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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, 2021
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, 2021. 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

	2021	2020	Year- over-year
	RMB'000	RMB'000	(%)
Revenues	8,668,244	8,525,701	1.7
Gross profit	4,599,443	4,234,076	8.6
Operating profit/(loss)	2,172,640	(4,474,668)	N/A
Profit/(loss) before income tax	2,303,068	(4,538,720)	N/A
Profit/(loss) for the year	1,842,927	(4,500,197)	N/A
Profit/(loss) attributable to equity holders of the Company	1,846,609	(4,483,869)	N/A
Non-IFRS profit attributable to equity holders of the Company	1,229,721	917,105	34.1

BUSINESS REVIEW AND OUTLOOK

Overview

In 2021, we announced our IP metamorphosis strategy, which articulates the three stages we use to elevate the value of our literary IP. These three stages are: i) first, we adapt our literary IP to media-rich products, or, as we call it, the visualization of IP; ii) second, we enhance the commercial value of our IP; iii) third, we create timeless IP that can be passed down from one generation to the next. We are of the view that this strategy will lay the foundation for the evolution of China Literature over the next decade and provide IP with the opportunity to generate dividends over time.

Business Highlights

IP Creation – Literature Business

Our literature platform is the origin of our huge portfolio of IP content.

On the supply side, the boundless creativity of our writers allows us to accumulate high-quality IP efficiently. In 2021, our platform added 700,000 writers and 1.2 million literary works. The increase in word count for the year was 36 billion Chinese characters. In addition to quantity, quality is constantly improving, thanks to the healthy ecosystem we have developed which helps writers to fulfill their creative potential. Young writers will find it particularly attractive and their performance in 2021 was outstanding. Among all the newly added writers of China Literature in 2021, approximately 80% were born after 1995; out of the top 12 rookies of the year, 5 are under age 27.

On the user side, the MAU of our online business in 2021 reached a historic high of 248.6 million. We attribute this to our tireless efforts to improve content, ecosystem, content incubation, community features as well as to our recommendation efficiency.

Visualization of IP

Visualization from print to image is crucial for text IP to tap into new audiences and extend its influence. By visualizing stories we also create a mutually reinforcing environment, where high quality stories enjoy a higher chance of success during the visualization, and the visualized IP, once successful, can attract more audiences to the original story. Currently IP visualization is the focus of our work.

In the TV and film segment, China Literature and New Classics Media have rolled out numerous blockbusters. Following the success of My Heroic Husband (贅婿), Soul Land (斗羅大陸), The Rebel (叛逆者) and Hi, Mom (你好，李煥英), we have again released several highly rated and popular works. We released drama series A Lifelong Journey (人世間), which was adapted from the Mao Dun Literature Prize-winning fiction by contemporary writer Liang Xiaosheng of the same name. The series set an 8-year record in CCTV-1 prime time ratings, topped all charts across the internet, and was acclaimed widely. We also released the IP adapted drama series Sword Snow Stride (雪中悍刀行), which demonstrates the modern Wuxia spirit and the culture of Jianghu with contemporary characteristics. The drama series had nearly 7 billion video views and had extremely high popularity in the market. In film, we released Too Cool to Kill (這個殺手不太冷靜) during the 2022 Spring Festival. The film stood out during this highly competitive period with box office sales of RMB2.6 billion, coming second in box office sales during 2022 Spring Festival period. Our excellent stories also reached international markets. For example, the overseas broadcasting rights of A Lifelong Journey (人世間) have been licensed to Disney; and My Heroic Husband (贅婿) was licensed to Watcha, a Korean streaming media platform, for a live-action adaptation. Looking ahead, we will continue to work on serial development of high-value IP dramas, such as Joy of Life (慶餘年), My Heroic Husband (贅婿), Dafeng Guardian (大奉打更人), and others, as well as producing realistic masterpieces that reflect our era.

In the animation segment, we launched two new seasons of Battle Through the Heavens (斗破蒼穹), including Battle Through the Heavens Season 4 (斗破蒼穹第四季) and the special episode Three-Year Promise (三年之約), which had over 4 billion video views in aggregate. As of the present, the Battle Through the Heavens (斗破蒼穹) series has exceeded 10 billion video views. In addition to Battle Through the Heavens (斗破蒼穹), Stellar Transformations (星辰變) emerged as a heavyweight IP in China, with four seasons and total video views of over 3 billion. We also released several quality productions in 2021, including Da Wang Rao Ming (大王饒命) and Cinderella Chef Season 2 (萌妻食神之再結良緣). Among the top 10 newly released animations on Tencent Video platform in 2021, 5 were adapted from China Literature IPs.

In the comics segment, our production capacity increased rapidly last year. In late 2020, we and Tencent Comics announced a joint project to adapt 300 online literary works into comics in three years. Right now, over 100 adapted comic works have already been launched on Tencent Comics platform. Some titles have become blockbusters, such as Dafeng Guardian (大奉打更人), which hit 100,000 favorite views within 44 hours after launch. Converting literary works into comics before further adaptation into animations and dramas has multiple benefits. It will help China Literature build a character universe at a lower cost, while systematically testing the response of a core audience group, which will improve the hit rate of subsequent adaptations into other media-rich formats.

In the games segment, we continued to license our IP to quality game studios to explore the potential and value of our IP.

Commercialization of IP: Attempts in Theme Characters and Merchandise

In 2021, we focused on building a foundation for the business, including IP planning, setting up an image data base, and building up design capacity of IP merchandise. We selectively worked with partners in consumer goods, fashion toys and retail sectors to kick off pilot projects. As users increasingly value copyright protection, have greater spending power, and are more willing to spend on IP merchandise, we will capture the trend to develop IP derivatives and work closely with our partners to drive the growth of this business. This will create more headroom for China Literature's IP business, by transforming IP into physical products that are accessible everywhere.

Passing on IP from Generation to Generation, Creating Stories That Will Live Forever

Our ultimate goal is to create IP with staying power. In June 2021, we announced that our mission was to create stories that will live forever. This concept consists of two layers of meaning. The first meaning is “to create”, that is, through the incubation and cultivation of our literary ecosystem, to help the best stories continue to emerge and become the source of quality IP. The second meaning is “live forever”, that is, through comics, animation, film and television, games, merchandise and other forms, to pass on our best stories, so that they become the shared memory of generations of people.

Today, many of our IPs have lasted for more than a decade. Soul Land (斗羅大陸) was first created in 2008, 14 years ago. The King's Avatar (全職高手) is 11 years old. Their success was not an accident, but the result of 5 to 10 years of hard work. What we are doing now is providing support to cultivate the best content, so that literary hits can turn into comics, animation, film and television hits, as well as hits in other media, and eventually become the hits of each generation, with the staying power to last from one generation to the next. Currently, many classic IPs of China Literature are being adapted into new versions. We are also working on IP series development, for example, producing sequels for both the TV series Joy of Life (慶餘年) and My Heroic Husband (贅婿), and we will continue to launch new seasons for our animation and comics series. At the same time, more products and IP are being created and developed on our platform. We hope that in each era, there will be new interpretations of these IPs, with each carrying the distinctive characteristics of that particular era. If this dream is realized, such IP will become the cornerstone assets of China Literature's long-term value. This will best reward all the efforts we have made today.

Overseas Business

We continued to expand our international presence. As of December 31, 2021, our foreign language online reading brand, WebNovel, offered approximately 2,100 works translated from Chinese and approximately 370,000 original content works created locally. We hope that we will be able to explore new possibilities for the global cultural ecosystem and cultural exchange through our online reading business and our continuing innovation and creativity.

