain) from investments and acquisitions <sup>(1)</sup> <i>(RMB' 000, unless specified)</i>	Amortization of intangible assets <sup>(2)</sup>	Tax effect	Non-IFRS
Operating profit	1,193,907	141,569	(133,715)	214,041	–	1,415,802
Profit for the year	1,112,134	141,569	(120,162)	214,041	(136,745)	1,210,837
Profit attributable to equity holders of the Company	1,095,953	141,569	(120,162)	213,990	(136,732)	1,194,618
EPS <i>(RMB per share)</i>						
– basic	1.10					1.20
– diluted	1.09					1.19
Operating margin	14.3%					17.0%
Net margin	13.3%					14.5%

*Notes:*

(1) Including impairment provision for goodwill, trademark rights and long-term investments related to certain investee companies, fair value changes arising from investee companies, fair value changes on consideration liabilities related to the acquisition of NCM and a net 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 sound financial position. Our total assets decreased from RMB26,250.0 million as of December 31, 2019 to RMB21,315.8 million as of December 31, 2020, while our total liabilities decreased from RMB6,839.2 million as of December 31, 2019 to RMB6,217.3 million as of December 31, 2020. The decrease in net assets was mainly due to the impairment of goodwill and trademark rights in relation to the NCM acquisition. The liabilities-to-assets ratio increased from 26.1% as of December 31, 2019 to 29.2% as of December 31, 2020.

As of December 31, 2020, the current ratio (the ratio of total current assets to total current liabilities) was 272.7%, compared with 206.1% as of December 31, 2019.

As of December 31, 2020, no receivables have been pledged, compared with 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 banks. As of December 31, 2020, our Group had net cash of RMB5,011.0 million, compared with RMB5,139.3 million as of December 31, 2019. The decrease in net cash in the year 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. For the year ended December 31, 2020, our Group had free cash flow of RMB764.1 million. This was a result of net cash flow generated from operating activities of RMB1,110.3 million, deducting payments for lease liabilities of RMB57.9 million and payments for capital expenditure of RMB288.3 million. Our bank balances and term deposits are primarily in RMB, USD and HKD. Our Group monitors capital on the basis of gearing ratio, which is calculated as debt divided by total equity. As of December 31, 2020:

- Our gearing ratio was 8.3%, compared with 6.7% as of December 31, 2019.
- Our total borrowings were RMB1,245.9 million, which were denominated in RMB and USD.
- Our unutilized banking facility was RMB1,666.6 million.

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

As of December 31, 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 for 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 year ended December 31, 2020 totalled RMB386.2 million, compared with RMB561.0 million for the year ended December 31, 2019, representing a year-over-year decrease of RMB174.8 million. The decrease was primarily due to reduced expenditure for investments in associates and joint ventures in 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.

## **Foreign Exchange Risk Management**

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily in RMB, HKD, USD and SGD. 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 the 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 year ended December 31, 2020 and 2019.

## **Employee**

As of December 31, 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.

## **Impact of COVID-19**

In 2020, the outbreak of COVID-19 pandemic has certain impact on our operations and financial results. During the first quarter of 2020, the limitations on social and public gatherings have boosted our online user traffic and increased our online business revenue to some extent, but the increase was offset by the delays in the production and release of our film and television projects. As a result, we have recorded the impairment provision on the goodwill and trademark rights related to the acquired TV and film business partially due to the impact of COVID-19.

However, the Chinese government adopted several effective measures to curb spread of the outbreak. At the same time, the Group have closely monitored the latest development of COVID-19 so as to adopt proactive measures to overcome any challenges arising and to assess the related impact on an ongoing basis. For the whole year of 2020, COVID-19 did not have material adverse impact on the operation, financial condition and cash flows of the Group.



## **ACQUISITION OF NEW CLASSICS MEDIA AND ISSUE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE**

On October 31, 2018, the Company completed the acquisition of 100% of the equity interest in NCM which is primarily engaged in production and distribution of TV series, web series and films in the PRC. NCM, on a standalone basis, recorded RMB2,033.2 million in revenues and RMB429.4 million in profit attributable to equity holders of the company for the year ended December 31, 2020.

### **Adjustment of the New Earn Out Consideration under the New Earn Out Mechanism**

Reference is made to:

- i) the announcement of the Company dated August 27, 2020 and the circular of the Company dated November 10, 2020 (the “Circular”) in respect of the entering into of the Supplemental SPA Deed in relation to, among others, the amendment of the 2018 NCM Share Purchase Agreement;
- ii) the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018 in respect of, among others, the acquisition of the entire equity interest of NCM, which was completed on October 31, 2018; and
- iii) the announcements of the Company dated March 18, 2019 and March 17, 2020 in respect of, among others, the adjustment results under the Original Earn Out Mechanism for the year ended December 31, 2018 and 2019.

Capitalized terms in this sub-section shall have the same meaning as those defined in the Circular unless otherwise specified.

Taking into account of i) the profound adjustment in the television and film industry due to the fluid and changing macro and industry environment in the PRC after the completion of the Acquisition and ii) the adverse impact of the COVID-19 pandemic on NCM’s production cycle for film and television projects for the year ended December 31, 2020, the Company carried out an impairment assessment of goodwill and trademark rights attributable to NCM. The Board is of the view that the recoverable amount of goodwill and trademark rights related to the acquisition of NCM was lower than their carrying amount, and thus the Group has made a non-cash impairment provision of RMB4,015.9 million for goodwill and RMB389.8 million for trademark rights, respectively.

In spite of a challenging time for the television and film industry due to the outbreak of COVID-19, NCM continued to maintain steady production of premium quality TV series and film projects. Taking such an environment into account, the Company believes that the benchmark profit for the year ended December 31, 2020 under the Original Earn Out Mechanism in the 2018 NCM Share Purchase Agreement is no longer commercially feasible nor reasonable and the Original Earn Out Mechanism should be adjusted, in order to better suit the current market conditions and long-term strategies of the Company.

Therefore, on August 27, 2020, the Company entered into a Supplemental SPA Deed with the Founder, the Founder SPV, Ms. Qu, the Qu SPV and the Executive SPV, in relation to, among other things, the amendment of the 2018 NCM Share Purchase Agreement with the New Earn Out Mechanism spreading the payments over four more years and setting the Reference Minimum Profit and the Reference Maximum Profit for the relevant New Earn Out Year taking into account current market and industry circumstances. The Supplemental SPA Deed was approved by the Shareholders on December 9, 2020 and took effect from December 11, 2020. As a result of the New Earn Out Mechanism, the Company recorded a net fair value loss on consideration liabilities of RMB604.6 million and a net reversal of compensation costs of RMB109.6 million in 2020.