Outlook

China Literature focuses on seizing the historical opportunities offered by the present. We have created our own unique IP and have established a rich cultural ecosystem that reflects the era. We will withstand changing tides and become a pioneering voice of the times, doing our part to create Chinese stories that will live forever.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

	Year Ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	8,668,244	8,525,701
Cost of revenues	<u>(4,068,801)</u>	<u>(4,291,625)</u>
Gross profit	4,599,443	4,234,076
Interest income	125,353	116,315
Other gains/(losses), net	1,448,083	(5,322,903)
Selling and marketing expenses	(2,700,814)	(2,498,187)
General and administrative expenses	(1,323,845)	(873,766)
Net reversal of/(provision for) impairment losses on financial assets	<u>24,420</u>	<u>(130,203)</u>
Operating profit/(loss)	2,172,640	(4,474,668)
Finance costs	(68,763)	(68,785)
Share of net profit of associates and joint ventures	<u>199,191</u>	<u>4,733</u>
Profit/(loss) before income tax	2,303,068	(4,538,720)
Income tax (expense)/benefit	<u>(460,141)</u>	<u>38,523</u>
Profit/(loss) for the year	<u>1,842,927</u>	<u>(4,500,197)</u>
Attributable to:		
Equity holders of the Company	1,846,609	(4,483,869)
Non-controlling interests	<u>(3,682)</u>	<u>(16,328)</u>
	<u>1,842,927</u>	<u>(4,500,197)</u>
Non-IFRS profit for the year	<u>1,226,039</u>	<u>900,777</u>
Attributable to:		
Equity holders of the Company	1,229,721	917,105
Non-controlling interests	<u>(3,682)</u>	<u>(16,328)</u>
	<u>1,226,039</u>	<u>900,777</u>

Revenues. Revenues increased by 1.7% to RMB8,668.2 million for the year ended December 31, 2021 on a year-over-year basis. The following table sets out our revenues by segment for the year ended December 31, 2021 and 2020:

	Year ended December 31,			
	2021		2020	
	RMB'000	%	RMB'000	%
Online business⁽¹⁾⁽³⁾				
On our self-owned platform products	3,848,441	44.4	3,903,447	45.8
On our self-operated channels on				
Tencent products	808,908	9.3	631,652	7.4
On third-party platforms	651,122	7.5	308,761	3.6
Subtotal	5,308,471	61.2	4,843,860	56.8
Intellectual property operations and others⁽²⁾⁽³⁾				
Intellectual property operations	3,231,353	37.3	3,539,431	41.5
Others	128,420	1.5	142,410	1.7
Subtotal	3,359,773	38.8	3,681,841	43.2
Total revenues	8,668,244	100.0	8,525,701	100.0

Notes:

- (1) Revenues from online business primarily reflect revenues from online paid reading, online advertising and distribution of third-party online games on our platform.
 - (2) Revenues from intellectual property operations and others primarily reflect revenues from production and distribution of TV, web and animated series, films, licensing of copyrights, operation of self-operated online games and sales of physical books.
 - (3) Starting from January 1, 2021, revenues from online audio books and online comic content provided via Tencent and third-party platforms have been reclassified from the “online business” segment to the “intellectual property operations and others” segment to better reflect the Group’s current businesses. We restated our prior-period figures to conform to the current-period’s presentation.
- Revenues from online business increased by 9.6% to RMB5,308.5 million for the year ended December 31, 2021 on a year-over-year basis, accounting for 61.2% of total revenues.

Revenues from online business on our self-owned platform products decreased by 1.4% to RMB3,848.4 million for the year ended December 31, 2021. The year-over-year decrease was primarily due to a higher revenue base driven by a rise in online traffic during the COVID-19 pandemic period in the first half of 2020.

Revenues from online business on our self-operated channels on Tencent products increased by 28.1% to RMB808.9 million for the year ended December 31, 2021, primarily due to growth in advertising revenues from free-to-read business as we continued to expand the user base for free reading in 2021.

Revenues from online business on third-party platforms increased by 110.9% to RMB651.1 million for the year ended December 31, 2021, primarily due to an increase in revenues from certain existing third-party platform partners and the expansion of distribution channels in 2021.

The following table summarizes our key operating data for the year ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	2020
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	248.6 million	228.9 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	8.7 million	10.2 million
Monthly average revenue per paying user (“ARPU”) ⁽¹⁾	RMB39.7	RMB34.7

Notes:

- (1) 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 8.6% year-over-year from 228.9 million to 248.6 million for the year ended December 31, 2021, among which (i) MAUs on our self-owned platform products decreased 3.9% year-over-year from 121.5 million to 116.8 million, as we experienced a higher user traffic during the COVID-19 pandemic period in the first half of 2020; and (ii) MAUs on our self-operated channels on Tencent products increased 22.7% year-over-year from 107.4 million to 131.8 million, mainly as our free-to-read business continued to expand and thus attracted a greater number of users in 2021.
 - As we continued to expand our free-to-read business and attracted more users to read our free content, average MPUs on our self-owned platform products and self-operated channels decreased by 14.7% year-over-year from 10.2 million to 8.7 million for the year ended December 31, 2021.

- Monthly ARPU for paid reading content increased by 14.4% year-over-year from RMB34.7 to RMB39.7 for the year ended December 31, 2021, primarily driven by users' higher willingness to pay for premium content as we continued to improve our content operation, expand title genres, optimize community features, and enhance recommendation efficiency for paid content in 2021.

In December 2021, average DAUs for our free-to-read channels were approximately 15 million, compared with approximately 10 million in December 2020.

- Revenues from intellectual property operations and others decreased by 8.7% year-over-year to RMB3,359.8 million for the year ended December 31, 2021, due to the reduction in NCM's revenues from RMB2,033.2 million in 2020 to RMB1,216.9 million in 2021. The annual decrease in NCM's revenues was mainly due to a change in the project mix with different revenues, cost structures and business models. NCM recorded RMB533.8 million profit attributable to equity holders of the company for the year ended December 31, 2021, representing an increase of 24.3% year-over-year. Excluding NCM's revenues, revenues from intellectual property operations and others increased by 30.0% to RMB2,142.9 million, primarily due to the growth in revenues generated from IP licensing, animated series and self-operated games.

Revenues from intellectual property operations decreased by 8.7% year-over-year to RMB3,231.4 million for the year ended December 31, 2021, resulting from the reduction in NCM's revenues as mentioned above. The decrease was partially offset by the growth in revenues generated from IP licensing, animated series and self-operated games.

Revenues from others decreased by 9.8% year-over-year to RMB128.4 million for the year ended December 31, 2021. Revenues from others were mainly generated by sales of physical books.

Cost of revenues. Cost of revenues decreased by 5.2% year-over-year to RMB4,068.8 million for the year ended December 31, 2021, primarily due to a decline in production costs of TV, web and animated series and films from RMB1,111.9 million to RMB430.7 million for the year ended December 31, 2021. The decrease in costs was mainly attributable to the reduction in NCM's production costs in 2021, resulting from a change in the project mix of NCM's projects with different revenues, cost structures and business models. The decrease in cost of revenues was partially offset by an increase in content costs and amortization of intangible assets represented by content copyrights due to the expansion of our online reading businesses.

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,			
	2021		2020	
	<i>RMB'000</i>	<i>% of revenues</i>	<i>RMB'000</i>	<i>% of revenues</i>
Content costs	1,774,189	20.5	1,464,506	17.2
Platform distribution costs	1,151,009	13.3	1,194,357	14.0
Production costs of TV, web and animated series and films	430,698	5.0	1,111,884	13.0
Amortization of intangible assets	354,829	4.1	175,706	2.1
Cost of inventories	72,245	0.8	94,617	1.1
Others	285,831	3.2	250,555	2.9
Total cost of revenues	4,068,801	46.9	4,291,625	50.3

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 8.6% year-over-year to RMB4,599.4 million for the year ended December 31, 2021. Gross margin was 53.1% for the year ended December 31, 2021, as compared with 49.7% for the year ended December 31, 2020.

Interest income. Interest income increased by 7.8% to RMB125.4 million for the year ended December 31, 2021, reflecting a higher average cash deposit balance for the year ended December 31, 2021.

Other gains/(losses), net. We recorded net other gains of RMB1,448.1 million for the year ended December 31, 2021, compared with net other losses of RMB5,322.9 million for the year ended December 31, 2020. The other gains for the year ended December 31, 2021 consisted mainly of (i) gains of RMB1,288.3 million related to the sales of our equity interest in investee companies, (ii) gains of RMB134.0 million on disposal of certain intangible assets, (iii) government subsidies of RMB110.7 million, and (iv) fair value gains of RMB50.3 million resulting from increased valuations of investee companies. These gains were partially offset by a fair value loss of RMB158.3 million due to a change in fair value of consideration liabilities related to the acquisition of NCM.

Selling and marketing expenses. Selling and marketing expenses increased by 8.1% year-over-year to RMB2,700.8 million for the year ended December 31, 2021. The increase was primarily due to (i) greater marketing expenses to promote our online businesses, (ii) greater promotion and advertising expenses for our films and drama series, and (iii) an increase in employee benefits expenses and share-based compensation expenses. As a percentage of revenues, our selling and marketing expenses increased to 31.2% for the year ended December 31, 2021 from 29.3% for the year ended December 31, 2020.

General and administrative expenses. General and administrative expenses increased by 51.5% year-over-year to RMB1,323.8 million for the year ended December 31, 2021, primarily attributable to (i) the net increase effect of compensation cost of RMB166.5 million mainly driven by service expense reversals of certain employees and former owners of NCM in the prior year, relating to the modification of earn-out mechanism for NCM in 2020, (ii) an annual increase in employee benefits expenses along with an increase in share-based compensation expenses as we launched new stock incentive plans, and (iii) an increase in research and development expenses related to our self-operated online game as revenue increased. As a percentage of revenues, general and administrative expenses increased to 15.3% for the year ended December 31, 2021 from 10.2% for the year ended December 31, 2020.

Net reversal of/(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, 2021, we reversed a provision for doubtful receivables of RMB24.4 million on a net basis, as a result of the collection of receivables related to TV and web series which were impaired in prior years.

Operating profit/(loss). As a result of the foregoing, we had an operating profit of RMB2,172.6 million for the year ended December 31, 2021, as compared with an operating loss of RMB4,474.7 million for the year ended December 31, 2020.

Finance costs. Finance costs remained stable at RMB68.8 million for the year ended December 31, 2021.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures increased by 4,108.6% to RMB199.2 million for the year ended December 31, 2021, mainly driven by greater profits generated from our investee companies.

Income tax (expense)/benefit. Income tax expense was RMB460.1 million for the year ended December 31, 2021, compared with an income tax benefit of RMB38.5 million for the year ended December 31, 2020.

Profit/(loss) attributable to equity holders of the Company. We had profit attributable to equity holders of the Company of RMB1,846.6 million for the year ended December 31, 2021, compared with a loss attributable to equity holders of the Company of RMB4,483.9 million for the year ended December 31, 2020.

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, 2021 and 2020:

	Year ended December 31, 2021		
	Online business <i>RMB'000</i>	Intellectual property operations and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues	5,308,471	3,359,773	8,668,244
Cost of revenues	<u>2,690,334</u>	<u>1,378,467</u>	<u>4,068,801</u>
Gross profit	<u><u>2,618,137</u></u>	<u><u>1,981,306</u></u>	<u><u>4,599,443</u></u>
Gross margin	<u><u>49.3%</u></u>	<u><u>59.0%</u></u>	<u><u>53.1%</u></u>
	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	4,843,860	3,681,841	8,525,701
Cost of revenues	<u>2,325,709</u>	<u>1,965,916</u>	<u>4,291,625</u>
Gross profit	<u><u>2,518,151</u></u>	<u><u>1,715,925</u></u>	<u><u>4,234,076</u></u>
Gross margin	<u><u>52.0%</u></u>	<u><u>46.6%</u></u>	<u><u>49.7%</u></u>

OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
EBITDA ⁽¹⁾	1,094,005	1,033,839
Adjusted EBITDA ⁽²⁾	1,335,815	1,029,692
Adjusted EBITDA margin ⁽³⁾	15.4%	12.1%
Interest expense	63,320	67,678
Net cash ⁽⁴⁾	6,031,125	5,010,972
Capital expenditures ⁽⁵⁾	239,122	288,309

Notes:

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

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Operating profit/(loss)	2,172,640	(4,474,668)
Adjustments:		
Interest income	(125,353)	(116,315)
Other (gains)/losses, net	(1,448,083)	5,322,903
Depreciation of property, plant and equipment	19,085	23,703
Depreciation of right-of-use assets	80,254	62,268
Amortization of intangible assets	395,462	215,948
	<u>1,094,005</u>	<u>1,033,839</u>
EBITDA	1,094,005	1,033,839
Adjustments:		
Share-based compensation	188,138	120,204
Expenditures related to acquisition	53,672	(124,351)
	<u>1,335,815</u>	<u>1,029,692</u>
Adjusted EBITDA	1,335,815	1,029,692

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. These unaudited non-IFRS measures may be defined differently from similar terms used by other companies. In addition, non-IFRS adjustments include relevant non-IFRS adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

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

The following tables set out the reconciliations of our Group's non-IFRS financial measures for the year ended December 31, 2021 and 2020 to the nearest measures prepared in accordance with IFRS:

Year ended December 31, 2021						
	Adjustments					Non-IFRS
	As reported	Share-based compensation	Net (gains) from investments and acquisitions ⁽¹⁾ <i>(RMB' 000, unless specified)</i>	Amortization of intangible assets ⁽²⁾	Tax effect	
Operating profit	2,172,640	188,138	(1,098,607)	37,674	–	1,299,845
Profit for the year	1,842,927	188,138	(1,098,607)	37,674	255,907	1,226,039
Profit attributable to equity holders of the Company	1,846,609	188,138	(1,098,607)	37,674	255,907	1,229,721
EPS <i>(RMB per share)</i>						
– basic	1.83					1.22
– diluted	1.82					1.21
Operating margin	25.1%					15.0%
Net margin	21.3%					14.1%

Year ended December 31, 2020						
	Adjustments					Non-IFRS
	As reported	Share-based compensation	Net losses from investments and acquisitions ⁽¹⁾ <i>(RMB' 000, unless specified)</i>	Amortization of intangible assets ⁽²⁾	Tax effect	
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%

Notes:

- (1) For the year ended December 31, 2021, this item includes disposal gains and fair value changes arising from investee companies, fair value changes of consideration liabilities related to the acquisition of NCM, expenses related to acquisition and impairment provision of long-term investments. For the year ended December 31, 2020, this item includes impairment provision of 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 the reversal of compensation costs for 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 increased from RMB21,315.8 million as of December 31, 2020 to RMB23,297.3 million as of December 31, 2021, while our total liabilities decreased from RMB6,217.3 million as of December 31, 2020 to RMB6,110.3 million as of December 31, 2021. The liabilities-to-assets ratio decreased from 29.2% as of December 31, 2020 to 26.2% as of December 31, 2021.