The Board hereby announces that the actual Net Profit, as defined in the Circular and primarily excluding the impact of government subsidies for the year ended December 31, 2020, was RMB406.7 million, which is higher than the Reference Maximum Net Profit of RMB400 million. In accordance with the terms of the Supplemental SPA Deed, a total number of 3,023,963 Consideration Shares would be issued (“2020 Earn Out Issue”) and a total cash consideration of RMB204.2 million would be paid to the Management Vendors.

Set out below for illustrative purposes is the shareholding structure of the Company as of the date of this announcement and immediately upon the completion of the 2020 Earn Out Issue:

Shareholders	As of the date of this announcement		Immediately upon the completion of the 2020 Earn Out Issue	
	Number of shares	Approximate % of issued Shares	Number of shares	Approximate % of issued Shares
Tencent	601,126,564	59.18%	601,126,564	59.00%
Management Vendors				
– Founder SPV	25,020,482	2.46%	26,856,952	2.64%
– Qu SPV	11,258,413	1.11%	12,083,859	1.19%
– Executive SPV	4,810,165	0.47%	5,172,212	0.51%
Other Shareholders	373,566,092	36.78%	373,566,092	36.66%
<b>Total</b>	<b><u>1,015,781,716</u></b>	<b><u>100.00%</u></b>	<b><u>1,018,805,679</u></b>	<b><u>100.00%</u></b>

## FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the year ended December 31, 2020

	Note	Year ended December 31,	
		2020 RMB'000	2019 RMB'000
<b>Revenues</b>	4	<b>8,525,701</b>	8,347,767
Cost of revenues	5	<b>(4,291,625)</b>	(4,655,744)
<b>Gross profit</b>		<b>4,234,076</b>	3,692,023
Interest income	8	<b>116,315</b>	157,539
Other (losses)/gains, net	6	<b>(5,322,903)</b>	453,194
Selling and marketing expenses	5	<b>(2,498,187)</b>	(2,073,937)
General and administrative expenses	5	<b>(873,766)</b>	(1,010,282)
Net provision for impairment losses on financial assets		<b>(130,203)</b>	(24,630)
<b>Operating (loss)/profit</b>		<b>(4,474,668)</b>	1,193,907
Finance costs	7	<b>(68,785)</b>	(172,618)
Share of net profit of associates and joint ventures	13	<b>4,733</b>	158,508
<b>(Loss)/profit before income tax</b>		<b>(4,538,720)</b>	1,179,797
Income tax benefit/(expense)	9	<b>38,523</b>	(67,663)
<b>(Loss)/profit for the year</b>		<b><u>(4,500,197)</u></b>	<b><u>1,112,134</u></b>
<b>Other comprehensive (loss)/income:</b>			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive income/(loss) of associates and joint ventures	13	<b>1,031</b>	(10,502)
Currency translation differences		<b>41,375</b>	65,723
<i>Items that may not be reclassified to profit or loss</i>			
Currency translation differences		<b>(74,717)</b>	–
<b>Total comprehensive (loss)/income for the year</b>		<b><u>(4,532,508)</u></b>	<b><u>1,167,355</u></b>

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<i>Note</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>(Loss)/profit attributable to:</b>		
– Equity holders of the Company	<b>(4,483,869)</b>	1,095,953
– Non-controlling interests	<b>(16,328)</b>	16,181
	<b><u>(4,500,197)</u></b>	<u>1,112,134</u>
<b>Total comprehensive (loss)/income attributable to:</b>		
– Equity holders of the Company	<b>(4,516,202)</b>	1,151,165
– Non-controlling interests	<b>(16,306)</b>	16,190
	<b><u>(4,532,508)</u></b>	<u>1,167,355</u>
<b>(Loss)/earnings per share</b> <b>(expressed in RMB per share)</b>		
– Basic (loss)/earnings per share	<b>10(a) <u>(4.48)</u></b>	<u>1.10</u>
– Diluted (loss)/earnings per share	<b>10(b) <u>(4.49)</u></b>	<u>1.09</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2020**

		<b>As of December 31,</b>	
		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>39,590</b>	41,521
Right-of-use assets		<b>83,275</b>	92,630
Intangible assets	<i>12</i>	<b>7,676,063</b>	12,168,799
Investments in associates and joint ventures	<i>13</i>	<b>598,576</b>	963,551
Financial assets at fair value through profit or loss	<i>14</i>	<b>915,318</b>	457,185
Deferred income tax assets		<b>188,519</b>	190,769
Prepayments, deposits and other assets		<b>314,088</b>	145,024
		<u><b>9,815,429</b></u>	<u>14,059,479</u>
<b>Current assets</b>			
Inventories	<i>15</i>	<b>571,830</b>	606,037
Television series and film rights	<i>16</i>	<b>640,496</b>	1,107,671
Trade and notes receivables	<i>17</i>	<b>3,296,287</b>	3,366,078
Prepayments, deposits and other assets		<b>734,808</b>	668,351
Restricted bank deposits		–	94,787
Term deposits		<b>3,408,679</b>	415,752
Cash and cash equivalents		<b>2,848,231</b>	5,931,849
		<u><b>11,500,331</b></u>	<u>12,190,525</u>
<b>Total assets</b>		<u><b>21,315,760</b></u>	<u>26,250,004</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		<b>645</b>	642
Shares held for RSU scheme		<b>(9)</b>	(19)
Share premium		<b>16,259,688</b>	16,161,809
Other reserves		<b>1,268,188</b>	1,135,387
(Accumulated losses)/retained earnings		<b>(2,435,005)</b>	2,098,748
		<u><b>15,093,507</b></u>	<u>19,396,567</u>
<b>Non-controlling interests</b>		<b>5,000</b>	14,244
		<u><b>15,098,507</b></u>	<u>19,410,811</u>