As of December 31, 2021, the current ratio (the ratio of total current assets to total current liabilities) was 282.2%, compared with 272.7% as of December 31, 2020.

As of December 31, 2021 and December 31, 2020, our Group had no pledged receivables.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, cash generated from our operations, and borrowings from banks. As of December 31, 2021, our Group had net cash of RMB6,031.1 million, compared with RMB5,011.0 million as of December 31, 2020. The increase in net cash in the year of 2021 was mainly due to the sales of our equity interest in investee companies in cash and the cash generated from our operating activities. The increase was partially offset by capital expenditures, cash outflow for investment activities, and the earn-out cash consideration paid for the acquisition of NCM based on its 2020 financial performance. For the year ended December 31, 2021, our Group had free cash flow of RMB791.2 million. This was a result of net cash flow generated from operating activities of RMB1,118.5 million, deducting payments for lease liabilities of RMB88.2 million and payments for capital expenditure of RMB239.1 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, 2021:

- Our gearing ratio was 6.8%, compared with 8.3% as of December 31, 2020.
- Our total borrowings were RMB1,175.3 million, which were denominated in RMB and USD.
- Our unutilized banking facility was RMB1,832.2 million.

As of December 31, 2021 and December 31, 2020, our Group had no significant contingent liabilities.

As of December 31, 2021 and December 31, 2020, 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 content and software copyrights, 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, 2021 totalled RMB1,400.2 million, compared with RMB386.2 million for the year ended December 31, 2020, representing a year-over-year increase of RMB1,014.0 million. The increase was primarily due to greater expenditure for investments in 2021. 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, JPY 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 exposure and tries to minimize exposure through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any movement in foreign currency during the year ended December 31, 2021 and 2020.

Employees

As of December 31, 2021, 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 2021, the COVID-19 pandemic posed challenges and created opportunities at the same time for global economy and enterprises worldwide. However, the Chinese government adopted several effective measures to curb spread of the outbreak. At the same time, the Group has 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 year of 2021, COVID-19 did not have material adverse impact on the operation, financial condition and cash flows of the Group.

During the COVID-19 pandemic, we took countermeasures in a timely manner to reduce the risk of infection. All workplaces complied with local government requirements regarding the resumption of work and production. We strictly took body temperatures, formulated emergency-response plans, and strengthened management to normalise disease prevention.

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 RMB1,216.9 million in revenues and RMB533.8 million in profit attributable to equity holders of the company for the year ended December 31, 2021.

Issue of consideration shares 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;
- (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; and
- (iv) the announcement of the Company dated March 23, 2021, in respect of, among others, the issue of Consideration Shares under the New Earn Out Mechanism.

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

Pursuant to the Supplemental SPA Deed, under the New Earn Out Mechanism, a ‘bottom-up’ methodology is applied such that only if NCM’s actual Net Profit for a certain New Earn Out Year is higher than the Reference Minimum Net Profit for that New Earn Out Year can the Management Vendors start to receive New Earn Out Consideration based on the formula set out in the Circular, and if the actual Net Profit is equal to or higher than the Reference Maximum Net Profit for that New Earn Out Year, the Management Vendors can only receive the Maximum Cash Amount and the Maximum New Earn Out Shares, subject to any additional adjustment in accordance with the Supplemental SPA Deed.

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, 2021, was RMB506.1 million, which is higher than the Reference Maximum Net Profit of RMB500 million. In accordance with the terms of the Supplemental SPA Deed, a total number of 3,021,371 Consideration Shares would be issued (“2021 Earn Out Issue”) and a total cash consideration of RMB204.0 million would be paid to the Management Vendors, and the issue of the Consideration Shares and the payment of the cash consideration would be subject to certain customary conditions as determined by the Board to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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 2021 Earn Out Issue:

	As of the date of this announcement		Immediately upon the completion of the 2021 Earn Out Issue	
	Number of shares	Approximate % of issued Shares	Number of shares	Approximate % of issued Shares
Shareholders				
Tencent	587,128,824	57.45%	587,128,824	57.28%
Management Vendors				
– Founder SPV	11,742,358	1.15%	13,577,347	1.32%
– Qu SPV	8,475	0.00%	833,921	0.08%
– Executive SPV	1,668,701	0.16%	2,029,637	0.20%
Other Shareholders	421,478,191	41.24%	421,478,191	41.12%
Total	1,022,026,549	100.00%	1,025,047,920	100.00%

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the year ended December 31, 2021

		Year ended December 31,	
		2021	2020
	Note	RMB'000	RMB'000
Revenues	4	8,668,244	8,525,701
Cost of revenues	5	<u>(4,068,801)</u>	<u>(4,291,625)</u>
Gross profit		4,599,443	4,234,076
Interest income	8	125,353	116,315
Other gains/(losses), net	6	1,448,083	(5,322,903)
Selling and marketing expenses	5	(2,700,814)	(2,498,187)
General and administrative expenses	5	(1,323,845)	(873,766)
Net reversal of/(provision for) impairment losses on financial assets		<u>24,420</u>	<u>(130,203)</u>
Operating profit/(loss)		2,172,640	(4,474,668)
Finance costs	7	(68,763)	(68,785)
Share of net profit of associates and joint ventures	13	<u>199,191</u>	<u>4,733</u>
Profit/(loss) before income tax		2,303,068	(4,538,720)
Income tax (expense)/benefit	9	<u>(460,141)</u>	<u>38,523</u>
Profit/(loss) for the year		<u><u>1,842,927</u></u>	<u><u>(4,500,197)</u></u>
Other comprehensive income/(loss):			
<i>Items that may not be reclassified to profit or loss</i>			
Net loss from change in fair value of financial asset at fair value through other comprehensive income		(21,897)	—
Currency translation differences		<u>(14,066)</u>	<u>(74,717)</u>
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive (loss)/income of associates and joint ventures	13	(28,913)	1,031
Currency translation differences		<u>(13,328)</u>	<u>41,375</u>
Total comprehensive income/(loss) for the year		<u><u>1,764,723</u></u>	<u><u>(4,532,508)</u></u>

		Year ended December 31,	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
Profit/(loss) attributable to:			
– Equity holders of the Company		1,846,609	(4,483,869)
– Non-controlling interests		(3,682)	(16,328)
		<u>1,842,927</u>	<u>(4,500,197)</u>
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		1,769,207	(4,516,202)
– Non-controlling interests		(4,484)	(16,306)
		<u>1,764,723</u>	<u>(4,532,508)</u>
Earnings/(loss) per share (expressed in RMB per share)			
– Basic earnings/(loss) per share	<i>10(a)</i>	<u>1.83</u>	<u>(4.48)</u>
– Diluted earnings/(loss) per share	<i>10(b)</i>	<u>1.82</u>	<u>(4.49)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021

		As of December 31,	
		2021	2020
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		45,123	39,590
Right-of-use assets		281,465	83,275
Intangible assets	12	7,455,499	7,676,063
Investments in associates and joint ventures	13	932,278	598,576
Financial assets at fair value through profit or loss	14	1,310,030	915,318
Financial asset at fair value through other comprehensive income		14,073	—
Deferred income tax assets		271,815	188,519
Prepayments, deposits and other assets		256,721	314,088
		<u>10,567,004</u>	<u>9,815,429</u>
Current assets			
Inventories	15	653,764	571,830
Television series and film rights	16	1,090,892	640,496
Trade and notes receivables	17	2,747,240	3,296,287
Prepayments, deposits and other assets		1,031,971	734,808
Term deposits		2,678,031	3,408,679
Cash and cash equivalents		4,528,412	2,848,231
		<u>12,730,310</u>	<u>11,500,331</u>
Total assets		<u><u>23,297,314</u></u>	<u><u>21,315,760</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		649	645
Shares held for RSU schemes		(17,450)	(9)
Share premium		16,412,728	16,259,688
Other reserves		1,455,101	1,268,188
Accumulated losses		(664,573)	(2,435,005)
		<u>17,186,455</u>	<u>15,093,507</u>
Non-controlling interests		<u>516</u>	<u>5,000</u>
Total equity		<u><u>17,186,971</u></u>	<u><u>15,098,507</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021

		As of December 31,	
		2021	2020
	Note	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	382,542	691,494
Lease liabilities		201,850	34,830
Long-term payables		9,119	16,894
Deferred income tax liabilities		149,286	187,603
Deferred revenue	4	28,846	31,346
Financial liabilities at fair value through profit or loss		827,190	1,037,924
		<u>1,598,833</u>	<u>2,000,091</u>
Current liabilities			
Borrowings	18	792,776	554,444
Lease liabilities		72,573	50,387
Trade payables	19	1,127,368	1,039,653
Other payables and accruals		1,185,762	1,149,708
Deferred revenue	4	669,764	880,333
Current income tax liabilities		338,603	184,459
Financial liabilities at fair value through profit or loss		324,664	358,178
		<u>4,511,510</u>	<u>4,217,162</u>
Total liabilities		<u>6,110,343</u>	<u>6,217,253</u>
Total equity and liabilities		<u>23,297,314</u>	<u>21,315,760</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

Attributable to equity holders of the Company

	Share capital RMB'000	Share premium RMB'000	Shares held for RSU schemes RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
As of January 1, 2021	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507
Comprehensive income								
Earnings/(loss) for the year	-	-	-	-	1,846,609	1,846,609	(3,682)	1,842,927
Other comprehensive loss								
– Share of other comprehensive loss of associates and a joint venture	-	-	-	(28,913)	-	(28,913)	-	(28,913)
– Currency translation differences	-	-	-	(26,592)	-	(26,592)	(802)	(27,394)
– Net loss from change in fair value of financial asset at fair value through other comprehensive income	-	-	-	(21,897)	-	(21,897)	-	(21,897)
Total comprehensive income/(loss) for the year	-	-	-	(77,402)	1,846,609	1,769,207	(4,484)	1,764,723
Transaction with owners								
Share-based compensation expenses	-	-	-	188,138	-	188,138	-	188,138
Transfer of vested RSUs	-	(48,987)	5,814	-	-	(43,173)	-	(43,173)
Repurchase of shares for RSU scheme	-	-	(23,253)	-	-	(23,253)	-	(23,253)
Issue of new share pursuant to RSU scheme	2	-	(2)	-	-	-	-	-
Issue of ordinary shares as consideration for a business combination	2	202,027	-	-	-	202,029	-	202,029
Profit appropriations to statutory reserves	-	-	-	76,177	(76,177)	-	-	-
Transactions with owners in their capacity for the year	4	153,040	(17,441)	264,315	(76,177)	323,741	-	323,741
As of December 31, 2021	649	16,412,728	(17,450)	1,455,101	(664,573)	17,186,455	516	17,186,971

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital	Share premium	Shares held for RSU scheme	Other reserves	(Accumulated losses)/retained earnings	Sub-total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	
Comprehensive loss									
Loss for the year	–	–	–	–	(4,483,869)	(4,483,869)	(16,328)	(4,500,197)	
Other comprehensive loss									
– Share of other comprehensive loss income of associates and a joint venture	–	–	–	1,031	–	1,031	–	1,031	
– Currency translation differences	–	–	–	(33,364)	–	(33,364)	22	(33,342)	
Total comprehensive loss for the year	<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>	
Transaction with owners									
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)	–	–	–	
Transactions with owners in their capacity for the year	<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>	
As of December 31, 2020	<u>645</u>	<u>16,259,688</u>	<u>(9)</u>	<u>1,268,188</u>	<u>(2,435,005)</u>	<u>15,093,507</u>	<u>5,000</u>	<u>15,098,507</u>	

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Net cash flows generated from operating activities	<u>1,118,468</u>	<u>1,110,257</u>
Net cash flows generated from/(used in) investing activities	<u>936,225</u>	<u>(4,188,550)</u>
Net cash flows used in financing activities	<u>(349,987)</u>	<u>(92,338)</u>
Net increase/(decrease) in cash and cash equivalents	1,704,706	(3,170,631)
Cash and cash equivalents at the beginning of the year	2,848,231	5,931,849
Exchange (losses)/gains on cash and cash equivalents	<u>(24,525)</u>	<u>87,013</u>
Cash and cash equivalents at the end of the year	<u><u>4,528,412</u></u>	<u><u>2,848,231</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

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, Uglund 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 in this announcement 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 have 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, 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform – phase 2
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The adoption of these 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 amendments to standards have not come into effect for the financial year beginning January 1, 2021 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 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 IFRSs	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 IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IAS 28 and IFRS 10	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.

To help investors better understand the Group's revenue structure and margin trends, online audio books and online comic content provided via Tencent and third-party platforms have been reclassified from "Online business" to "Intellectual property operations and others" from 2021 onwards, both in the internal reports to the chief operating decision-makers and in the consolidated financial statements of the Group. The comparative figures in the consolidated financial statements of the Group and the note have been restated to conform with the new presentation. The board of directors believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

The Group has the following reportable segments for the year ended December 31, 2021 and 2020:

- 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.).

Subsequent to the reclassification, segment of “Intellectual property operations and others” now consists of the financials of online audio books and online comic content provided via Tencent and third-party platforms.

As of December 31, 2021 and 2020, the chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments’ performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, net impairment loss on financial assets, other gains/(losses), net, finance costs, net reversal of/(provision for) impairment losses on financial assets and Income tax (expense)/benefit are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended December 31, 2021 and 2020. 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 income/(loss).

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, 2021 and 2020 is as follows:

	Year ended December 31, 2021		
	Online business	Intellectual property operations and others	Total
	RMB’000	RMB’000	RMB’000
Segment revenues	5,308,471	3,359,773	8,668,244
Cost of revenues	2,690,334	1,378,467	4,068,801
Gross profit	<u>2,618,137</u>	<u>1,981,306</u>	<u>4,599,443</u>

	Year ended December 31, 2020		
	Online business	Intellectual property operations and others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues	4,843,860	3,681,841	8,525,701
Cost of revenues	<u>2,325,709</u>	<u>1,965,916</u>	<u>4,291,625</u>
Gross profit	<u><u>2,518,151</u></u>	<u><u>1,715,925</u></u>	<u><u>4,234,076</u></u>

The reconciliation of gross profit to profit before income tax of individual period during the year ended December 31, 2021 and 2020 is shown in the consolidated statement of comprehensive income/(loss).

For the year ended December 31, 2021, the Group's customer base is diversified and includes only Tencent with whom transactions has exceeded 10% of the Group's revenues. (2020: only Tencent and a third party customer, which is primarily engaged in online entertainment services, exceeded 10%).