		<b>As of December 31,</b>	
		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>18</i>	<b>691,494</b>	–
Lease liabilities		<b>34,830</b>	34,371
Long-term payables		<b>16,894</b>	–
Deferred income tax liabilities		<b>187,603</b>	322,631
Deferred revenue	<i>4</i>	<b>31,346</b>	33,462
Financial liabilities at fair value through profit or loss		<b>1,037,924</b>	535,082
		<b>2,000,091</b>	925,546
<b>Current liabilities</b>			
Borrowings	<i>18</i>	<b>554,444</b>	1,303,072
Lease liabilities		<b>50,387</b>	55,558
Trade payables	<i>19</i>	<b>1,039,653</b>	1,020,676
Other payables and accruals		<b>1,149,708</b>	1,489,689
Deferred revenue	<i>4</i>	<b>880,333</b>	717,708
Current income tax liabilities		<b>184,459</b>	205,413
Financial liabilities at fair value through profit or loss		<b>358,178</b>	1,121,531
		<b>4,217,162</b>	5,913,647
<b>Total liabilities</b>		<b>6,217,253</b>	6,839,193
<b>Total equity and liabilities</b>		<b>21,315,760</b>	26,250,004

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2020**

	Attributable to equity holders of the Company							Total RMB'000
	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	
As of January 1, 2020	642	16,161,809	(19)	1,135,387	2,098,748	19,396,567	14,244	19,410,811
<b>Comprehensive income</b>								
Loss for the year	-	-	-	-	(4,483,869)	(4,483,869)	(16,328)	(4,500,197)
- Share of other comprehensive income of associates and a joint venture	-	-	-	1,031	-	1,031	-	1,031
- Currency translation differences	-	-	-	(33,364)	-	(33,364)	22	(33,342)
<b>Total comprehensive loss for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,333)</u>	<u>(4,483,869)</u>	<u>(4,516,202)</u>	<u>(16,306)</u>	<u>(4,532,508)</u>
<b>Transaction with owners</b>								
Share-based compensation expenses	-	-	-	120,204	-	120,204	-	120,204
Transfer of vested RSUs	-	9	10	-	-	19	-	19
Issue of ordinary shares as consideration for a business combination	3	97,870	-	-	-	97,873	-	97,873
Liquidation of a non-wholly owned subsidiary	-	-	-	-	-	-	(490)	(490)
Capital injection	-	-	-	-	-	-	2,598	2,598
Acquisition of non-controlling interests	-	-	-	(4,954)	-	(4,954)	4,954	-
Profit appropriations to statutory reserves	-	-	-	49,884	(49,884)	-	-	-
<b>Transactions with owners in their capacity for the year</b>	<u>3</u>	<u>97,879</u>	<u>10</u>	<u>165,134</u>	<u>(49,884)</u>	<u>213,142</u>	<u>7,062</u>	<u>220,204</u>
<b>As of December 31, 2020</b>	<u><u>645</u></u>	<u><u>16,259,688</u></u>	<u><u>(9)</u></u>	<u><u>1,268,188</u></u>	<u><u>(2,435,005)</u></u>	<u><u>15,093,507</u></u>	<u><u>5,000</u></u>	<u><u>15,098,507</u></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2019**

	Attributable to equity holders of the Company						Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000		
<b>As of January 1, 2019</b>	649	16,456,555	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045
<b>Comprehensive income</b>								
Profit for the year	-	-	-	-	1,095,953	1,095,953	16,181	1,112,134
Other comprehensive income								
- Share of other comprehensive loss of associates and joint ventures	-	-	-	(10,502)	-	(10,502)	-	(10,502)
- Currency translation differences	-	-	-	65,714	-	65,714	9	65,723
<b>Total comprehensive income for the year</b>	-	-	-	55,212	1,095,953	1,151,165	16,190	1,167,355
<b>Transaction with owners</b>								
Share-based compensation expenses	-	-	-	141,569	-	141,569	-	141,569
Liquidation in a non-wholly owned subsidiary	-	-	-	-	-	-	(1,641)	(1,641)
Repurchase and cancellation of shares	(7)	(245,828)	-	-	-	(245,835)	-	(245,835)
Transfer of vested RSUs	-	(48,918)	2	-	-	(48,916)	-	(48,916)
Dividends paid	-	-	-	-	-	-	(7,981)	(7,981)
Capital injection	-	-	-	-	-	-	6,200	6,200
Acquisition of non-controlling interests	-	-	-	(4,894)	-	(4,894)	(10,091)	(14,985)
Profit appropriations to statutory reserves	-	-	-	45,350	(45,350)	-	-	-
<b>Transactions with owners in their capacity for the year</b>	(7)	(294,746)	2	182,025	(45,350)	(158,076)	(13,513)	(171,589)
<b>As of December 31, 2019</b>	<u>642</u>	<u>16,161,809</u>	<u>(19)</u>	<u>1,135,387</u>	<u>2,098,748</u>	<u>19,396,567</u>	<u>14,244</u>	<u>19,410,811</u>



**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2020**

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>Net cash flows generated from operating activities</b>	<u><b>1,110,257</b></u>	<u>782,504</u>
<b>Net cash flows used in investing activities</b>	<u><b>(4,188,550)</b></u>	<u>(1,294,971)</u>
<b>Net cash flows used in financing activities</b>	<u><b>(92,338)</b></u>	<u>(1,929,767)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,170,631)</b>	(2,442,234)
Cash and cash equivalents at the beginning of the year	<b>5,931,849</b>	8,342,228
Exchange gains on cash and cash equivalents	<u><b>87,013</b></u>	<u>31,855</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u><b>2,848,231</b></u></u>	<u><u>5,931,849</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

## 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, Umland 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 the “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 Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

#### 2.1.1 Compliance with IFRS

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### 2.1.2 Historical cost convention

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments and contingent consideration payables) at fair value through profit or loss, which are carried at fair value.

#### 2.1.3 New and amended standards 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
Amendments to IFRS 16	Covid-19-Related Rent Concessions

The adoption of these amended standards does not have significant impact on the consolidated financial statements of the Group.

#### 2.1.4 New standards and interpretations not yet adopted

The following new standards and interpretations have not come into effect for the year beginning January 1, 2020, and have not been early adopted by the Group in preparing the consolidated financial statements. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		<b>Effective for annual periods beginning on or after</b>
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IFRS	Annual Improvements to IFRS Standards 2018-2020 Cycle	January 1, 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IFRS 17	Insurance contract	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

### 3 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 December 31, 2020 and 2019, the chief executive officers 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 adaptation rights and scripts, sales of physical books, in-house online games operations, etc.).