As of December 31, 2021 and 2020, 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:

Year ended December 31, 2021	Online business			Intellectual property operations and others		Total
	On self-owned platform products	On self-operated channels on Tencent products	On third-party platforms	Intellectual property operations	Others	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition:						
– At a point in time	3,534,041	600,628	651,122	1,948,424	125,628	6,859,843
– Over time	<u>314,400</u>	<u>208,280</u>	<u>–</u>	<u>1,282,929</u>	<u>2,792</u>	<u>1,808,401</u>
	<u><u>3,848,441</u></u>	<u><u>808,908</u></u>	<u><u>651,122</u></u>	<u><u>3,231,353</u></u>	<u><u>128,420</u></u>	<u><u>8,668,244</u></u>

	Online business			Intellectual property operations and others		
	On self-owned platform products <i>RMB'000</i>	On self-operated channels on Tencent products <i>RMB'000</i>	On third-party platforms <i>RMB'000</i>	Intellectual property operations <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended December 31, 2020						
Timing of revenue recognition:						
– At a point in time	3,589,741	435,010	308,761	2,701,256	124,793	7,159,561
– Over time	313,706	196,642	–	838,175	17,617	1,366,140
	<u>3,903,447</u>	<u>631,652</u>	<u>308,761</u>	<u>3,539,431</u>	<u>142,410</u>	<u>8,525,701</u>

4.2 Liabilities related to contracts with customers

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

	As of December 31,	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Deferred revenue		
Online business	422,174	595,189
Intellectual property operations and others	<u>276,436</u>	<u>316,490</u>
	<u>698,610</u>	<u>911,679</u>

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, 2021 and 2020; 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, or animations have not been delivered to the online platforms.

(a) *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,	
	2021	2020
	RMB'000	RMB'000
Revenue recognised that was included in the deferred revenue balance at the beginning of the year:		
Online business	595,189	300,091
Intellectual property operations and others	282,805	305,088
	<u>877,994</u>	<u>605,179</u>

5 EXPENSES BY NATURE

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Promotion and advertising expenses	2,176,027	2,016,483
Content costs	1,774,189	1,464,506
Platform distribution costs	1,151,009	1,194,357
Employee benefits expenses	1,124,666	701,577
Production costs of television series and film rights	426,014	862,629
Amortisation of intangible assets	395,462	215,948
Payment handling costs	315,833	323,816
Game development outsourcing costs	191,931	97,263
Depreciation of right-of-use assets	80,254	62,268
Bandwidth and server custody fees	72,687	75,884
Professional service fees	69,517	85,731
Cost of physical inventories sold	46,872	49,394
Travelling, entertainment and general office expenses	46,862	40,705
Impairment loss on prepayments to directors, actors and writers	28,028	32,000
Provision for physical inventory obsolescence	25,373	45,223
Depreciation of property, plant and equipment	19,085	23,703
Tax surcharge expenses	16,208	10,435
Auditors' remuneration		
– Audit services	11,030	10,003
– Non-audit services	1,490	1,292
Logistic expenses	5,482	5,552
Impairment loss on television series and film rights	4,684	249,255
Expense relating to short-term leases and low value leases	3,301	4,242
Others	107,456	91,312
	<u>8,093,460</u>	<u>7,663,578</u>

6 OTHER GAINS/(LOSS), NET

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on sale of a held for sale asset	1,076,817	—
Gain on disposal of investments in associates	211,445	—
Gain on disposals of intangible assets	133,962	—
Government subsidies	110,652	104,305
Gain on copyright infringements	51,108	12,866
Fair value gain/(loss) of investments in redeemable shares of associates	48,827	(11,624)
Gain/(loss) on disposal of film rights and a television series	26,942	(9,573)
Fair value gain/(loss) of investments in listed entities	1,512	(1,305)
Gain on disposal of financial assets at fair value through profit or loss	39	—
Loss from modification of contingent consideration payable	—	(1,463,431)
Impairment loss of goodwill	—	(4,015,854)
Loss on liquidation of subsidiaries	(3,590)	—
Expenses related to the investment in an investee company	(9,072)	—
Impairment provision for investments in associates and a joint venture	(12,064)	(251,960)
Impairment loss of other intangible assets	(25,776)	(537,086)
Fair value (loss)/gain on contingent consideration payable	(158,332)	858,870
Others, net	(4,387)	(8,111)
	<u>1,448,083</u>	<u>(5,322,903)</u>

7 FINANCE COSTS

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on borrowings	55,407	64,195
Interest expenses on lease liabilities	7,913	3,483
Foreign exchange loss, net	5,443	1,107
	<u>68,763</u>	<u>68,785</u>

8 INTEREST INCOME

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	<u>125,353</u>	<u>116,315</u>

9 INCOME TAX (EXPENSE)/BENEFIT

(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, 2021 (2020: 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, 2021 and 2020 according to the applicable CIT Law.

According to the relevant tax circulars issued by the PRC tax authorities, two subsidiaries of the Group are entitled to certain tax concessions. One of the subsidiaries is exempt from CIT during the years from its incorporation to December 31, 2020, and is subject to a reduced preferential CIT rate of 15% for the periods from 2021 to 2025. The other is exempt from CIT during the years from its incorporation to December 31, 2024.

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

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	581,754	94,255
Deferred income tax	<u>(121,613)</u>	<u>(132,778)</u>
Income tax expense/(benefit)	<u>460,141</u>	<u>(38,523)</u>

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2021 (2020: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analysed as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) before income tax	2,303,068	(4,538,720)
Share of net profit of associates and joint ventures	(199,191)	(4,733)
Tax calculated at PRC statutory tax rate of 25%	525,969	(1,135,863)
Effects of respective tax rates applicable to different subsidiaries of the Group	(57,479)	(85,352)
Unrecognised deferred income tax assets	20,513	52,748
Non-deductible expenses less non-taxable income	29,884	1,180,706
Research and development tax credit	(30,562)	(50,762)
Utilisation of previously unrecognised temporary differences	(28,184)	—
	460,141	(38,523)
Income tax expense/(benefit)	460,141	(38,523)

10 EARNINGS/(LOSS) PER SHARE

- (a) Basic earnings/(loss) per share for the years ended December 31, 2021 and 2020 are calculated by dividing the profit/(loss) attributable to the Company's equity holder by the weighted average number of ordinary shares in issue during the periods.

	Year ended December 31,	
	2021	2020
Net profit/(loss) attributable to the equity holders of the Company (RMB'000)	1,846,609	(4,483,869)
Weighted average number of ordinary shares in issue (thousand)	1,007,158	999,997
Basic earnings/(loss) per share (expressed in RMB per share)	1.83	(4.48)

- (b) Diluted earnings/(loss) 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 earnings/(loss) per share for the year ended December 31, 2021 and 2020 as the impact would be dilutive

For the year ended December 31, 2021, the RSUs granted by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from RSUs granted by the Company.

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,	
	2021	2020
Net profit/(loss) attributable to the equity holders of the Company (RMB'000)	1,846,609	(4,483,869)
Impact of an associate's potential ordinary shares (RMB'000)	(360)	(5,448)
Net profit/(loss) used to determine diluted profit/(loss) per share (RMB'000)	1,846,249	(4,489,317)
Weighted average number of ordinary shares in issue (thousand)	1,007,158	999,997
Effect of deemed issuance of ordinary shares in connection with the acquisition of New Classics Media (thousand)	3,021	—
Adjustments for share-based compensation – RSUs (thousand)	6,784	—
Weighted average number of ordinary shares for diluted profit/(loss) per share (thousand)	1,016,963	999,997
Diluted profit/(loss) per share (expressed in RMB per share)	1.82	(4.49)

11 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2021 (2020: nil).