As of December 31, 2020 and 2019, 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 (loss)/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 years ended December 31, 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 these consolidated financial statements. 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 the PRC.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended December 31, 2020 and 2019 is as follows:

	Year ended December 31, 2020		
	Online business <i>RMB'000</i>	Intellectual property operations and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues	4,932,184	3,593,517	8,525,701
Cost of revenues	<u>2,354,619</u>	<u>1,937,006</u>	<u>4,291,625</u>
Gross profit	<u><u>2,577,565</u></u>	<u><u>1,656,511</u></u>	<u><u>4,234,076</u></u>
	Year ended December 31, 2019		
	Online business <i>RMB'000</i>	Intellectual property operations and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues	3,710,418	4,637,349	8,347,767
Cost of revenues	<u>1,600,610</u>	<u>3,055,134</u>	<u>4,655,744</u>
Gross profit	<u><u>2,109,808</u></u>	<u><u>1,582,215</u></u>	<u><u>3,692,023</u></u>

The reconciliation of gross profit to profit before income tax of individual period during the year ended December 31, 2020 and 2019 is shown in the consolidated statement of comprehensive (loss)/income.

For the year ended December 31, 2020, the Group's customer base is diversified and includes only Tencent and a third party customer which is primarily engaged in online entertainment service, with whom transactions have exceeded 10% of the Group's revenues, respectively (2019: only Tencent exceeded 10%).

As of December 31, 2020 and 2019, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC.

## 4 REVENUES

### 4.1 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		Total RMB'000
	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	
<b>Year ended December 31, 2020</b>						
Timing of revenue recognition:						
– At a point in time	3,589,741	485,163	346,932	2,612,932	124,793	7,159,561
– Over time	313,706	196,642	–	838,175	17,617	1,366,140
	<b>3,903,447</b>	<b>681,805</b>	<b>346,932</b>	<b>3,451,107</b>	<b>142,410</b>	<b>8,525,701</b>
	Online business			Intellectual property operations and others		
	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
<b>Year ended December 31, 2019</b>						
Timing of revenue recognition:						
– At a point in time	2,171,729	667,580	449,249	3,491,699	196,978	6,977,235
– Over time	253,413	168,447	–	931,405	17,267	1,370,532
	<b>2,425,142</b>	<b>836,027</b>	<b>449,249</b>	<b>4,423,104</b>	<b>214,245</b>	<b>8,347,767</b>

## 4.2 Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	As of December 31,	
	2020 RMB'000	2019 RMB'000
<b>Deferred revenue</b>		
Online business	595,189	300,091
Intellectual property operations and others	316,490	451,079
	<u>911,679</u>	<u>751,170</u>

### (a) Significant changes in deferred revenue

Deferred revenue mainly comprises contract liabilities in relation to 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as of December 31, 2020 and 2019; 2) the balance of deferred copyrights licensing income to be amortised over remaining sub-licensing period, and the portion to be recognised over one year after the end of each reporting period will be classified as non-current liabilities in the consolidated statement of financial position; and 3) the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes have not been delivered as broadcasting license have not been obtained for these television series or films, or advertising services have not been provided.

### (b) Revenue recognised in relation to deferred revenue

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward deferred revenue:

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in the deferred revenue balance at the beginning of the year:		
Online business	300,091	208,748
Intellectual property operations and others	305,088	574,245
	<u>605,179</u>	<u>782,993</u>

## 5 EXPENSES BY NATURE

	Year ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Promotion and advertising expenses	2,016,483	1,537,689
Content costs	1,464,506	1,477,077
Platform distribution costs	1,194,357	569,497
Production costs of television series and film rights	862,629	1,956,421
Employee benefits expenses	701,577	866,936
Payment handling costs	323,816	329,693
Impairment loss on television series and film rights	249,255	177,636
Amortization of intangible assets	215,948	174,729
Game development outsourcing costs	97,263	88,728
Professional service fees	85,731	87,494
Bandwidth and server custody fees	75,884	58,073
Depreciation of right-of-use assets	62,268	61,451
Cost of physical inventories sold	49,394	69,894
Provision for physical inventory obsolescence	45,223	60,263
Travelling, entertainment and general office expenses	40,705	54,346
Impairment loss on prepayments to directors, actors and writers	32,000	20,000
Depreciation of property, plant and equipment	23,703	22,306
Auditors' remuneration		
– Audit services	10,003	9,074
– Non-audit services	1,292	1,058
Logistic expenses	5,552	7,817
Expense relating to short-term leases	4,242	4,728
Others	101,747	105,053
	<b>7,663,578</b>	<b>7,739,963</b>



**6 OTHER (LOSSES)/GAINS, NET**

	Year ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Impairment loss of goodwill	(4,015,854)	–
Loss from modification of contingent consideration payable	(1,463,431)	–
Impairment loss of other intangible assets	(537,086)	–
Impairment provision for investments in associates and a joint venture	(251,960)	(17,400)
Fair value loss of investments in redeemable shares of associates	(11,624)	(23,138)
(Loss)/gain on disposal of film rights and a television series	(9,573)	10,647
Fair value (loss)/gain of investment in a listed entity	(1,305)	1,249
Fair value gain on contingent consideration payable	858,870	273,003
Subsidies and tax rebates	104,305	110,107
Gain on copyright infringements	12,866	80,545
Fair value gain of derivative financial asset	–	10,107
Others, net	(8,111)	8,074
	<u>(5,322,903)</u>	<u>453,194</u>

**7 FINANCE COSTS**

	Year ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on borrowings	64,195	166,521
Interest expenses on lease liabilities	3,483	4,801
Foreign exchange loss, net	1,107	747
Guarantee expense	–	549
	<u>68,785</u>	<u>172,618</u>

**8 INTEREST INCOME**

	Year ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	<u>116,315</u>	<u>157,539</u>

## 9 INCOME TAX (BENEFIT)/EXPENSE

### (i) Cayman Islands corporate income tax

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.

### (ii) Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. The operation in Hong Kong has incurred net accumulated operating losses for income tax purposes and no income tax provisions are recorded for the periods presented.

### (iii) PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits 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 year ended December 31, 2020 (2019: 25%).

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 years ended December 31, 2020 and 2019 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:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Current tax	94,255	290,050
Deferred income tax	(132,778)	(222,387)
Income tax (benefit)/expense	<u>(38,523)</u>	<u>67,663</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2020 (2019: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analysed as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
(Loss)/profit before income tax	(4,538,720)	1,179,797
Share of net profit of associates and joint ventures	(4,733)	(158,508)
Tax calculated at PRC statutory tax rate of 25%	(1,135,863)	255,322
Effects of respective tax rates applicable to different subsidiaries of the Group	(85,352)	(126,363)
Unrecognised deferred income tax assets	52,748	32,027
Non-deductible expenses less non-taxable income	1,180,706	(46,955)
Research and development tax credit	(50,762)	(46,368)
Income tax (benefit)/expense	<u>(38,523)</u>	<u>67,663</u>

## 10 (LOSS)/EARNINGS PER SHARE

- (a) Basic (loss)/earnings per share for the years ended December 31, 2020 and 2019 are calculated by dividing the (loss)/profit attributable to the Company's equity holder by the weighted average number of ordinary shares in issue during the periods.

	Year ended December 31,	
	2020	2019
Net (loss)/profit attributable to the equity holders of the Company (RMB'000)	(4,483,869)	1,095,953
Weighted average number of ordinary shares in issue (thousand)	999,997	998,066
Basic (loss)/earnings per share (expressed in RMB per share)	(4.49)	1.10

- (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 an associate of the Group into ordinary shares of the associate is included in the computation of loss per share for the year ended December 31, 2020 as the impact would be dilutive.

For the year ended December 31, 2019, the Company has the dilutive potential ordinary shares of 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 annual market share price of the Company's shares) 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. For the year ended December 31, 2020, the potential ordinary shares of RSU granted to employees were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive.

	Year ended December 31,	
	2020	2019
Net (loss)/profit attributable to the equity holders of the Company (RMB'000)	(4,483,869)	1,095,953
Impact of a joint venture's and an associate's potential ordinary shares (RMB'000)	(5,448)	(326)
Net (loss)/profit used to determine diluted (loss)/earnings per share (RMB'000)	(4,489,317)	1,095,627
Weighted average number of ordinary shares in issue (thousand)	999,997	998,066
Effect of deemed issuance of ordinary shares in connection with the acquisition of New Classics Media (thousand)	-	3,445
Adjustments for share-based compensation – RSUs (thousand)	-	6,409
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousand)	999,997	1,007,920
Diluted (loss)/earnings per share (expressed in RMB per share)	(4.49)	1.09

## 11 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2020 (2019: nil).

## 12 INTANGIBLE ASSETS

	Goodwill <i>RMB'000</i>	Non-compete agreements <i>RMB'000</i>	Trademarks <i>RMB'000</i>	Copyrights of contents <i>RMB'000</i>	Writers' contracts <i>RMB'000</i>	Software <i>RMB'000</i>	Domain names <i>RMB'000</i>	Total <i>RMB'000</i>
At December 31, 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	-	237,148	-	5,537	-	281,525
Amortization	-	(13,100)	(23,951)	(160,616)	(14,667)	(3,512)	(102)	(215,948)
Impairment provision	(4,015,854)	-	(483,930)	(53,121)	-	(35)	-	(4,552,940)
Currency translation differences	-	-	-	(5,373)	-	-	-	(5,373)
Closing net book amount as of December 31, 2020	<u>6,637,471</u>	<u>43,023</u>	<u>597,816</u>	<u>367,885</u>	<u>21,999</u>	<u>5,660</u>	<u>2,209</u>	<u>7,676,063</u>

	Goodwill <i>RMB'000</i>	Non-compete agreements <i>RMB'000</i>	Trademarks <i>RMB'000</i>	Copyrights of contents <i>RMB'000</i>	Writers' contracts <i>RMB'000</i>	Distribution channel relationships <i>RMB'000</i>	Customers relationships <i>RMB'000</i>	Software <i>RMB'000</i>	Domain names <i>RMB'000</i>	Total <i>RMB'000</i>
At December 31, 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	-	-	-	198,334	-	-	-	3,003	-	201,337
Amortization	-	(6,100)	(27,196)	(122,771)	(14,667)	(800)	(21)	(2,949)	(225)	(174,729)
Liquidation of a subsidiary	-	-	-	(3)	-	-	-	-	-	(3)
Currency translation differences	-	-	-	1,036	-	-	-	1	-	1,037
Closing net book amount as of December 31, 2019	<u>10,653,325</u>	<u>17,283</u>	<u>1,105,697</u>	<u>349,847</u>	<u>36,666</u>	<u>-</u>	<u>-</u>	<u>3,670</u>	<u>2,311</u>	<u>12,168,799</u>

During the year ended December 31, 2020, amortization expense of approximately RMB175,706,000 (2019: RMB136,496,000), RMB nil (2019: RMB2,315,000) and RMB40,242,000 (2019: RMB35,918,000) were charged to “cost of revenues”, “selling and marketing expenses” and “general and administrative expenses”, respectively.

As of December 31, 2020, the goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary Corporation (“Cloudary”) in 2014, the acquisition of the entities operating online literature business through the brand of “Chuangshi” (“Chuangshi”) in 2014 and the acquisition of 100% equity interests in New Classics Media in 2018 (or referred to as “acquired TV and film business” hereafter).

(a) **Impairment tests for goodwill**

As of December 31, 2020 and 2019, goodwill is allocated to the Group's CGUs identified as follows:

	<b>As of December 31, 2020 RMB'000</b>	<b>As of December 31, 2019 RMB'000</b>
Online business	<b>3,720,323</b>	3,720,323
Acquired TV and film business	<b>2,917,148</b>	6,933,002
	<b><u>6,637,471</u></b>	<b><u>10,653,325</u></b>

***Online business***

Impairment review on the goodwill relating to online business has been conducted by the management as of December 31, 2020 and 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations.

As of December 31, 2020 and 2019, the recoverable amount of goodwill was determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a ten-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

The Group has engaged an independent external valuer for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to online business was recognised as of December 31, 2020 and 2019.