12 INTANGIBLE ASSETS

	Goodwill	Non- complete agreements	Trademarks	Copyrights of contents	Writers' contracts	Software	Domain names	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2021								
Opening net book amount as of January 1, 2021	6,637,471	43,023	597,816	367,885	21,999	5,660	2,209	7,676,063
Additions	—	—	971	198,451	—	7,276	—	206,698
Amortisation	—	(15,433)	(20,745)	(339,882)	(14,667)	(4,654)	(81)	(395,462)
Impairment provision	—	—	—	(25,776)	—	—	—	(25,776)
Liquidation of a subsidiary	(4,664)	—	—	—	—	—	—	(4,664)
Currency translation differences	—	—	—	(1,360)	—	—	—	(1,360)
Closing net book amount as of December 31, 2021	6,632,807	27,590	578,042	199,318	7,332	8,282	2,128	7,455,499

	Goodwill <i>RMB'000</i>	Non- complete 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
Amortisation	–	(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)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(5,373)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(5,373)</u>
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>

During the year ended December 31, 2021, amortisation expense of approximately RMB354,829,000 (2020: RMB175,706,000), RMB84,000 (2020: RMB nil) and RMB40,549,000 (2020: RMB40,242,000) were charged to “cost of revenues”, “selling and marketing expenses” and “general and administrative expenses”, respectively.

As of December 31, 2021, 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, 2021 and 2020, goodwill is allocated to the Group’s cash-generating units (CGUs) identified as follows:

	As of December 31, 2021 <i>RMB'000</i>	As of December 31, 2020 <i>RMB'000</i>
Online business	3,715,659	3,720,323
Acquired TV and film business	2,917,148	2,917,148
	<u>6,632,807</u>	<u>6,637,471</u>

Online business

Impairment review on the goodwill relating to online business has been conducted by the management as of December 31, 2021 and 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 fair value less cost of disposal (“FVLCD”) and value-in-use calculations.

As of December 31, 2021 and 2020, 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, 2021 and 2020.

Acquired TV and film business

Impairment review on the goodwill relating to acquired TV and film business has been conducted by the management as of December 31, 2021 and 2020. 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 December 31, 2021 and 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 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 for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to acquired TV and film business was recognised as of December 31, 2021 (for the year ended December 31, 2020: an impairment provision of approximately RMB4,015,854,000).

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

2021	Online business	Acquired TV and film business
Gross margin (%)	From 51.8% to 64.2%	From 42.5% to 54.6%
Annual growth rate (%)	From 5.4% to 15.8%	From 8.1% to 48.3%
Pre-tax discount rate (%)	21.4%	17.1%
	<hr/> <hr/>	<hr/> <hr/>
2020	Online business	Acquired TV and film business
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/>

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, 2021 and 2020 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, 2021 and 2020, the recoverable amount of 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, 2021, no impairment provision has been recognised by the Group (2020: RMB389,816,000) against the carrying amount of trademark relating to acquisition of New Classics Media. The impairment provision in 2020 was 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 against the carrying amount of trademarks relating to acquisition of Cloudary.

(c) Impairment tests for copyrights

Impairment review on the copyrights of contents owned by a subsidiary of the Group, which is mainly engaged in overseas online reading platform, has been conducted by the management as of December 31, 2021 according to IAS 36 “Impairment of assets”. As of December 31, 2021, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of December 31, 2021, the Group made an impairment provision of approximately RMB25,776,000 against the carrying amount of such 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 against the carrying amount of such copyrights.

13 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Investments in associates (a)	490,500	248,206
Investments in joint ventures (b)	441,778	350,370
	932,278	598,576

(a) Investments in associates

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	248,206	469,943
Additions	405,873	—
Impairment provision	(9,135)	(214,837)
Share of net profit of associates	7,264	3,002
Share of other comprehensive (loss)/income of associates	(5,241)	75
Disposal of associates	(129,342)	—
Currency translation differences	(27,125)	(9,977)
At the end of the year	490,500	248,206

(b) Investments in joint ventures

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	350,370	493,608
Additions	35,000	—
Dividend from a joint venture	(132,353)	(107,293)
Impairment provision	(2,929)	(37,123)
Share of net profit of joint ventures	191,927	1,731
Share of other comprehensive income of joint ventures	22	956
Currency translation differences	(259)	(1,509)
	<hr/>	<hr/>
At the end of the year	441,778	350,370
	<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 fair value through other comprehensive income (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 financial assets at fair value through profit of loss (FVPL) include the following:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Included in non-current assets:		
Investments in redeemable shares of associates	1,254,149	890,444
Investments in unlisted entities	12,000	12,000
Investments in listed entities	14,047	12,874
Investments in movies and TV series	29,834	—
	<hr/>	<hr/>
	1,310,030	915,318
	<hr/> <hr/>	<hr/> <hr/>

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

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	915,318	457,185
Additions	377,616	471,907
Changes in fair value recognised as other gains/(losses), net	50,339	(12,929)
Changes in fair value recognised as revenues	(12,238)	–
Disposal	(4,758)	–
Currency translation differences	(16,247)	(845)
	<u>1,310,030</u>	<u>915,318</u>
At the end of the year	<u>1,310,030</u>	<u>915,318</u>

15 INVENTORIES

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Adaptation rights and scripts	593,374	510,718
Raw materials	11,830	9,251
Work in progress	4,260	9,947
Inventories in warehouse	70,539	74,573
Inventories held with distributors on consignment	71,106	76,609
Others	1,859	3,051
	<u>752,968</u>	<u>684,149</u>
Less: provision for inventory obsolescence	<u>(99,204)</u>	<u>(112,319)</u>
	<u>653,764</u>	<u>571,830</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, 2021, the cost of inventories recognised as expenses and included in “cost of revenues” amounted to approximately RMB175,779,000 (2020: RMB250,429,000), and the provision for inventory obsolescence as recognised for the year ended December 31, 2021, and included in “cost of revenues” amounted to approximately RMB49,735,000 (2020: RMB33,574,000).

16 TELEVISION SERIES AND FILM RIGHTS

	As of December 31,		
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Television series and film rights			
– under production	813,633	586,173	
– completed	277,259	54,323	
	1,090,892	640,496	
	Under production <i>RMB'000</i>	Completed <i>RMB'000</i>	Total <i>RMB'000</i>
As of January 1, 2021	586,173	54,323	640,496
Additions	904,254	–	904,254
Transfer from under production to completed (<i>Note b</i>)	(701,220)	701,220	–
Transfer from adaptation rights and scripts to under production	24,426	–	24,426
Recognised in cost of revenue (<i>Note a</i>)	–	(430,698)	(430,698)
Recognised in other gains/(loss), net	–	(47,586)	(47,586)
As of December 31, 2021 (<i>Note b</i>)	813,633	277,259	1,090,892
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 gains/(loss), net	–	(151,546)	(151,546)
As of December 31, 2020 (<i>Note b</i>)	586,173	54,323	640,496

Notes:

- (a) During the year ended December 31, 2021, impairment loss of approximately RMB4,684,000 was provided for the Group's completed television series and film rights (2020: RMB249,255,000) and recognised in cost of revenue, due to the events and changes in circumstances indicate that the carrying amount is below the recoverable amount.
- (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.

17 TRADE AND NOTES RECEIVABLES

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	2,895,236	3,456,635
Notes receivable	1,315	22,683
	2,896,551	3,479,318
Less: allowance for impairment of trade receivables	(149,311)	(183,031)
	2,747,240	3,296,287

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 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, 2021 and 2020.