***Acquired TV and film business***

During the six months ended June 30, 2020, indicators of goodwill impairment arose in the Group's acquired TV and film business due to the reasons including 1) the film and television industry in mainland China was undergoing profound adjustment as it responds to the fluid and changing macro-environment of the industry, and New Classics Media was experiencing a decline in the number of project filings, productions and releases, as well as lower-than-expected profits from certain individual projects, and 2) the outbreak of the novel coronavirus ("COVID-19") epidemic has continued to affect the macro-economy, and New Classics Media has suffered substantially, due to production delays, uncertain release dates and elongated production cycle for films and television projects.

Accordingly, impairment review on the goodwill relating to acquired TV and film business has been conducted by the management as of June 30, 2020 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the FVLCD and value-in-use calculation.

As of June 30, 2020, the recoverable amount of goodwill was determined based on value-in-use calculation. The value-in-use calculation use cash flow projections based on business projection for the purpose of impairment reviews covering a six-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business projection and market developments.

The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments. As of June 30, 2020, the Group recognised an impairment provision of approximately RMB4,015,854,000 against the carrying amount of goodwill relating to acquired TV and film business.

As of December 31, 2020, the impairment review of the goodwill relating to the acquired TV and film business was conducted again by the management using the same valuation method as of June 30, 2020, as the annual impairment test is required to be performed at the same time every year according to IAS 36 “Impairment of assets”. In the assessment, the Group considered the following: 1) the macroeconomic environment of the film and television industry recovered during the second half of 2020, which led to an increase in the number of project filings, productions and releases, as well as an increase in the expected profits from certain projects; and 2) as China recovered from the COVID-19 epidemic, previous factors that negatively impacted the New Classics Media’s business during the first half of 2020, such as production delays, uncertain release dates and elongated production cycle for films and television projects, were reduced as business activities resumed. As of December 31, 2020, the value-in-use calculation use cash flow projections based on business projection for the purpose of impairment reviews covering a five-year period.

The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments. Based on the results of the assessments, no further impairment of goodwill relating to acquired TV and film business was recognised as of December 31, 2020 (2019: nil).

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

<b>2020</b>	<b>Online business</b>	<b>Acquired TV and film business</b>
Gross margin (%)	From 48.7% to 61.4%	From 42.7% to 45.0%
Annual growth rate (%)	From 9.8% to 18.6%	From 0.2% to 21.7%
Pre-tax discount rate (%)	22.5%	17.4%
	<hr/> <hr/>	<hr/> <hr/>
<b>2019</b>	<b>Online business</b>	<b>Acquired TV and film business</b>
Gross margin (%)	From 50.8% to 59.1%	From 37.1% to 48.8%
Annual growth rate (%)	From 10.3% to 19.1%	From 3.8% to 29.1%
Pre-tax discount rate (%)	21.6%	18.8%
	<hr/> <hr/>	<hr/> <hr/>

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business projection approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

**(b) Impairment tests for trademarks**

Impairment review on the trademarks with indefinite useful life arose from the acquisition of New Classics Media has been conducted by the management as of December 31, 2020 and 2019 according to IAS 36 “Impairment of assets”. For the purposes of impairment assessment, the recoverable amount of the trademarks with indefinite life is determined based on the higher amount of the FVLCD and value-in-use calculations. As of December 31, 2020 and 2019, the recoverable amount of the trademarks is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business projection for the purposes of impairment reviews, which were the same as that for the goodwill impairment tests. The discount rate adopted by the Group when calculating discounted cash flows was also the same as that for the goodwill impairment tests. As of December 31, 2020, the Group recognised an impairment provision of approximately RMB389,816,000 (2019: nil) against the carrying amount of trademark relating to acquisition of New Classics Media. The impairment provision mainly resulted from revisions of financial/business outlook and changes in the market environment of the underlying business.

During the year ended December 31, 2020, indicators of trademarks impairment arose following management’s decision to adjust the Group’s business strategy regarding some of the Group’s self-owned online reading platforms. Accordingly, impairment review on the trademarks arising from the acquisition of Cloudary has been conducted by the management as of December 31, 2020 according to IAS 36 “Impairment of assets”. As of December 31, 2020, the recoverable amount of the trademarks is determined based on the value-in-use calculations. As of December 31, 2020, the Group made an impairment provision of approximately RMB94,114,000 (2019: nil) against the carrying amount of trademarks relating to acquisition of Cloudary.

**(c) Impairment tests for copyrights**

Impairment review on the copyrights that owned by a subsidiary of the Group, which is mainly engaged in physical book publishing business, has been conducted by the management as of December 31, 2020 according to IAS 36 “Impairment of assets”. As of December 31, 2020, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of December 31, 2020, the Group made an impairment provision of approximately RMB53,121,000 (2019: nil) against the carrying amount of such copyrights.

**13 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

	As of December 31,	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
Investments in associates (a)	248,206	469,943
Investments in joint ventures (b)	350,370	493,608
	<u>598,576</u>	<u>963,551</u>

**(a) Investments in associates**

	As of December 31,	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
At the beginning of the year	469,943	307,794
Additions	–	224,066
Impairment provision	(214,837)	(17,400)
Share of net profit of associates	3,002	23,422
Share of other comprehensive income/(loss) of associates	75	(41)
Liquidation of an associate	–	(70,666)
Currency translation differences	(9,977)	2,768
	<u>248,206</u>	<u>469,943</u>

(b) **Investments in joint ventures**

	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At the beginning of the year	<b>493,608</b>	373,124
Additions	–	85,187
Dividend from a joint venture	<b>(107,293)</b>	(90,000)
Impairment provision	<b>(37,123)</b>	–
Share of net profit of joint ventures	<b>1,731</b>	135,086
Share of other comprehensive income/(loss) of joint ventures	<b>956</b>	(10,461)
Currency translation differences	<b>(1,509)</b>	672
	<hr/>	<hr/>
At the end of the year	<b>350,370</b>	493,608
	<hr/> <hr/>	<hr/> <hr/>

(c) **Joint operations**

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

**14 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 amortised cost or at FVOCI;
- 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 mandatorily measured at FVPL include the following:

	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Included in non-current assets:</b>		
Investments in redeemable shares of associates	<b>890,444</b>	429,842
Investments in unlisted entities	<b>12,000</b>	12,000
Investment in a listed entity	<b>12,874</b>	15,343
	<hr/>	<hr/>
	<b>915,318</b>	457,185
	<hr/> <hr/>	<hr/> <hr/>



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

	As of December 31,	
	2020 RMB'000	2019 RMB'000
At the beginning of the year	457,185	470,941
Additions	471,907	58,287
Changes in fair value	(12,929)	(11,782)
Conversion of an associate's preferred shares to ordinary shares	–	(23,000)
Settlement of forward foreign currency contract	–	(36,911)
Currency translation differences	(845)	(350)
	<u>915,318</u>	<u>457,185</u>

## 15 INVENTORIES

	As of December 31,	
	2020 RMB'000	2019 RMB'000
Adaptation rights and scripts	510,718	509,753
Raw materials	9,251	9,308
Work in progress	9,947	12,806
Inventories in warehouse	74,573	81,073
Inventories held with distributors on consignment	76,609	88,415
Others	3,051	7,026
	<u>684,149</u>	<u>708,381</u>
Less: provision for inventory obsolescence	(112,319)	(102,344)
	<u>571,830</u>	<u>606,037</u>

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 year ended December 31, 2020, the cost of inventories, including provision for inventory obsolescence, recognised as expense and included in “cost of revenues” amounted to approximately RMB284,003,000 (2019: RMB447,040,000).

## 16 TELEVISION SERIES AND FILM RIGHTS

	As of December 31,	
	2020 RMB'000	2019 RMB'000
Television series and film rights		
– under production	586,173	655,723
– completed	54,323	451,948
	<u>640,496</u>	<u>1,107,671</u>

	<b>Adaptation rights and scripts RMB'000</b>	<b>Under production RMB'000</b>	<b>Completed RMB'000</b>	<b>Total RMB'000</b>
As of January 1, 2020	–	655,723	451,948	1,107,671
Additions	–	744,562	–	744,562
Transfer from under production to completed ( <i>Note b</i> )	–	(844,013)	844,013	–
Transfer from adaptation rights and scripts to under production	–	51,693	–	51,693
Recognised in cost of revenue ( <i>Note a</i> )	–	(21,792)	(1,090,092)	(1,111,884)
Recognised in other (losses)/gains, net	–	–	(151,546)	(151,546)
As of December 31, 2020 ( <i>Note b</i> )	<u>–</u>	<u>586,173</u>	<u>54,323</u>	<u>640,496</u>
As of January 1, 2019	709,491	1,416,202	731,363	2,857,056
Transfer to inventories ( <i>Note c</i> )	(709,491)	–	–	(709,491)
Additions	–	1,017,759	1,475	1,019,234
Transfer from under production to completed ( <i>Note b</i> )	–	(1,853,167)	1,853,167	–
Transfer from adaptation rights and scripts to under production	–	74,929	–	74,929
Recognised in cost of revenue ( <i>Note a</i> )	–	–	(2,134,057)	(2,134,057)
As of December 31, 2019 ( <i>Note b</i> )	<u>–</u>	<u>655,723</u>	<u>451,948</u>	<u>1,107,671</u>

*Notes:*

- (a) During the year ended December 31, 2020, impairment loss of approximately RMB249,255,000 was provided for the Group's completed television series and film rights (2019: RMB177,636,000).
- (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.
- (c) Prior to 2019, the adaptation rights and scripts (the "Rights") were recorded in "Television series and film rights" for the purpose of production. In order to evolve business strategy, the Group has started to sell some of the Rights to customers. Hence, management considers it is more appropriate to reclassify the Rights from "Television series and film rights" to "Inventories".

## 17 TRADE AND NOTES RECEIVABLES

	As of December 31,	
	2020 RMB'000	2019 RMB'000
Trade receivables	3,456,635	3,431,613
Notes receivable	22,683	697
	<u>3,479,318</u>	<u>3,432,310</u>
Less: allowance for impairment of trade receivables	(183,031)	(66,232)
	<u><b>3,296,287</b></u>	<u><b>3,366,078</b></u>

The Group applies the IFRS 9 simplified approach for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

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

	As of December 31,	
	2020 RMB'000	2019 RMB'000
Trade and notes receivables		
– Up to 3 months	2,380,858	2,648,932
– 3 to 6 months	99,594	146,655
– 6 months to 1 year	88,302	308,289
– 1 to 2 years	711,222	239,494
– Over 2 years	16,311	22,708
	<u>3,296,287</u>	<u>3,366,078</u>

As of December 31, 2020, no trade receivables have been pledged for certain bank borrowings (2019: RMB324,230,000) (Note 18).

## 18 BORROWINGS

	As of December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current</b>		
<b><i>Unsecured</i></b>		
RMB bank borrowings ( <i>Note a</i> )	300,000	–
USD bank borrowings ( <i>Note a</i> )	391,494	–
	<hr/>	<hr/>
Total non-current borrowings	691,494	–
	<hr/>	<hr/>
<b>Current</b>		
<b><i>Unsecured</i></b>		
RMB bank borrowings ( <i>Note a</i> )	554,444	1,102,517
<b><i>Secured</i></b>		
RMB bank borrowings ( <i>Note b</i> )	–	200,555
	<hr/>	<hr/>
Total current borrowings	554,444	1,303,072
	<hr/>	<hr/>
<b>Total borrowings</b>	<b>1,245,938</b>	<b>1,303,072</b>
	<hr/> <hr/>	<hr/> <hr/>

### Notes:

- (a) As of December 31, 2020, the Group's unsecured long-term bank borrowings consisted of RMB300,000,000 variable-rate borrowings bore floating interest rates of People's Bank of China's loan prime rate plus 0.95% per annum and approximately RMB391,494,000 variable-rate borrowings bearing floating interest rate of London Inter-bank Offered Rate ("LIBOR") plus 1.10% per annum. The variable rate long-term bank borrowings of RMB300,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of the New Classics Media) (or referred to as "Mr. Cao") and other subsidiaries of the Group. These borrowings will be repayable from April 19, 2022 to September 2, 2022. The other variable rate long-term bank borrowings of approximately RMB391,494,000 will be repayable in February 28, 2023.

As of December 31, 2020, the Group's unsecured short-term bank borrowings consisted of approximately RMB309,533,000 borrowings bore fixed interest rate ranging from approximately 4.79% to 5.00% per annum and approximately RMB244,911,000 variable-rate borrowings bore interest rates ranging from 5.00% to 5.22% per annum. The short-term bank borrowings of RMB554,444,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

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 year ended December 31, 2020.