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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and notes receivables		
– Up to 3 months	1,398,814	2,380,858
– 3 to 6 months	332,890	99,594
– 6 months to 1 year	468,578	88,302
– 1 to 2 years	526,653	711,222
– Over 2 years	20,305	16,311
	2,747,240	3,296,287

18 BORROWINGS

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
<i>Unsecured</i>		
RMB bank borrowings (<i>Note a</i>)	–	300,000
USD bank borrowings (<i>Note a</i>)	382,542	391,494
	<hr/>	<hr/>
Total non-current borrowings	382,542	691,494
	<hr/>	<hr/>
Current		
<i>Unsecured</i>		
RMB bank borrowings (<i>Note a</i>)	792,776	554,444
	<hr/>	<hr/>
Total borrowings	1,175,318	1,245,938
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) As of December 31, 2021, the Group's unsecured long-term bank borrowings consist of USD60,000,000 (approximately RMB382,542,000) bearing fixed interest rate of 1.41% per annum and RMB300,000,000 bearing fixed interest rate of 5.70% per annum, which will be repayable on February 28, 2023 and from April 19, 2022 to September 2, 2022 respectively. The long-term 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. As of December 31, 2021, the borrowing balance of RMB300,000,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after December 31, 2021.

As of December 31, 2021, the Group's unsecured short-term bank borrowings consist of RMB492,776,000 fixed-rate borrowings bore interest rates ranging from 4.85% to 5.10%. The short-term bank borrowings of RMB492,776,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

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 on 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, 2021 and 2020, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	792,776	554,444
Between 1 and 2 years	382,542	300,000
Between 2 and 3 years	—	391,494
	<u>1,175,318</u>	<u>1,245,938</u>

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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
– Up to 3 months	560,438	746,347
– 3 to 6 months	144,581	116,074
– 6 months to 1 year	134,000	51,144
– Over 1 year	288,349	126,088
	<u>1,127,368</u>	<u>1,039,653</u>

20 SHARE-BASED PAYMENTS

(a) RSU schemes 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 RSU Scheme").

Pursuant to the RSUs agreements under the 2014 RSU Scheme, 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 the amended and restated 2014 RSU Scheme. According to the amended and restated 2014 RSU Scheme, 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 the 2014 RSU Scheme 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 RSU Scheme, respectively. Each RSU 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 RSU Scheme, respectively. Each RSU 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 January 4, April 12, July 12, October 18 and November 5, 2021, 570,343, 124,112, 117,495, 455,610 and 618,929 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 RSU Scheme, 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.

On April 12, July 12 and September 16, 2021, 81,436, 1,815,526 and 63,296 RSUs have been granted to certain directors and employees of the Group under the 2020 Restricted Share Unit Scheme, 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.

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
As of January 1, 2021	14,613,446
Granted	3,846,747
Forfeited	(2,526,964)
Vested	<u>(4,276,753)</u>
Outstanding balance as of December 31, 2021	<u><u>11,656,476</u></u>
As of January 1, 2020	15,214,100
Granted	5,736,993
Forfeited	(2,485,947)
Vested	<u>(3,851,700)</u>
Outstanding balance as of December 31, 2020	<u><u>14,613,446</u></u>

During the year ended December 31, 2021, no RSU has been granted to any director of the Company (2020: 336,216 RSUs were granted to two executive directors of the Company).

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

(b) Share option scheme of the Group

Pursuant to a resolution passed at the annual general meeting held on May 24, 2021, the Company adopted a share option scheme (the "2021 Share Option Scheme"). The purpose of the 2021 Share Option Scheme was to recognise the contribution that the participants have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. The 2021 Share Option Scheme is valid and effective for a period of 10 years commencing on May 24, 2021.

On July 12 and November 5, 2021, 6,024,914 and 1,786,539 share options have been granted to certain directors and employees of the Group under the 2021 Share Option Scheme, respectively.

(i) *Movements in share options*

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Share Option Scheme	
	Average exercise price	Number of options
As of January 1, 2021		
Grant	<u>HKD76.06</u>	<u>7,811,453</u>
As of December 31, 2021	<u><u>HKD76.06</u></u>	<u><u>7,811,453</u></u>
Exercisable as of December 31, 2021	<u><u>HKD76.06</u></u>	<u><u>7,811,453</u></u>

During the year ended December 31, 2021, 2,900,000 and 2,175,000 options were granted to two executive directors of the Company, respectively.

During the year ended December 31, 2021, no option was exercised.

(ii) *Outstanding share options*

Details of the expiry dates, exercise prices and respective numbers of share options which remained outstanding as of December 31, 2021 are as follows:

Expiry Date	Number of share options	
	Range of exercise price	December 31, 2021
10 years commencing from the date of grant of options	<u>HKD53.14~82.8</u>	<u>7,811,453</u>

The outstanding share options as of December 31, 2021 were divided into four tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a year from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(iii) *Fair value of options*

The directors of the Company have used the binomial model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended December 31, 2021 was HKD20.26 per share (equivalent to approximately RMB16.86 per share).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

2021

Weighted average share price at the grant date	HKD76.06
Risk free rate	1.6%
Dividend yield	0.0%
Expected volatility*	25.0%

**Note:*

The expected volatility, measure as the standard deviation of expected share price returns, is determined based on the average daily closing price volatility of the shares of the comparative companies within an observation period which was commensurate to the maturity of the share options.

(c) Shares held for RSU schemes

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 2014 RSU Scheme. Pursuant to a resolution passed by the Board on October 10, 2017, the Company issued 40,409,091 ordinary shares to the RSUs Scheme Trusts at a par value of USD0.0001 each, being the ordinary shares underlying the Company’s 2014 RSU 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 schemes”.

As of December 31, 2021 and 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 Schemes.

(d) 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 RSUs and share options (the “Expected Retention Rate”) in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income/(loss). As of December 31, 2021, the Expected Retention Rate of the Group was assessed to be no lower than 92% (2020: 100%).

MATERIAL INVESTMENT, ACQUISITION AND DISPOSAL OF ASSETS

The Company did not have any material investment, acquisitions and disposals of assets during the year ended December 31, 2021.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2021 (2020: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Corporate Governance Code

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

For the year ended December 31, 2021, 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, 2021.

Annual General Meeting

The annual general meeting (the "AGM") will be held on Monday, May 23, 2022. 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 Wednesday, May 18, 2022 to Monday, May 23, 2022, 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 Tuesday, May 17, 2022.

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, 2021. 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, 2021 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) and the Company (<http://ir.yuewen.com>), and the annual report of the Company 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; the Board 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 22, 2022

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. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu 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

“2014 RSU Scheme”:	a restricted stock unit scheme adopted by the Company on December 23, 2014;
“2020 Restricted Share Unit Scheme”:	a restricted share unit scheme of the Company adopted on May 15, 2020
“AGM”:	the forthcoming annual general meeting of the Company to be held on May 23, 2022;
“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” or “China Literature”:	China Literature Limited (阅文集团) (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;
“controlling shareholder(s)”:	has the meaning ascribed to it under the Listing Rules
“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;
“JPY”:	Japanese Yen, the law currency of Japan;
“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” or “New Classics Media”:	previously known as “Qiandao Lake Holdings Limited”, a company established in Cayman Islands on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
“our literature platform”, or “our platform”:	refers to all of online products, channels and content operated by China Literature, including but not limited to mobile apps, WAPs, websites and various channels;
“Reporting Period”:	the year ended December 31, 2021;
“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 the 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, our controlling Shareholder, 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.