As of December 31, 2019, the Group's unsecured short-term bank borrowings consist of approximately RMB902,517,000 fixed-rate borrowings, bearing interests ranging from 3.60% to 5.22% per annum, among which approximately RMB272,517,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group. These fixed-rate borrowings had been repaid during the year ended December 31, 2020.

- (b) As of December 31, 2019, the Group's secured short-term bank borrowings consist of approximately RMB200,555,000 borrowings bore floating interest rates of People's Bank of China's loan prime rate plus approximately 0.88% to 0.93% 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. 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 (see Note 17). These secured short-term bank borrowings has been repaid during the year ended December 31, 2020.

As of December 31, 2020 and 2019, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	554,444	1,303,072
Between 1 and 2 years	300,000	–
Between 2 and 3 years	391,494	–
	<b>1,245,938</b>	<b>1,303,072</b>

Under the terms of the bank facility agreements entered into with the Bank of America and East West Bank, the Group is required to comply with the financial covenants. The Group has complied with all these covenants throughout the reporting period.

## 19 TRADE PAYABLES

Ageing analysis of trade payables based on recognition date at the end of each reporting period is as follows:

	As of December 31,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
– Up to 3 months	746,347	775,350
– 3 to 6 months	116,074	115,631
– 6 months to 1 year	51,144	46,293
– 1 to 2 years	74,939	43,990
– Over 2 years	51,149	39,412
	<b>1,039,653</b>	<b>1,020,676</b>

## 20 SHARE-BASED PAYMENTS

### (a) Share-based compensation plan of the Group

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.

On January 17, 2017, the shareholders of the Company approved additional 15,409,901 new ordinary shares to be further reserved for the purpose of the Company's employee incentive plan. The aggregate number of shares reserved under 2014 Equity Incentive Plan shall be amounted to 40,409,091 shares.

On April 10, 2019, July 11, 2019 and November 5, 2019, 235,000, 158,000 and 5,297,000 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 Equity Incentive Plan, respectively. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

On April 9, 2020 and September 4, 2020, 725,000 and 849,360 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 Equity Incentive Plan, respectively. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

The Company has adopted the 2020 Restricted Share Unit Scheme on May 15, 2020 to the extent of 45,710,177 ordinary shares of the Company for the purposes of attracting and retaining the suitable personnel, to provide additional incentives to employees, directors and consultants.

Pursuant to the RSUs agreements under 2020 Restricted Share Unit Scheme, subject to grantee's continued service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 25% of the RSUs on each of the first four anniversaries of the grant date.

On September 1, 2020, 4,162,633 RSUs have been granted to certain directors and employees of the Group under the 2020 Restricted Share Unit Scheme. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

Movements in the number of RSUs outstanding is as follows:

	<b>Number of RSUs</b>
<b>As of January 1, 2020</b>	<b>15,214,100</b>
Granted	5,736,993
Forfeited	(2,485,947)
Vested	(3,851,700)
	<hr/>
<b>Outstanding balance as of December 31, 2020</b>	<b>14,613,446</b>
	<hr/> <hr/>
As of January 1, 2019	17,477,000
Granted	5,690,000
Forfeited	(1,293,500)
Vested	(6,659,400)
	<hr/>
Outstanding balance as of December 31, 2019	15,214,100
	<hr/> <hr/>

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

**(b) Expected Retention Rate**

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive (loss)/income. As of December 31, 2020, the Expected Retention Rate was assessed to be 100%.

**(c) Shares held for RSU scheme**

The Company has set up two structured entities ("RSUs Scheme Trusts"), namely Link Apex Holdings Limited and Peak Income Group Limited, which are solely for the purpose of administering and holding the Company's shares for the RSU scheme. Pursuant to a resolution passed by the Board of Directors of the Company on October 10, 2017, the Company issued 40,409,091 ordinary shares to the RSU scheme Trusts at a par value of USD0.0001 each, being the ordinary shares underlying the Company's RSUs Scheme. In addition, the Company has entered into a trust deed with an independent trustee (the "RSU Trustee") on October 10, 2017, pursuant to which the RSU Trustee shall act as the administrator of the Company's RSUs Scheme.

The Company has the power to direct the relevant activities of the RSUs Scheme Trusts and it has the ability to use its power over the RSUs Scheme Trusts to affect its exposure to returns. Therefore, the assets and liabilities of the RSUs Scheme Trusts are included in the Group's consolidated statement of financial position and the ordinary shares held for the Company's RSU scheme were regarded as treasury shares and presented as a deduction in equity as "Shares held for RSU scheme".

As of December 31, 2020, the Company has appointed a professional and independent trustee, BOCI Prudential Trustee, as the Trustee to assist with the administration and vesting of RSUs granted pursuant to the 2020 Restricted Share Unit Scheme.





## **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 year ended December 31, 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 for the year ended December 31, 2020.

## **Annual General Meeting**

The annual general meeting (the "AGM") will be held on Monday, May 24, 2021. The notice of the AGM will be published and despatched to the Shareholders in due course.

## **Closure of the Register of Members**

For determining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, May 18, 2021 to Monday, May 24, 2021, both days inclusive, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, May 17, 2021.

## **Audit Committee**

The Audit Committee, together with the Board and the Auditor has reviewed the Group's audited consolidated financial statements for the year ended December 31, 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.

## **Auditor's Procedures Performed on this Announcement**

The figures in respect of the announcement of the Group's results for the year ended December 31, 2020 have been audited and agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

## **Publication of the Annual Results Announcement and Annual Report**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://ir.yuewen.com>), and the Annual 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, March 23, 2021

*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

“AGM”	:	the forthcoming annual general meeting of the Company to be held on May 24, 2021;
“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;
“Cloudary”	:	Cloudary Corporation (formerly known as Shanda Literature Corporation), an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 25, 2011, and our directly wholly-owned subsidiary;
“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;
“COVID-19”	:	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC and worldwide since around January 2020;
“DAUs”	:	daily active users who access our platform through our products or our self-operated channels on Tencent products at least once during the day in question;
“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 year ended December 31, 2020;
“RMB”	:	the lawful currency of the PRC;
“RSU(s)”	:	restricted stock unit(s);
“SGD”	:	the lawful currency of Singapore;
“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);
“Tencent Pictures”	:	Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), a company established in the PRC, a subsidiary of Tencent; and
“USD”	:	the lawful currency of the United States.